

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Southwest Health and Human Services Marshall, Minnesota

Year Ended December 31, 2022

Description of the Office of the State Auditor

The Office of the State Auditor (OSA) helps ensure financial integrity and accountability in local government financial activities. The OSA is the constitutional office that oversees more than \$40 billion in annual financial activity by local governments and approximately \$20 billion of federal funding financial activity.

The OSA performs around 90 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office maintains the following seven divisions:

- **Audit Practice:** Helps ensure fiscal integrity by conducting financial and compliance audits of local governments and the federal compliance audit of the State of Minnesota.
- **Constitution:** Connects with the public via external communication, media relations, legislative coordination, and public engagements for the State Auditor.

This division also supports the State Auditor's service on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, the Minnesota Historical Society, and the Rural Finance Authority Board.

- **Government Information:** Collects, analyzes, and shares local government financial data to assist in policy and spending decisions; administers and supports financial tools including the Small Cities and Towns Accounting System (CTAS) software and infrastructure comparison tools.
- **Legal/Special Investigations:** Provides legal analysis and counsel to the OSA and responds to outside inquiries about Minnesota local law relevant to local government finances; investigates local government financial records in response to specific allegations of theft, embezzlement, or unlawful use of public funds or property.
- **Operations:** Ensures the office runs efficiently by providing fiscal management and technology support to the office.
- **Pension:** Analyzes investment, financial, and actuarial reporting for Minnesota's local public pension plans and monitors pension plan operations.
- **Tax Increment Financing (TIF):** Promotes compliance and accountability in local governments' use of tax increment financing through education, reporting, and compliance reviews.

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance or visit the Office of the State Auditor's website:

www.osa.state.mn.us

Southwest Health and Human Services Marshall, Minnesota

Year Ended December 31, 2022



Office of the State Auditor

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

Southwest Health and Human Services Marshall, Minnesota

Table of Contents

| | Exhibit | Page |
|---|---------|------|
| Introductory Section | | |
| Organization | | 1 |
| Financial Section | | |
| Independent Auditor’s Report | | 3 |
| Management’s Discussion and Analysis | | 6 |
| Basic Financial Statements | | |
| Government-Wide Financial Statements | | |
| Statement of Net Position | 1 | 11 |
| Statement of Activities | 2 | 12 |
| Fund Financial Statements | | |
| Governmental Funds | | |
| Balance Sheet | 3 | 13 |
| Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position—Governmental Activities | 4 | 14 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 5 | 15 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Government-Wide Statement of Activities—Governmental Activities | 6 | 16 |
| Proprietary Fund | | |
| Statement of Net Position | 7 | 17 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position | 8 | 18 |
| Statement of Cash Flows | 9 | 19 |
| Fiduciary Funds | | |
| Statement of Fiduciary Net Position | 10 | 20 |
| Statement of Changes in Fiduciary Net Position | 11 | 21 |
| Notes to the Financial Statements | | 22 |
| Required Supplementary Information | | |
| Budgetary Comparison Schedules | | |
| General Fund | A-1 | 46 |
| Health Services Special Revenue Fund | A-2 | 47 |
| Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits | A-3 | 48 |
| PERA General Employees Retirement Plan | | |
| Schedule of Proportionate Share of Net Pension Liability | A-4 | 49 |
| Schedule of Contributions | A-5 | 50 |
| Notes to the Required Supplementary Information | | 51 |
| Supplementary Information | | |
| Fiduciary Funds – Custodial Funds | | |
| Combining Statement of Fiduciary Net Position | B-1 | 57 |
| Combining Statement of Changes in Fiduciary Net Position | B-2 | 58 |

Southwest Health and Human Services Marshall, Minnesota

Table of Contents

| | Exhibit | Page |
|---|---------|------|
| Financial Section | | |
| Supplementary Information (Continued) | | |
| Other Schedules | | |
| Schedule of Intergovernmental Revenue | C-1 | 59 |
| Schedule of Expenditures of Federal Awards | C-2 | 60 |
| Notes to the Schedule of Expenditures of Federal Awards | | 62 |
| Management and Compliance Section | | |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 64 |
| Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance | | 66 |
| Schedule of Findings and Questioned Costs | | 69 |
| Corrective Action Plan | | 74 |
| Summary Schedule of Prior Audit Findings | | 76 |

Introductory Section

Southwest Health and Human Services Marshall, Minnesota

Organization 2022

| Health and Human Services Governing Board | County | Appointment Expires |
|---|-----------|---------------------|
| Chair | | |
| Rick Anderson | Lyon | December 31, 2022 |
| Vice-Chair | | |
| Greg Burger | Rock | December 31, 2022 |
| Members | | |
| Corey Sik | Lincoln | December 31, 2022 |
| Steve Hauswedell | Lincoln | December 31, 2022 |
| Charlie Sanow | Lyon | December 31, 2022 |
| Dennis Welgraven | Murray | December 31, 2022 |
| Dave Thiner | Murray | December 31, 2022 |
| Les Nath | Pipestone | December 31, 2022 |
| Dan Wildermuth | Pipestone | December 31, 2022 |
| Jim Salfer | Redwood | December 31, 2022 |
| Rick Wakefield | Redwood | December 31, 2022 |
| Sherri Thompson | Rock | December 31, 2022 |
| Human Services Board | | |
| Chair | | |
| Dan Wildermuth | Pipestone | December 31, 2022 |
| Vice-Chair | | |
| Dennis Welgraven | Murray | December 31, 2022 |
| Members | | |
| Corey Sik | Lincoln | December 31, 2022 |
| Joan Jagt | Lincoln | December 31, 2022 |
| Steve Hauswedell | Lincoln | December 31, 2022 |
| Rick Anderson | Lyon | December 31, 2022 |
| Charlie Sanow | Lyon | December 31, 2022 |
| Lois Schmidt | Lyon | December 31, 2022 |
| Dave Thiner | Murray | December 31, 2022 |
| Jeane Anderson | Murray | December 31, 2022 |
| Les Nath | Pipestone | December 31, 2022 |
| Steve Schulze | Pipestone | December 31, 2022 |
| Jim Salfer | Redwood | December 31, 2022 |
| Rick Wakefield | Redwood | December 31, 2022 |
| Carol Flahaven | Redwood | December 31, 2022 |
| Sherri Thompson | Rock | December 31, 2022 |
| Greg Burger | Rock | December 31, 2022 |

Southwest Health and Human Services Marshall, Minnesota

Organization 2022 (Continued)

| Community Health Board | County | Appointment Expires |
|---------------------------------|-----------|---------------------|
| Chair | | |
| Rick Wakefield | Redwood | December 31, 2022 |
| Vice-Chair | | |
| Steve Hauswedell | Lincoln | December 31, 2022 |
| Members | | |
| Corey Sik | Lincoln | December 31, 2022 |
| Charlie Sanow | Lyon | December 31, 2022 |
| Rick Anderson | Lyon | December 31, 2022 |
| Dennis Welgraven | Murray | December 31, 2022 |
| Les Nath | Pipestone | December 31, 2022 |
| Jim Salfer | Redwood | December 31, 2022 |
| Greg Burger | Rock | December 31, 2022 |
| Director | | |
| Beth Wilms | | Indefinite |
| Deputy Director | | |
| Nancy Walker | | Indefinite |
| Director of Business Management | | |
| Lisa DeBoer | | Indefinite |
| Attorney | | |
| William J. Toulouse | | Indefinite |

Financial Section



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of December 31, 2022, and the respective changes in financial position, and, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Health and Human Services, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2022, the Health and Human Services adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health and Human Services' ability to continue

as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health and Human Services' internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health and Human Services' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules for the General Fund and Health Services Special Revenue Fund, Schedule of Changes in Total OPEB Liability and Related Ratios – Other Postemployment Benefits, PERA retirement plan schedules, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2023, on our consideration of the Health and Human Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health and Human Services' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health and Human Services' internal control over financial reporting and compliance.

/s/Julie Blaha

Julie Blaha
State Auditor

August 8, 2023

Management's Discussion and Analysis

Southwest Health and Human Services Marshall, Minnesota

Management's Discussion and Analysis December 31, 2022 (Unaudited)

Southwest Health and Human Services' Management's Discussion and Analysis (MD&A) provides an overview of the Health and Human Services' financial activities for the fiscal year ended December 31, 2022. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Health and Human Services' basic financial statements that follow this section.

Financial Reporting Entity

Southwest Health and Human Services (SWHHS) was formed under the authority of Minn. Stat. ch. 145A and Minn. Stat. § 471.59 by terminating the joint powers agreements for Lincoln, Lyon, & Murray Human Services (LLMHS) and Lincoln, Lyon, Murray, and Pipestone Public Health Services (LLMPPHS). Dissolution of LLMHS and LLMPPHS was effective December 31, 2010, although the agreement stated that both LLMHS and LLMPPHS continued to exist after dissolution as long as necessary to conclude the affairs of the agencies.

SWHHS began official operations on January 1, 2011, and performs health and human services functions formerly performed by the two previous joint ventures. SWHHS is governed by a Joint Health and Human Services Board, made up of one Commissioner (or alternate) from each county serving on the Community Health Board and one Commissioner (or alternate) from each county serving on the Human Services Board. The Human Services Board is made up of two County Commissioners from each of the participating counties, who are chosen by their respective County Boards, and one lay person from each participating county. The Community Health Board is made up of one County Commissioner and one alternate from each member county, unless such county shall have a population in excess of twice that of any other member county, in which case, it shall have two Commissioners and two alternates. Local financing for the first year of operations was based on the 2010 contribution amounts of LLMHS and LLMPPHS. In 2022, the local financing for human services was based on consideration of: (1) population based on the most recent national census, (2) tax capacity, and (3) the most recent three-year average Social Service Expenditure and Grant Reconciliation Report, each factor to be weighted equally. Public health financing for 2022 was based on \$14.25 per capita.

Financial Highlights

- Governmental activities' total net position is \$1,740,639, of which \$496,329 represents the net investment in capital assets (Exhibit 1). In 2022, governmental activities' total net position increased by \$1,509,518.
- Local financing for the Health and Human Services in 2022 was \$13,046,963, which comprised 44.5 percent of the total intergovernmental revenue.
- Total federal and state grants comprised 36.9 percent of the total intergovernmental revenue.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside of the Health and Human Services. Fiduciary funds are not reflected in the government-wide statements because the resources of these funds are not available to support the Health and Human Services' own programs or activities. The Health and Human Services is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

All fiduciary activities are reported in a separate Statement of Fiduciary Net Position on Exhibit 10, Statement of Changes in Fiduciary Net Position on Exhibit 11, and the Custodial Funds Combining Statements are shown on Exhibits B-1 and B-2.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 22 through 45 of this report.

Other Information

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

Government-Wide Financial Analysis

Governmental Activities

Over time, net position serves as a useful indicator of the Health and Human Services' financial position. The Health and Human Services' assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,740,639. The Health and Human Services' net investment in capital assets is \$496,329 of total net position. It should be noted that these assets are not available for future spending. Comparative data with 2021 is presented.

| | 2022 | 2021 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | \$ 15,773,050 | \$ 13,742,077 |
| Capital assets, net of depreciation and amortization | 2,644,189 | 972,032 |
| Total Assets | <u>\$ 18,417,239</u> | <u>\$ 14,714,109</u> |
| Deferred Outflows of Resources | | |
| Deferred pension outflows | \$ 3,793,406 | \$ 5,013,725 |
| Deferred OPEB outflows | 127,058 | 134,690 |
| Total Deferred Outflows of Resources | <u>\$ 3,920,464</u> | <u>\$ 5,148,415</u> |
| Liabilities | | |
| Long-term liabilities | \$ 17,264,633 | \$ 9,935,714 |
| Other liabilities | 2,531,773 | 2,374,413 |
| Total Liabilities | <u>\$ 19,796,406</u> | <u>\$ 12,310,127</u> |
| Deferred Inflows of Resources | | |
| Deferred pension inflows | \$ 343,037 | \$ 6,909,972 |
| Deferred OPEB inflows | 457,621 | 411,304 |
| Total Deferred Inflows of Resources | <u>\$ 800,658</u> | <u>\$ 7,321,276</u> |
| Net Position | | |
| Net investment in capital assets | \$ 496,329 | \$ 569,527 |
| Restricted for opioid remediation activities | 396,671 | - |
| Unrestricted | 847,639 | (338,406) |
| Total Net Position | <u>\$ 1,740,639</u> | <u>\$ 231,121</u> |

The Health and Human Services' activities increased net position by \$1,509,518. Key elements in this increase in net position are as follows for 2022, with comparative data for 2021.

| | 2022 | 2021 |
|-------------------------------|----------------------|----------------------|
| Revenues | | |
| Intergovernmental | \$ 29,593,374 | \$ 28,332,460 |
| Fees and charges for services | 3,227,023 | 3,645,532 |
| Investment earnings | 87,604 | 2,405 |
| Miscellaneous | 44,275 | 41,361 |
| Total Revenues | <u>\$ 32,952,276</u> | <u>\$ 32,021,758</u> |
| Expenses | | |
| Human services | \$ 27,813,248 | \$ 25,564,823 |
| Health services | 3,610,259 | 3,377,508 |
| Interest | 19,251 | 19,363 |
| Total Expenses | <u>\$ 31,442,758</u> | <u>\$ 28,961,694</u> |
| Change in Net Position | \$ 1,509,518 | \$ 3,060,064 |
| Net Position – January 1 | <u>231,121</u> | <u>(2,828,943)</u> |
| Net Position – December 31 | <u>\$ 1,740,639</u> | <u>\$ 231,121</u> |

Financial Statement Analysis of the Governmental Funds

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$12,326,083, an increase of \$2,305,190 in comparison with the prior year. The combined ending fund balances include \$396,671 of restricted fund balance, \$4,046,152 of assigned fund balance, and \$7,883,260 of unassigned fund balance. The assigned and unassigned fund balance of \$10,020,893 is available for spending at the agency's discretion.

The General Fund is the operating fund for the human services portion of the agency. At the end of the current fiscal year, it had an unassigned fund balance of \$7,883,260. The General Fund's unassigned fund balance represents 27.04 percent of total General Fund expenditures. During 2022, the ending fund balance increased by \$1,314,762. This is primarily due to continued efforts related to organizational cost-savings measures, strong oversight of time reporting related to earned revenues and budgeting appropriately for known agency expenditures. There was also a reduction in expenses related to COVID-19 and client needs.

The Health Services Special Revenue Fund had a restricted fund balance of \$396,671 and an assigned fund balance of \$4,046,152. The ending balance increased by \$990,428 during 2022, primarily due to difficulty filling budgeted open public health nurse positions and the organizational cost savings measures, along with reduction in expenses related to COVID-19.

General Fund Budgetary Highlights

Over the course of the year, the original to final budget totals stayed the same. Actual revenue was more than budgeted revenue by \$165,407. Miscellaneous revenues were less than the budget by \$86,293 due to a change in program recoveries that were not anticipated or budgeted.

Intergovernmental revenues exceeded the budget by \$463,067 due to differences in timing of revenues received compared to budgeted amounts. Charges for services were less than the budget by \$282,755 due to reduced Rule 5 client care. Expenditures were \$761,809 more than budget due to reduced Rule 5 client care and program activity.

Capital Assets and Debt Administration

Capital Assets

The Health and Human Services' investment in capital assets for its governmental activities for the year ended December 31, 2022, is \$2,644,189 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, leased equipment, and leased buildings.

The following table shows capital assets, net of depreciation and amortization, at December 31, 2022.

| Capital Assets at Year End | | | | |
|---|----|-----------|----|---------|
| (Net of Accumulated Depreciation and Amortization) | | | | |
| | | 2022 | | 2021 |
| Equipment | \$ | 393,918 | \$ | 452,989 |
| Leased equipment | | 547,449 | | 519,043 |
| Leased buildings | | 1,702,822 | | - |
| Total | \$ | 2,644,189 | \$ | 972,032 |

Long-Term Liabilities

At year-end, the Health and Human Services had no outstanding bonded debt. The Health and Human Services has outstanding leases payable of \$2,147,860 and compensated absences of \$945,196 at December 31, 2022.

Economic Factors and Next Year's Budgets and Rates

Southwest Health and Human Services planned a balanced budget for 2022. The levy for Human Services was approved at a five percent increase for the General Fund. There was no change in the levy for the Health Services Special Revenue Fund and was approved with no per capita increase for all counties.

Requests for Information

This financial report is designed to provide a general overview of Southwest Health and Human Services' financial statements. Additional questions or further explanation of this report can be obtained by writing to Lisa DeBoer, Director of Business Management of Southwest Health and Human Services, 607 West Main Street, Suite 200, Marshall, Minnesota 56258, or by calling 507-283-5070.

Basic Financial Statements

Government-Wide Financial Statements

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 1

**Statement of Net Position
Governmental Activities
December 31, 2022**

Assets

| | | |
|---|-----------|-------------------|
| Cash and pooled investments | \$ | 11,133,788 |
| Receivables – net | | 4,639,262 |
| Capital assets | | |
| Depreciable or amortizable – net of accumulated depreciation and amortization | | 2,644,189 |
| Total Assets | \$ | 18,417,239 |

Deferred Outflows of Resources

| | | |
|---|-----------|------------------|
| Deferred other postemployment benefits outflows | \$ | 127,058 |
| Deferred pension outflows | | 3,793,406 |
| Total Deferred Outflows of Resources | \$ | 3,920,464 |

Liabilities

| | | |
|--|-----------|-------------------|
| Accounts payable and other current liabilities | \$ | 2,525,066 |
| Unearned revenue | | 6,707 |
| Long-term liabilities | | |
| Due within one year | | 709,597 |
| Due in more than one year | | 2,383,459 |
| Other postemployment benefits liability | | 1,103,523 |
| Net pension liability | | 13,068,054 |
| Total Liabilities | \$ | 19,796,406 |

Deferred Inflows of Resources

| | | |
|--|-----------|----------------|
| Deferred other postemployment benefits inflows | \$ | 457,621 |
| Deferred pension inflows | | 343,037 |
| Total Deferred Inflows of Resources | \$ | 800,658 |

Net Position

| | | |
|----------------------------------|-----------|------------------|
| Net investment in capital assets | \$ | 496,329 |
| Restricted for | | |
| Opioid remediation activities | | 396,671 |
| Unrestricted | | 847,639 |
| Total Net Position | \$ | 1,740,639 |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 2

**Statement of Activities
For the Year Ended December 31, 2022**

| | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> |
|--|-----------------------------|--|---|--|
| | <u>Expenses</u> | <u>Fees, Charges, Fines, and Other</u> | <u>Operating Grants and Contributions</u> | |
| <u>Functions/Programs</u> | | | | |
| Governmental activities | | | | |
| Human services | \$ 27,813,248 | \$ 2,554,327 | \$ 13,771,285 | \$ (11,487,636) |
| Health services | 3,610,259 | 672,696 | 2,717,892 | (219,671) |
| Interest | 19,251 | - | - | (19,251) |
| Total Governmental Activities | <u>\$ 31,442,758</u> | <u>\$ 3,227,023</u> | <u>\$ 16,489,177</u> | <u>\$ (11,726,558)</u> |
| General Revenues | | | | |
| Grants and contributions not restricted to specific programs | | | | \$ 13,104,197 |
| Unrestricted investment earnings | | | | 87,604 |
| Miscellaneous | | | | 44,275 |
| Total general revenues | | | | <u>\$ 13,236,076</u> |
| Change in net position | | | | \$ 1,509,518 |
| Net Position – Beginning | | | | <u>231,121</u> |
| Net Position – Ending | | | | <u>\$ 1,740,639</u> |

Fund Financial Statements

Governmental Funds

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 3

**Balance Sheet
Governmental Funds
December 31, 2022**

| | General | Health Services | Total |
|---|----------------------|---------------------|----------------------|
| <u>Assets</u> | | | |
| Cash and pooled investments | \$ 6,552,040 | \$ 3,958,325 | \$ 10,510,365 |
| Accounts receivable – net | 612,529 | 49,992 | 662,521 |
| Accrued interest receivable | 17,680 | 3,367 | 21,047 |
| Advance to other governments | 111,139 | - | 111,139 |
| Due from other governments | 2,871,448 | 643,503 | 3,514,951 |
| Total Assets | \$ 10,164,836 | \$ 4,655,187 | \$ 14,820,023 |
| <u>Liabilities, Deferred Inflows of Resources, and Fund Balances</u> | | | |
| Liabilities | | | |
| Accounts payable | \$ 840,341 | \$ 17,737 | \$ 858,078 |
| Salaries payable | 551,052 | 110,404 | 661,456 |
| Due to other funds | 323,275 | - | 323,275 |
| Due to other governments | 188,294 | 1,401 | 189,695 |
| Unearned revenue | - | 6,707 | 6,707 |
| Total Liabilities | \$ 1,902,962 | \$ 136,249 | \$ 2,039,211 |
| Deferred Inflows of Resources | | | |
| Unavailable revenue | \$ 378,614 | \$ 76,115 | \$ 454,729 |
| Fund Balances | | | |
| Restricted for | | | |
| Opioid remediation | \$ - | \$ 396,671 | \$ 396,671 |
| Assigned for | | | |
| Health services | - | 4,046,152 | 4,046,152 |
| Unassigned | 7,883,260 | - | 7,883,260 |
| Total Fund Balances | \$ 7,883,260 | \$ 4,442,823 | \$ 12,326,083 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 10,164,836 | \$ 4,655,187 | \$ 14,820,023 |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 4

**Reconciliation of Governmental Funds Balance Sheet to
the Government-wide Statement of Net Position—Governmental Activities
December 31, 2022**

| | | |
|--|---------------------|----------------------------|
| Fund balance – total governmental funds (Exhibit 3) | | \$ 12,326,083 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. | | 2,644,189 |
| Deferred outflows of resources resulting from the other postemployment benefits liability are not available resources and, therefore, are not reported in governmental funds. | | 127,058 |
| Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in governmental funds. | | 3,793,406 |
| An internal service fund is used by the Health and Human Services to charge the cost of the self-funded insurance programs to functions. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. | | 460,465 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources—unavailable revenue in the governmental funds. | | 454,729 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds. | | |
| Leases payable | \$ (2,147,860) | |
| Compensated absences | (945,196) | |
| Other postemployment benefits liability | (1,103,523) | |
| Net pension liability | <u>(13,068,054)</u> | (17,264,633) |
| Deferred inflows of resources resulting from the other postemployment benefits liability are not due and payable in the current period and, therefore, are not reported in governmental funds. | | (457,621) |
| Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in governmental funds. | | <u>(343,037)</u> |
| Net Position of Governmental Activities (Exhibit 1) | | <u>\$ 1,740,639</u> |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 5

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2022**

| | General | Health Services | Total |
|---|----------------------|---------------------|----------------------|
| Revenues | | | |
| Intergovernmental | \$ 25,909,415 | \$ 3,393,315 | \$ 29,302,730 |
| Settlements | - | 396,748 | 396,748 |
| Charges for services | 2,201,845 | 690,786 | 2,892,631 |
| Investment earnings | 73,588 | 14,016 | 87,604 |
| Miscellaneous | 371,783 | 9,262 | 381,045 |
| Total Revenues | \$ 28,556,631 | \$ 4,504,127 | \$ 33,060,758 |
| Expenditures | | | |
| Current | | | |
| Human services | \$ 28,691,797 | \$ - | \$ 28,691,797 |
| Health | - | 3,789,875 | 3,789,875 |
| Debt service | | | |
| Principal | 445,065 | 84,775 | 529,840 |
| Interest | 16,171 | 3,080 | 19,251 |
| Total Expenditures | \$ 29,153,033 | \$ 3,877,730 | \$ 33,030,763 |
| Excess of Revenues Over (Under) Expenditures | \$ (596,402) | \$ 626,397 | \$ 29,995 |
| Other Financing Sources (Uses) | | | |
| Leases issued | 1,911,164 | 364,031 | 2,275,195 |
| Net Change in Fund Balance | \$ 1,314,762 | \$ 990,428 | \$ 2,305,190 |
| Fund Balance – January 1 | 6,568,498 | 3,452,395 | 10,020,893 |
| Fund Balance – December 31 | \$ 7,883,260 | \$ 4,442,823 | \$ 12,326,083 |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 6

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the
Government-Wide Statement of Activities—Governmental Activities
For the Year Ended December 31, 2022**

Net change in fund balance – total governmental funds (Exhibit 5) \$ 2,305,190

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

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

| | | |
|-----------------------------------|------------------|-----------|
| Unavailable revenue – December 31 | \$ 454,729 | |
| Unavailable revenue – January 1 | <u>(616,127)</u> | (161,398) |

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the statement of activities, only the gain or loss on the disposal of capital assets is reported; whereas, in the governmental funds, the proceeds from the sale increase financial resources. The difference is the net book value of the assets disposed.

| | | |
|--|------------------|-----------|
| Expenditures for general capital assets | \$ 2,469,514 | |
| Net book value of assets disposed | (987) | |
| Current year depreciation and amortization | <u>(796,370)</u> | 1,672,157 |

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

| | | |
|------------------------------|--------------------|-------------|
| Principal payments on leases | \$ 529,840 | |
| Leases issued | <u>(2,275,195)</u> | (1,745,355) |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | | |
|---|------------------|-----------|
| Change in deferred other postemployment benefits outflows | \$ (7,632) | |
| Change in deferred pension outflows | (1,220,319) | |
| Change in compensated absences | 104,865 | |
| Change in other postemployment benefits liability | 141,216 | |
| Change in net pension liability | (5,829,645) | |
| Change in deferred other postemployment benefits inflows | (46,317) | |
| Change in deferred pension inflows | <u>6,566,935</u> | (290,897) |

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

(270,179)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,509,518

Proprietary Fund

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 7

**Statement of Net Position
Proprietary Fund
December 31, 2022**

| | <u>Governmental Activities Internal Service Fund</u> |
|----------------------------|--|
| <u>Assets</u> | |
| Current assets | |
| Cash and cash equivalents | \$ 623,423 |
| Accounts receivable | 329,604 |
| | <hr/> |
| Total Assets | \$ 953,027 |
| <u>Liabilities</u> | |
| Current liabilities | |
| Claims payable | \$ 492,562 |
| | <hr/> |
| <u>Net Position</u> | |
| Unrestricted | \$ 460,465 |
| | <hr/> <hr/> |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 8

**Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2022**

| | <u>Governmental Activities Internal Service Fund</u> |
|-----------------------------------|--|
| Operating Revenues | |
| Charges for services | \$ 2,811,966 |
| Operating Expenses | |
| Cost of services | <u>3,082,145</u> |
| Operating Income (Loss) | \$ (270,179) |
| Net Position – January 1 | <u>730,644</u> |
| Net Position – December 31 | <u><u>\$ 460,465</u></u> |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 9

**Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2022
Increase (Decrease) in Cash and Cash Equivalents**

| | Governmental Activities |
|--|------------------------------------|
| | Internal Service Fund |
| Cash Flows from Operating Activities | |
| Receipts from internal services provided | \$ 3,568,607 |
| Payments to suppliers | (3,970,432) |
| Net cash provided by (used in) operating activities | \$ (401,825) |
| Cash and Cash Equivalents at January 1 | 1,025,248 |
| Cash and Cash Equivalents at December 31 | \$ 623,423 |
| | |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | |
| Operating income (loss) | \$ (270,179) |
| | |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | |
| (Increase) decrease in accounts receivable | \$ (179,247) |
| Increase (decrease) in accounts payable | (161,543) |
| Increase (decrease) in claims payable | 209,144 |
| Total adjustments | \$ (131,646) |
| | |
| Net Cash Provided by (Used in) Operating Activities | \$ (401,825) |

Fiduciary Funds

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 10

**Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2022**

| | RSDI/SSI Private-Purpose Trust Fund | Custodial Funds |
|--|---|--------------------|
| <u>Assets</u> | | |
| Cash and pooled investments | \$ 3,914 | \$ 317,018 |
| Due from other funds | - | 323,275 |
| Total Assets | \$ 3,914 | \$ 640,293 |
| <u>Liabilities</u> | | |
| Due to others | \$ 3,914 | \$ - |
| Due to other governments | - | 245,164 |
| Total Liabilities | \$ 3,914 | \$ 245,164 |
| <u>Net Position</u> | | |
| Restricted for individuals, organizations, and other governments | \$ - | \$ 395,129 |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit 11

**Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2022**

| | RSDI/SSI Private-Purpose Trust Fund | Custodial Funds |
|--|---|---------------------|
| <u>Additions</u> | | |
| Contributions from individuals | \$ 83,857 | \$ 967,875 |
| Interest earnings | - | 49 |
| Payments from the state | - | 259,810 |
| Fees collected for the state | - | 85,114 |
| Payments from other entities | - | 4,538 |
| | \$ 83,857 | \$ 1,317,386 |
| <u>Deductions</u> | | |
| Administrative expense | \$ 83,857 | \$ 5,488 |
| Payments to the state | - | 1,052,989 |
| Payments to other individuals/entities | - | 245,266 |
| | \$ 83,857 | \$ 1,303,743 |
| Change in Net Position | \$ - | \$ 13,643 |
| Net Position – January 1 | - | 381,486 |
| Net Position – December 31 | \$ - | \$ 395,129 |

Southwest Health and Human Services Marshall, Minnesota

Notes to the Financial Statements
As of and for the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies

Southwest Health and Human Services' financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as of and for the year ended December 31, 2022. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Southwest Health and Human Services are discussed below.

Financial Reporting Entity

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

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

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

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

Joint Ventures and Jointly-Governed Organizations

Southwest Health and Human Services participates in joint ventures and jointly-governed organizations which are described in Note 4.

Southwest Health and Human Services

Marshall, Minnesota

Basic Financial Information

Government-Wide Statements

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

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

The statement of activities demonstrates the degree to which the direct expenses of each function of the Health and Human Services' governmental activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Health and Human Services' funds, including its fiduciary funds. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental funds, with each displayed as separate columns in the fund financial statements. The Health and Human Services reports all of its governmental funds as major funds.

The Health and Human Services reports the following major governmental funds:

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

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

- The Internal Service Fund accounts for health insurance premiums and payments.
- The RSDI/SSI Private-Purpose Trust Fund accounts for funds held in trust that Southwest Health and Human Services is holding on behalf of individuals receiving Retirement, Survivors, and Disability Insurance (RSDI) or Supplement Security Income (SSI).

Southwest Health and Human Services

Marshall, Minnesota

- Custodial funds account for monies held in a fiduciary capacity for local collaboratives' and a special district's collections and disbursements that use Southwest Health and Human Services as a depository.

Measurement Focus and Basis of Accounting

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

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

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

When both restricted and unrestricted resources are available for use, it is Southwest Health and Human Services' policy to use restricted resources first and then unrestricted resources as needed.

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

Cash and Cash Equivalents

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

Deposits and Investments

Under the direction of the Investment Committee and the Board, the cash balances of substantially all funds are invested by the Lyon County Auditor/Treasurer for the purpose of increasing earnings through investment activities. Funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Investment earnings for 2022 were \$67,719.

Southwest Health and Human Services invests in an external investment pool, the Minnesota Association of Governments Investing for Counties (MAGIC) Fund, which is created under a joint powers agreement pursuant to Minn. Stat. § 471.59. The investment in the pool is measured at the net asset value (NAV) per share provided by the pool.

Southwest Health and Human Services Marshall, Minnesota

Receivables and Payables

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

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

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

Prepaid Items

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

Capital Assets

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

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

Office furniture and equipment are depreciated using the straight-line method over the following estimated useful lives, while right-to-use assets are amortized over the shorter of the underlying assets' estimated useful life or lease term:

Estimated Useful Lives of Capital Assets

| <u>Assets</u> | <u>Years</u> |
|------------------------|--------------|
| Equipment | 3-10 |
| Right-to-use equipment | 3-10 |
| Right-to-use buildings | 2-5 |

Compensated Absences

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

Southwest Health and Human Services Marshall, Minnesota

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

Long-Term Obligations

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

Pension Plan

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

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

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

Southwest Health and Human Services

Marshall, Minnesota

Unearned Revenue

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

Classification of Net Position

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

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

Classification of Fund Balances

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

- Nonspendable – amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- Restricted – amounts for which constraints have been placed on the use of resources either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.
- Committed – amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.
- Assigned – amounts the Health and Human Services intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or an individual who has been delegated that authority by Board resolution.

Southwest Health and Human Services

Marshall, Minnesota

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

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

Minimum Fund Balance

Southwest Health and Human Services adopted a minimum fund balance policy for its General Fund to maintain a minimum unassigned fund balance equal to 35 to 50 percent of the General Fund's operating expenditures. At December 31, 2022, unassigned fund balance in the General Fund was below the minimum fund balance levels.

Use of Estimates

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

Change in Accounting Principles

During the year ended December 31, 2022, Southwest Health and Human Services adopted new accounting guidance by implementing the provisions of GASB No. 87, *Leases*, which establishes criteria for accounting and financial reporting for leases. The implementation of this statement resulted in changing the presentation of the government-wide financial statements by increasing the beginning balances of the right-to-use capital assets and decreasing beginning balances of the depreciated capital assets by \$519,043.

Southwest Health and Human Services Marshall, Minnesota

Note 2 – Detailed Notes

Assets and Deferred Outflows of Resources

Deposits and Investments

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

| Reconciliation of the Health and Human Services' Total Cash and Investments to the Basic Financial Statements as of December 31, 2022 | |
|--|----------------------|
| Government-wide statement of net position | |
| Governmental activities | |
| Cash and pooled investments | \$ 11,133,788 |
| Statement of fiduciary net position | |
| Cash and pooled investments | 320,932 |
| Total Cash and Investments | <u>\$ 11,454,720</u> |
| Deposits | |
| Checking | \$ 4,858,187 |
| Savings | 970,339 |
| MAGIC Portfolio | 5,626,194 |
| Total Deposits and Investments | <u>\$ 11,454,720</u> |

Deposits

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the Health and Human Services' deposits may not be returned to it. The Health and Human Services has adopted a policy for custodial credit risk of obtaining collateral or bond for all uninsured amounts on deposit and obtaining necessary documentation to show compliance with state law and perfected security interest under federal law. As of December 31, 2022, Southwest Health and Human Services' deposits were not exposed to custodial credit risk.

Southwest Health and Human Services

Marshall, Minnesota

[Investments](#)

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

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

[Interest Rate Risk](#)

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

[Credit Risk](#)

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

[Custodial Credit Risk](#)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The Health and Human Services has adopted a policy for custodial credit risk that permits brokers to hold investments only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage are available.

Southwest Health and Human Services Marshall, Minnesota

Concentration of Credit Risk

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

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

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

Receivables

Governmental Activities Receivables as of December 31, 2022

| | Receivables | Less: Allowance for Uncollectible Accounts | Net Receivables |
|-------------------------------|--------------|---|--------------------|
| Accounts receivable | \$ 5,164,415 | \$ (4,172,290) | \$ 992,125 |
| Interest | 21,047 | - | 21,047 |
| Advance to other governments | 111,139 | - | 111,139 |
| Due from other governments | 3,514,951 | - | 3,514,951 |
| | | | |
| Total Governmental Activities | \$ 8,811,552 | \$ (4,172,290) | \$ 4,639,262 |

Net receivables, excluding the advance to other governments, are expected to be collected in the subsequent year.

Chippewa County is the designated fiscal host for the Southwest Minnesota Regional Minnesota Family Investment Program/Divisionary Work Program (MFIP/DWP) Partnership. This is a 14-county partnership created to administer MFIP/DWP funds. Southwest Health and Human Services advanced \$111,139 to Chippewa County for cash flow purposes. The funds will be returned when the partnership is dissolved.

Southwest Health and Human Services Marshall, Minnesota

Capital Assets

Changes in Capital Assets for the Year Ended December 31, 2022

| | Beginning Balance, as Restated* | Increase | Decrease | Ending Balance |
|---|---------------------------------------|--------------|-----------|-------------------|
| Capital assets depreciated | | | | |
| Equipment | \$ 1,202,034 | \$ 127,162 | \$ 73,140 | \$ 1,256,056 |
| Less: accumulated depreciation for Equipment | 749,045 | 185,246 | 72,153 | 862,138 |
| Total capital assets depreciated | \$ 452,989 | \$ (58,084) | \$ 987 | \$ 393,918 |
| Capital assets amortized | | | | |
| Leased equipment | \$ 519,043 | \$ 190,668 | \$ - | \$ 709,711 |
| Leased buildings | - | 2,151,684 | - | 2,151,684 |
| Total capital assets amortized | \$ 519,043 | \$ 2,342,352 | \$ - | \$ 2,861,395 |
| Less: accumulated amortization for | | | | |
| Leased equipment | \$ - | \$ 162,262 | \$ - | \$ 162,262 |
| Leased buildings | - | 448,862 | - | 448,862 |
| Total accumulated amortization | \$ - | \$ 611,124 | \$ - | \$ 611,124 |
| Total capital assets amortized | \$ 519,043 | \$ 1,731,228 | \$ - | \$ 2,250,271 |
| Total Capital Assets, Net | \$ 972,032 | \$ 1,673,144 | \$ 987 | \$ 2,644,189 |

*See change in accounting principles note in Note 1.

Depreciation and Amortization Expense Charged to Functions/Programs

| | |
|---|-------------------|
| Human services | \$ 671,544 |
| Health services | 124,826 |
| Total Depreciation and Amortization Expense – Governmental Activities | <u>\$ 796,370</u> |

Interfund Receivables and Payables

Due To/From Other Funds

Interfund Balances as of December 31, 2022

| Receivable Fund | Payable Fund | Amount |
|--|--------------|-------------------|
| LCTS Lyon Murray Collaborative Custodial Fund | General Fund | \$ 34,716 |
| LCTS Rock-Pipestone Collaborative Custodial Fund | General Fund | 11,857 |
| LCTS Redwood Collaborative Custodial Fund | General Fund | 31,538 |
| State Revenue Custodial Fund | General Fund | 245,164 |
| Total Due To/From Other Funds | | <u>\$ 323,275</u> |

Southwest Health and Human Services Marshall, Minnesota

The outstanding balances between funds result from the time lag between the dates the interfund goods and services were provided and when the funds are repaid. All balances are expected to be liquidated in the subsequent year.

Liabilities and Deferred Inflows of Resources

Payables

Governmental Activities Payables as of December 31, 2022

| | |
|--------------------------|--------------|
| Accounts payable | \$ 858,078 |
| Claims payable | 492,562 |
| Salaries payable | 661,456 |
| Due to other governments | 189,695 |
| Total Payables | \$ 2,201,791 |

Deferred Inflows of Resources – Unavailable Revenue

Unavailable revenue consists of state grants, federal grants, intergovernmental reimbursements, charges for services, and miscellaneous revenue not collected soon enough after year-end to pay liabilities of the current period.

Deferred Inflows of Resources by Fund as of December 31, 2022

| | Intergovernmental | Other | Total |
|--------------------------|-------------------|------------|------------|
| Major governmental funds | | | |
| General | \$ 116,356 | \$ 262,258 | \$ 378,614 |
| Health Services | 1,625 | 74,490 | 76,115 |
| Total | \$ 117,981 | \$ 336,748 | \$ 454,729 |

Leases

Southwest Health and Human Services entered into lease agreements as lessee for financing the acquisition of office space, vehicles, copiers, and postage machines. Leases are five years and have been recorded at the present value of their future minimum lease payments as of the inception date. Lease payments are split between the General Fund and the Health Services Special Revenue Fund.

Future Minimum Lease Obligations and Present Value of Minimum Lease Payments as of December 31, 2022

| Year Ending December 31 | Principal | Interest |
|---|--------------|-----------|
| 2023 | \$ 561,511 | \$ 15,321 |
| 2024 | 583,199 | 9,584 |
| 2025 | 557,905 | 3,865 |
| 2026 | 431,911 | 1,398 |
| 2027 | 13,334 | 138 |
| Total Governmental Activities Lease Payments | \$ 2,147,860 | \$ 30,306 |

Southwest Health and Human Services Marshall, Minnesota

Changes in Long-Term Liabilities

Changes in Long-Term Liabilities for the Year Ended December 31, 2022

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------|----------------------|---------------------|---------------------|---------------------|------------------------|
| Compensated absences | \$ 1,050,061 | \$ 1,088,020 | \$ 1,192,885 | \$ 945,196 | \$ 148,086 |
| Leases | 402,505 | 2,275,195 | 529,840 | 2,147,860 | 561,511 |
| Total | <u>\$ 1,452,566</u> | <u>\$ 3,363,215</u> | <u>\$ 1,722,725</u> | <u>\$ 3,093,056</u> | <u>\$ 709,597</u> |

Other Postemployment Benefits (OPEB)

Plan Description

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

Funding Policy

Employees who were employed by Lincoln, Lyon, and Murray Human Services (LLMHS) and were employed by that agency prior to August 22, 2005, worked continuously for LLMHS through December 31, 2010, with no break in service, were hired by Southwest Health and Human Services as of January 1, 2011, with no break in service, and are employed on a full-time basis are entitled to receive four percent of single premium per year of service toward the employee's health and dental single insurance premium, including years of service at LLMHS. Payments will be discontinued when the retiree becomes eligible for Medicare or if the retiree obtains employment where single health insurance is available at no cost to the employee. The amount shall not exceed the total amount paid by the Health and Human Services on behalf of their employees. For 2022, this amount was \$550 per month.

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

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

Employees Covered by the OPEB Benefit Terms As of the December 31, 2022, Actuarial Valuation

| | |
|--|-------------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 9 |
| Active plan participants | <u>250</u> |
| Total | <u><u>259</u></u> |

Total OPEB Liability

The Health and Human Services' total OPEB liability of \$1,103,523 was measured as of January 1, 2022, and was determined by an actuarial valuation as of January 1, 2022. OPEB liability is liquidated through the General Fund

Southwest Health and Human Services Marshall, Minnesota

and Health Services Fund.

The total OPEB liability in the fiscal year-end December 31, 2022, reporting date was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

OPEB Actuarial Assumptions and Other Inputs

| | |
|------------------------|--|
| Actuarial cost method | Entry Age, level percentage of pay |
| Inflation | 2.00 percent |
| Salary increases | Service graded table |
| Health care cost trend | 6.50 percent as of January 1, 2022, grading to 5.00 percent over six years and then to 4.00 percent over the next 48 years. The employer contribution toward monthly premiums is not expected to increase. |

The salary scales used to value GASB 75 liabilities are similar to the table used to value pension liabilities for PERA. The rates are based on the four-year experience study for the PERA General Employee Plan completed in 2019, with a review of the inflation assumption.

The discount rate is the 20-year municipal bond yield. The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of January 1, 2022.

Mortality rates are based on Society of Actuaries Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2021 Generational Improvement Scale.

Economic assumptions are based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as consistency with the other economic assumptions.

Retirement and withdrawal assumptions used are similar to those used to value pension liabilities for Minnesota public employees. PERA bases its assumptions on periodic experience studies.

Changes in the Total OPEB Liability

Changes in the Total OPEB Liability For the Year Ended December 31, 2022

| | | |
|--|-----------|------------------|
| Total OPEB liability, balance at December 31, 2021 | <u>\$</u> | <u>1,244,739</u> |
| Changes for the year | | |
| Service cost | \$ | 56,871 |
| Interest | | 25,359 |
| Differences between expected and actual experience | | (39,051) |
| Assumption changes | | (116,785) |
| Benefit payments | | <u>(67,610)</u> |
| Net change | <u>\$</u> | <u>(141,216)</u> |
| Balance at December 31, 2022 | <u>\$</u> | <u>1,103,523</u> |

Southwest Health and Human Services Marshall, Minnesota

OPEB Liability Sensitivity

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate as of December 31, 2022

| | Discount Rate | | Total OPEB Liability |
|-------------|---------------|----|----------------------|
| 1% Decrease | 1.00% | \$ | 1,160,441 |
| Current | 2.00% | | 1,103,523 |
| 1% Increase | 3.00% | | 1,047,039 |

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

Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates as of December 31, 2022

| | Health Care Trend Rate | | Total OPEB Liability |
|-------------|---------------------------|----|----------------------|
| 1% Decrease | 5.50% Decreasing to 3.00% | \$ | 1,031,376 |
| Current | 6.50% Decreasing to 4.00% | | 1,103,523 |
| 1% Increase | 7.50% Decreasing to 5.00% | | 1,186,939 |

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

For the year ended December 31, 2022, the Health and Human Services recognized OPEB expense of \$87,267.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB as of December 31, 2022

| | Deferred Outflows of Resources | | Deferred Inflows of Resources |
|---|--------------------------------------|----|-------------------------------------|
| Differences between expected and actual economic experience | \$ - | \$ | 341,065 |
| Changes in actuarial assumptions | 55,046 | | 116,556 |
| Contributions made subsequent to the measurement date | 72,012 | | - |
| Total | \$ 127,058 | \$ | 457,621 |

The \$72,012 reported deferred outflows of resources related to OPEB resulting from contributions made subsequent to the measurement will be recognized as a reduction of the OPEB liability for the year ended December 31, 2023. The amount reported as deferred inflows of resources related to OPEB will be recognized in expense as follows:

Southwest Health and Human Services Marshall, Minnesota

Schedule of Amortization of Deferred Outflows And Inflows of Resources Related to OPEB As of December 31, 2022

| Year Ended December 31 | OPEB Expense Amount |
|------------------------|------------------------|
| 2023 | \$ (97,485) |
| 2024 | (97,485) |
| 2025 | (97,479) |
| 2026 | (91,070) |
| 2027 | (19,056) |

Changes in Actuarial Assumptions

The following change in actuarial assumptions occurred in 2022:

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2021 Generational Improvement Scale.
- The salary increase rates were updated to reflect the latest experience study.
- The retirement and withdrawal rates were updated to reflect the latest experience study.
- The inflation rate was changed from 2.50 percent to 2.00 percent.

Pension Plan

Defined Benefit Pension Plan

Plan Description

All full-time and certain part-time employees of Southwest Health and Human Services are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Plan (the General Employees Plan), which is a cost-sharing, multiple-employer retirement plan. These plans are 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.

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

Southwest Health and Human Services

Marshall, Minnesota

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.

General Employees Plan benefit recipients will receive a post-retirement increase equal to 50 percent of the cost-of-living adjustment announced by the Social Security Administration, with a minimum increase of at least 1.00 percent and maximum of 1.50 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

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

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

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

Contributions

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Rates for employer and employee contributions are set by Minn. Stat. ch. 353. These statutes are established and amended by the state legislature. General Employees Plan members were required to contribute 6.50 percent of their annual covered salary in 2022. The employer was required to contribute 7.50 percent of annual covered salary in 2022. The employee and employer rates did not change from 2021.

The Health and Human Services' contributions for the General Employees Plan for the year ended December 31, 2022, were \$942,944. The contributions are equal to the statutorily required contributions as set by state statute.

Southwest Health and Human Services Marshall, Minnesota

[Pension Costs](#)

General Employees Plan

At December 31, 2022, the Health and Human Services reported a liability of \$13,068,054 for its proportionate share of the General Employees Plan's net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health and Human Services' proportion of the net pension liability was based on the Health and Human Services' contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2021, through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2022, the Health and Human Services' proportion was 0.1650 percent. It was 0.1695 percent measured as of June 30, 2021. The Health and Human Services recognized pension expense of \$1,483,207 for its proportionate share of the General Employees Plan's pension expense.

Legislation requires the State of Minnesota to contribute \$16 million to the General Employees Plan annually until September 15, 2031. The Health and Human Services recognized an additional \$26,400 as grant revenue and pension expense for its proportionate share of the State of Minnesota's pension expense related to the special funding situation.

General Employees Plan Employer's Share of the Net Pension Liability and the State's Related Liability As of December 31, 2022

| | |
|---|---------------|
| The Health and Human Services' proportionate share of the net pension liability | \$ 13,068,054 |
| State of Minnesota's proportionate share of the net pension liability associated with the Health and Human Services | 383,032 |
| Total | \$ 13,451,086 |

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

General Employees Plan Deferred Outflows of Resources and Deferred Inflows of Resources As of December 31, 2022

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 109,154 | \$ 143,314 |
| Changes in actuarial assumptions | 3,035,762 | 54,213 |
| Difference between projected and actual investment earnings | 100,355 | - |
| Changes in proportion | 35,972 | 145,510 |
| Contributions paid to PERA subsequent to the measurement date | 512,163 | - |
| Total | \$ 3,793,406 | \$ 343,037 |

The \$512,163 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, 2023. Other amounts reported as deferred outflows and inflows of resources related to

Southwest Health and Human Services Marshall, Minnesota

pensions will be recognized in pension expense as follows:

**General Employees Plan
Schedule of Amortization of
Deferred Outflows and Inflows of Resources
As of December 31, 2022**

| Year Ended December 31 | Pension Expense Amount |
|------------------------|---------------------------|
| 2023 | \$ 1,106,481 |
| 2024 | 1,159,800 |
| 2025 | (509,886) |
| 2026 | 1,181,811 |

Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

Actuarial Assumptions for the Year Ended June 30, 2022

| | General Employees Fund |
|------------------------------|---------------------------|
| Inflation | 2.25% per year |
| Active Member Payroll Growth | 3.00% per year |
| Investment Rate of Return | 6.50% |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on the Pub-2010 General Employee Mortality table for the General Employees Plan, with slight adjustments. Cost-of-living benefit increases for retirees are assumed to be 1.25 percent for the General Employees Plan per year through December 31, 2054, and 1.50 percent per year thereafter.

Actuarial assumptions used in the June 30, 2022, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Plan was dated June 27, 2019. A review of inflation and investment assumptions dated July 12, 2022, was utilized.

The long-term expected rate of return on pension plan investments is 6.50 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which 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.

Southwest Health and Human Services Marshall, Minnesota

Pension Plan Investment Target Allocation and Best Estimates of Geometric Real Rates of Return for Each Major Asset Class

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|-------------------|---|
| Domestic equities | 33.50% | 5.10% |
| International equities | 16.50% | 5.30% |
| Fixed income | 25.00% | 0.75% |
| Private markets | 25.00% | 5.90% |

Discount Rate

The discount rate used to measure the total pension liability was 6.50 percent for the General Employees Plan in 2022, which remained consistent with 2021. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Plan was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Actuarial Assumptions and Plan Provisions

The following change in actuarial assumptions occurred in 2022:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Pension Liability Sensitivity

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

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate As of December 31, 2022

| | Proportionate Share of the General Employees Plan | |
|-------------|--|--------------------------|
| | Discount Rate | Net Pension Liability |
| 1% Decrease | 5.50% | \$ 20,641,677 |
| Current | 6.50% | 13,068,054 |
| 1% Increase | 7.50% | 6,856,516 |

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.

Southwest Health and Human Services Marshall, Minnesota

Note 3 – Risk Management

Southwest Health and Human Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; or natural disasters for which the Health and Human Services carries commercial insurance. To manage these risks, the Health and Human Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT). MCIT is a public entity risk pool currently operated as a common risk management and insurance program for its members. The Health and Human Services is a member of both the MCIT Workers' Compensation and Property and Casualty Divisions. For all other risk, other than pertaining to health insurance, the Health and Human Services carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of MCIT is self-sustaining based on the contributions charged, so that total contributions plus compounded earnings on these contributions will equal the amount needed to satisfy claims liabilities and other expenses. MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$500,000 per claim in 2022 and 2023. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess the Health and Human Services in a method and amount to be determined by MCIT.

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

On October 15, 2013, Southwest Health and Human Services entered into a joint powers agreement with four counties (Lyon, Murray, Redwood, and Swift) to form the Minnesota Public Sector Collaborative to self-insure health insurance as of January 1, 2014. Benton County joined as of January 1, 2018, and Chippewa County joined as of January 1, 2020. Premiums will be withheld from employees and transferred into an internal service fund. Claims will be managed and paid by a third party, and the Health and Human Services will be billed weekly, in aggregate, for claims incurred.

The Health and Human Services established a limited risk management program for health coverage in 2014. Premiums are paid into the Internal Service Fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The Health and Human Services retained risk up to a \$70,000 stop-loss per person insured (employee and eligible dependent) per year (\$1,000,000 aggregate) for the health plan. Liabilities of the Internal Service Fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The December 31, 2022, liability is determined based on detailed reports received by the Health and Human Services from the third-party administrator for claims incurred, adjusted, and paid through March 31, 2023.

Southwest Health and Human Services Marshall, Minnesota

Changes in Claims Liabilities For the Years Ended December 21, 2021, and 2022

| | 2021 | 2022 |
|----------------------------|-------------|-------------|
| Unpaid claims, January 1 | \$ 443,179 | \$ 283,418 |
| Incurred claims | 3,112,656 | 4,154,553 |
| Claims payments | (3,272,417) | (3,945,409) |
| Unpaid Claims, December 31 | \$ 283,418 | \$ 492,562 |

Note 4 – Summary of Significant Contingencies and Other Items

Contingent Liabilities

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

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

Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board

In November 1997, the Southwestern Minnesota Adult Mental Health Consortium Board was created under the authority of Minn. Stat. § 471.59. Presently, its members include Big Stone, Chippewa, Kandiyohi, Lac qui Parle, McLeod, Meeker, Nobles, Renville, Swift, and Yellow Medicine Counties; Southwest Health and Human Services represents Lincoln, Lyon, Murray, Pipestone, Redwood, and Rock counties; and Des Moines Valley Health and Human Services (DVHHS) represents Cottonwood and Jackson Counties. The Board is headquartered in Windom, Minnesota, where DVHHS acts as fiscal agent.

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

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

PrimeWest Health

The PrimeWest Central County-Based Purchasing Initiative (since renamed PrimeWest Health) was established in December 1998 by a joint powers agreement with Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope,

Southwest Health and Human Services Marshall, Minnesota

Renville, Stevens, and Traverse Counties under the authority of Minn. Stat. § 471.59. Beltrami, Clearwater, and Hubbard Counties were later added to PrimeWest Health. Pipestone County has since joined Southwest Health and Human Services for public health and human services functions. The partnership is organized to directly purchase health care services for county residents who are eligible for Medical Assistance and General Assistance Medical Care as authorized by Minn. Stat. § 256B.692. County-based purchasing is the local control alternative favored for improved coordination of services to prepaid Medical Assistance programs in complying with Minnesota Department of Health requirements as set forth in Minn. Stat. chs. 62D and 62N.

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

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

Financing is provided by Medical Assistance and General Assistance Medical Care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. Southwest Health and Human Services did not make any contributions to PrimeWest Health in 2022.

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

Supporting Hands Nurse Family Partnership Board

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

The governing board is composed of one Board member from each of the participating counties. Each participating county will contribute to the budget of the Supporting Hands Nurse Family Partnership. In 2022, Southwest Health and Human Services made \$99,412 in contributions to the Partnership.

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

Southwest Health and Human Services Marshall, Minnesota

Jointly-Governed Organizations

Lyon Murray Families Project Collaborative

The Lyon Murray Families Project Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. The current members are Southwest Health and Human Services, Western Mental Health, Western Community Action, Marshall Public Schools, Murray County Central Schools, and Russell-Tyler-Ruthton Public Schools. The governing board is composed of eight members. Southwest Health and Human Services acts as fiscal agent for the Lyon Murray Families Project Collaborative and reports the fiscal transactions of the Collaborative as a custodial fund in the financial statements. During the year, Southwest Health and Human Services made payments of \$120,266 to the Collaborative.

Rock-Pipestone Family Services Collaborative

The Rock-Pipestone Family Services Collaborative was established December 9, 2004, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The purpose of the Collaborative is to provide an interagency approach to providing child and family services. The management of the Rock-Pipestone Family Services Collaborative is vested in a governing board composed of 16 members. Each member appoints its representative for a one-year term. No single member party retains control over the operations or has oversight responsibility for the Collaborative. Southwest Health and Human Services acts as fiscal agent for the Rock-Pipestone Family Services Collaborative and reports the fiscal transactions of the Collaborative as a custodial fund in the financial statements. During the year, Southwest Health and Human Services made payments of \$40,000 to the Collaborative.

Redwood Family Service Collaborative

The Redwood Family Service Collaborative was established to create opportunities to enhance family strengths and support through service coordination and access to informal communication. This was transferred to Southwest Health and Human Services on January 1, 2013, when Redwood County joined Southwest Health and Human Services. Southwest Health and Human Services, in an agent capacity, reports the cash transactions of the Collaborative as a custodial fund in its financial statements. Southwest Health and Human Services has no operational or financial control over the Collaborative. During the year, Southwest Health and Human Services made payments of \$85,000 to the Collaborative.

Required Supplementary Information

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit A-1

**Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2022**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|----------------------|----------------------|----------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 25,446,348 | \$ 25,446,348 | \$ 25,909,415 | \$ 463,067 |
| Charges for services | 2,484,600 | 2,484,600 | 2,201,845 | (282,755) |
| Investment earnings | 2,200 | 2,200 | 73,588 | 71,388 |
| Miscellaneous | 458,076 | 458,076 | 371,783 | (86,293) |
| | | | | |
| Total Revenues | \$ 28,391,224 | \$ 28,391,224 | \$ 28,556,631 | \$ 165,407 |
| Expenditures | | | | |
| Current | | | | |
| Human services | | | | |
| Administrative | \$ 105,344 | \$ 105,344 | \$ 2,042,298 | \$ (1,936,954) |
| Income maintenance | 7,956,781 | 7,956,781 | 8,088,297 | (131,516) |
| Social services | 20,006,114 | 20,006,114 | 17,970,463 | 2,035,651 |
| Information systems | 322,985 | 322,985 | 330,579 | (7,594) |
| Local collaborative time study | - | - | 260,160 | (260,160) |
| | | | | |
| Total human services | \$ 28,391,224 | \$ 28,391,224 | \$ 28,691,797 | \$ (300,573) |
| Debt service | | | | |
| Principal | \$ - | \$ - | \$ 445,065 | \$ (445,065) |
| Interest | - | - | 16,171 | (16,171) |
| | | | | |
| Total debt service | \$ - | \$ - | \$ 461,236 | \$ (461,236) |
| | | | | |
| Total Expenditures | \$ 28,391,224 | \$ 28,391,224 | \$ 29,153,033 | \$ (761,809) |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ (596,402) | \$ (596,402) |
| Other Financing Sources (Uses) | | | | |
| Leases issued | - | - | 1,911,164 | 1,911,164 |
| | | | | |
| Net Change in Fund Balance | \$ - | \$ - | \$ 1,314,762 | \$ 1,314,762 |
| Fund Balance – January 1 | 6,568,498 | 6,568,498 | 6,568,498 | - |
| | | | | |
| Fund Balance – December 31 | \$ 6,568,498 | \$ 6,568,498 | \$ 7,883,260 | \$ 1,314,762 |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit A-2

**Budgetary Comparison Schedule
Health Services Special Revenue Fund
For the Year Ended December 31, 2022**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|---------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 3,140,816 | \$ 3,140,816 | \$ 3,393,315 | \$ 252,499 |
| Settlements | - | - | 396,748 | 396,748 |
| Charges for services | 646,130 | 646,130 | 690,786 | 44,656 |
| Investment earnings | 550 | 550 | 14,016 | 13,466 |
| Miscellaneous | 6,750 | 6,750 | 9,262 | 2,512 |
| Total Revenues | \$ 3,794,246 | \$ 3,794,246 | \$ 4,504,127 | \$ 709,881 |
| Expenditures | | | | |
| Current | | | | |
| Health | | | | |
| Administration | \$ 757,820 | \$ 757,820 | \$ 1,074,401 | \$ (316,581) |
| Nursing service | 2,233,746 | 2,233,746 | 1,810,302 | 423,444 |
| Health education | 501,480 | 501,480 | 588,333 | (86,853) |
| Environmental health | 301,200 | 301,200 | 316,762 | (15,562) |
| Opioid education | - | - | 77 | (77) |
| Total health | \$ 3,794,246 | \$ 3,794,246 | \$ 3,789,875 | \$ 4,371 |
| Debt service | | | | |
| Principal | \$ - | \$ - | \$ 84,775 | \$ (84,775) |
| Interest | - | - | 3,080 | (3,080) |
| Total debt service | \$ - | \$ - | \$ 87,855 | \$ (87,855) |
| Total Expenditures | \$ 3,794,246 | \$ 3,794,246 | \$ 3,877,730 | \$ (83,484) |
| Excess of Revenues Over (Under) Expenditures | \$ - | \$ - | \$ 626,397 | \$ 626,397 |
| Other Financing Sources (Uses) | | | | |
| Leases issued | - | - | 364,031 | 364,031 |
| Net Change in Fund Balance | \$ - | \$ - | \$ 990,428 | \$ 990,428 |
| Fund Balance – January 1 | 3,452,395 | 3,452,395 | 3,452,395 | - |
| Fund Balance – December 31 | \$ 3,452,395 | \$ 3,452,395 | \$ 4,442,823 | \$ 990,428 |

**Southwest Health and Human Service
Marshall, Minnesota**

Exhibit A-3

**Schedule of Changes in Total OPEB Liability and Related Ratios
Other Postemployment Benefits
December 31, 2022**

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Total OPEB Liability | | | | | |
| Service cost | \$ 56,871 | \$ 66,423 | \$ 55,172 | \$ 70,021 | \$ 74,242 |
| Interest | 25,359 | 34,363 | 61,617 | 53,975 | 52,825 |
| Differences between expected and actual experience | (39,051) | - | (539,916) | - | - |
| Changes of assumption or other inputs | (116,785) | 48,388 | 35,847 | (44,892) | - |
| Benefit payments | <u>(67,610)</u> | <u>(45,538)</u> | <u>(75,206)</u> | <u>(81,563)</u> | <u>(94,311)</u> |
| Net change in total OPEB liability | \$ (141,216) | \$ 103,636 | \$ (462,486) | \$ (2,459) | \$ 32,756 |
| Total OPEB Liability – Beginning | <u>1,244,739</u> | <u>1,141,103</u> | <u>1,603,589</u> | <u>1,606,048</u> | <u>1,573,292</u> |
| Total OPEB Liability – Ending | <u>\$ 1,103,523</u> | <u>\$ 1,244,739</u> | <u>\$ 1,141,103</u> | <u>\$ 1,603,589</u> | <u>\$ 1,606,048</u> |
| | | | | | |
| Covered-employee payroll | \$ 13,801,868 | \$ 12,710,414 | \$ 12,340,208 | \$ 13,542,353 | \$ 13,147,916 |
| | | | | | |
| Total OPEB liability (asset) as a percentage of covered-employee payroll | 8.00% | 9.79% | 9.25% | 11.84% | 12.22% |

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

**Southwest Health and Human Service
Marshall, Minnesota**

Exhibit A-4

**Schedule of Proportionate Share of Net Pension Liability
PERA General Employees Retirement Plan
December 31, 2022**

| Measurement Date | Employer's Proportion of the Net Pension Liability/ Asset | Employer's Proportionate Share of the Net Pension Liability (Asset) (a) | State's Proportionate Share of the Net Pension Liability Associated with Southwest Health and Human Services (b) | Employer's Proportionate Share of the Net Pension Liability and the State's Related Share of the Net Pension Liability (Asset) (a + b) | Covered Payroll (c) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Covered Payroll (a/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---------------------|--|---|---|---|---------------------------|---|---|
| 2022 | 0.1650 % | \$ 13,068,054 | \$ 383,032 | \$ 13,451,086 | \$ 12,356,509 | 105.76 % | 76.67 % |
| 2021 | 0.1695 | 7,238,409 | 221,076 | 7,459,485 | 12,201,405 | 59.32 | 87.00 |
| 2020 | 0.1683 | 10,090,354 | 311,169 | 10,401,523 | 12,003,684 | 84.06 | 79.06 |
| 2019 | 0.1684 | 9,310,459 | 289,321 | 9,599,780 | 11,925,419 | 78.07 | 80.23 |
| 2018 | 0.1853 | 10,279,684 | 337,230 | 10,616,914 | 12,455,109 | 82.53 | 79.53 |
| 2017 | 0.1864 | 11,899,653 | 149,646 | 12,049,299 | 12,009,718 | 99.08 | 75.90 |
| 2016 | 0.1760 | 14,290,327 | 186,638 | 14,476,965 | 10,922,481 | 130.83 | 68.91 |
| 2015 | 0.1693 | 8,774,005 | N/A | 8,774,005 | 9,947,597 | 88.20 | 78.19 |

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

The measurement date for each year is June 30.

N/A – Not Applicable

**Southwest Health and Human Service
Marshall, Minnesota**

Exhibit A-5

**Schedule of Contributions
PERA General Employees Retirement Plan
December 31, 2022**

| 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) |
|----------------|---|--|---|---------------------------|--|
| 2022 | \$ 942,944 | \$ 942,944 | \$ - | \$ 12,572,550 | 7.50 % |
| 2021 | 921,384 | 921,384 | - | 12,285,053 | 7.50 |
| 2020 | 946,816 | 946,816 | - | 12,624,148 | 7.50 |
| 2019 | 887,200 | 887,200 | - | 11,837,855 | 7.49 |
| 2018 | 910,272 | 910,272 | - | 12,135,946 | 7.50 |
| 2017 | 938,273 | 938,273 | - | 12,510,976 | 7.50 |
| 2016 | 826,463 | 826,463 | - | 11,019,480 | 7.50 |
| 2015 | 752,452 | 752,452 | - | 10,032,653 | 7.50 |

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

Southwest Health and Human Services Marshall, Minnesota

Notes to the Required Supplementary Information For the Year Ended December 31, 2022

Note 1 – General Budget Policies

The Southwest Health and Human Services' Governing Board adopts estimated revenue and expenditure budgets for the General Fund and the Health Services Special Revenue Fund. The Southwest Health and Human Services' department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the Health and Human Services' Governing Board. 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 Health and Human Services' Governing Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and the Health Services Special Revenue Fund.

Note 2 – Budget Basis of Accounting

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

Note 3 – Excess of Expenditures Over Budget

The following individual major funds had expenditures in excess of budget for the year ended December 31, 2022:

Comparison of Expenditures to Final Budget

| | Expenditures | Final Budget | Excess |
|--------------------------------------|---------------|---------------|------------|
| General Fund | \$ 29,153,033 | \$ 28,391,224 | \$ 761,809 |
| Health Services Special Revenue Fund | 3,877,730 | 3,794,246 | 83,484 |

Note 4 – Employer Contributions to Other Postemployment Benefits

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

The following changes in actuarial assumptions occurred:

2022

- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2019 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2021 Generational Improvement Scale.
- The salary increase rates were updated to reflect the latest experience study.
- The retirement and withdrawal rates were updated to reflect the latest experience study.

Southwest Health and Human Services Marshall, Minnesota

- The inflation rate was changed from 2.50 percent to 2.00 percent.

2021

- The discount rate was changed from 2.90 percent to 2.00 percent.

2020

- The discount rate was changed from 3.80 percent to 2.90 percent.
- The health care trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality tables were updated from RP-2014 White Collar Mortality tables with MP-2017 Generational Improvement Scale to the Pub-2010 Public Retirement Plans General Headcount-Weighted Mortality tables with MP-2019 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00 percent per year for all employees to rates which vary by service.

2019

- The discount rate was changed from 3.30 percent to 3.80 percent.

2018

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

Note 5 – Defined Benefit Pension Plans – Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

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

Southwest Health and Human Services Marshall, Minnesota

General Employees Retirement Plan

2022

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

2021

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

2020

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years two to five and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Employee Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality table to the Pub-2010 General/Teacher Disabled Retiree Mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint and Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint and Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.
- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020, through December 31, 2023, and 0.00 percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

Southwest Health and Human Services Marshall, Minnesota

2019

- The mortality projection scale was changed from Scale MP-2017 to Scale MP-2018.

2018

- The mortality projection scale was changed from Scale MP-2015 to Scale MP-2017.
- The assumed benefit increase rate was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter, to 1.25 percent per year.
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding to 50 percent of the Social Security cost-of-living adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to the Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017

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

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035

Southwest Health and Human Services Marshall, Minnesota

and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed payroll growth and inflation were decreased by 0.25 percent. Payroll growth was reduced from 3.50 percent to 3.25 percent. Inflation was reduced from 2.75 percent to 2.50 percent.

Supplementary Information

Southwest Health and Human Services Marshall, Minnesota

Fiduciary Funds

Custodial Funds

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

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

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

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

State Revenue Custodial Fund – to account for the state’s share of collections and their payment to the state.

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit B-1

**Combining Statement of Fiduciary Net Position
Fiduciary Funds – Custodial Funds
December 31, 2022**

| | <u>LCTS Lyon Murray Collaborative</u> | <u>LCTS Rock-Pipestone Collaborative</u> | <u>LCTS Redwood Collaborative</u> | <u>Local Advisory Council</u> | <u>State Revenue</u> | <u>Total Custodial Funds</u> |
|--|---|--|---|---------------------------------------|--------------------------|--------------------------------------|
| <u>Assets</u> | | | | | | |
| Cash and pooled investments | \$ 194,669 | \$ 47,936 | \$ 73,735 | \$ 678 | \$ - | \$ 317,018 |
| Due from other funds | 34,716 | 11,857 | 31,538 | - | 245,164 | 323,275 |
| Total Assets | \$ 229,385 | \$ 59,793 | \$ 105,273 | \$ 678 | \$ 245,164 | \$ 640,293 |
| <u>Liabilities</u> | | | | | | |
| Due to other governments | \$ - | \$ - | \$ - | \$ - | \$ 245,164 | \$ 245,164 |
| <u>Net Position</u> | | | | | | |
| Restricted for individuals, organizations, and other governments | \$ 229,385 | \$ 59,793 | \$ 105,273 | \$ 678 | \$ - | \$ 395,129 |

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit B-2

**Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds – Custodial Funds
For the Year Ended December 31, 2022**

| | <u>LCTS Lyon Murray Collaborative</u> | <u>LCTS Rock-Pipestone Collaborative</u> | <u>LCTS Redwood Collaborative</u> | <u>Local Advisory Council</u> | <u>State Revenue</u> | <u>Total Custodial Funds</u> |
|--|---|--|---|---------------------------------------|--------------------------|--------------------------------------|
| <u>Additions</u> | | | | | | |
| Contributions from individuals | \$ - | \$ - | \$ - | \$ - | \$ 967,875 | \$ 967,875 |
| Interest earnings | - | 49 | - | - | - | 49 |
| Payments from the state | 121,820 | 39,677 | 98,313 | - | - | 259,810 |
| Fees collected for the state | - | - | - | - | 85,114 | 85,114 |
| Payments from other entities | - | 650 | 3,888 | - | - | 4,538 |
| Total Additions | \$ 121,820 | \$ 40,376 | \$ 102,201 | \$ - | \$ 1,052,989 | \$ 1,317,386 |
| <u>Deductions</u> | | | | | | |
| Administrative expense | \$ - | \$ 2,988 | \$ 2,500 | \$ - | \$ - | \$ 5,488 |
| Payments to the state | - | - | - | - | 1,052,989 | 1,052,989 |
| Payments to other individuals/ entities | 120,266 | 40,000 | 85,000 | - | - | 245,266 |
| Total Deductions | \$ 120,266 | \$ 42,988 | \$ 87,500 | \$ - | \$ 1,052,989 | \$ 1,303,743 |
| Change in Net Position | \$ 1,554 | \$ (2,612) | \$ 14,701 | \$ - | \$ - | \$ 13,643 |
| Net Position – January 1 | 227,831 | 62,405 | 90,572 | 678 | - | 381,486 |
| Net Position – December 31 | \$ 229,385 | \$ 59,793 | \$ 105,273 | \$ 678 | \$ - | \$ 395,129 |

Other Schedules

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit C-1

**Schedule of Intergovernmental Revenue
For the Year Ended December 31, 2022**

Appropriations and Shared Revenues

State

PERA state aid \$ 26,400

Local

Out of home placement aid 93,971
Contributions from counties 13,046,963

Total appropriations and shared revenues \$ 13,167,334

Reimbursement for Services

State

Minnesota Department of Human Services \$ 5,268,081

Local

Des Moines Valley Health and Human Services 15,305
Counties 40,573

Total reimbursement for services \$ 5,323,959

Grants

State

Minnesota Department of Health 931,433
Human Services 3,701,043
Public Safety 35,535

Total state \$ 4,668,011

Federal

Department of Agriculture 1,203,444
Transportation 6,755
Education 15,750
Health and Human Services 4,917,477

Total federal \$ 6,143,426

Total state and federal grants \$ 10,811,437

Total Intergovernmental Revenue \$ 29,302,730

**Southwest Health and Human Services
Marshall, Minnesota**

Exhibit C-2

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Assistance Listing Number | Pass-Through Grant Numbers | Expenditures |
|--|--|---------------------------------------|----------------------------|
| U.S. Department of Agriculture | | | |
| Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | 222MN004W1003 | \$ 510,467 |
| Passed Through Minnesota Department of Human Services SNAP Cluster State Administrative Matching Grants for the Supplemental Nutrition Assistance Program | 10.561 | 222MN101S2514 | 692,830 |
| Passed Through Minnesota Department of Agriculture WIC Farmers' Market Nutrition Program (FMNP) | 10.572 | Not Provided | <u>147</u> |
| Total U.S. Department of Agriculture | | | <u>\$ 1,203,444</u> |
| U.S. Department of Transportation | | | |
| Passed Through Minnesota Department of Public Safety Highway Safety Cluster State and Community Highway Safety | 20.600 | 69A37521300004020MNO | <u>\$ 6,097</u> |
| U.S. Department of Education | | | |
| Passed Through Minnesota Department of Health Special Education – Grants for Infants and Families | 84.181 | B04MC32551 | <u>\$ 15,975</u> |
| U.S. Department of Health and Human Services | | | |
| Direct Drug-Free Communities Support Program Grants | 93.276 | | \$ 130,309 |
| Passed Through Minnesota Department of Health Public Health Emergency Preparedness | 93.069 | NU90TP922026 | 80,867 |
| Early Hearing Detection and Intervention | 93.251 | NU50DD000096 | 1,200 |
| Immunization Cooperative Agreements | 93.268 | 6 NH23IP000737-05-02 | 5,800 |
| COVID-19 – Immunization Cooperative Agreements (Total Immunization Cooperative Agreements 93.268 \$12,733) | 93.268 | 6 NH23IP000737-05-02 | 6,933 |
| COVID-19 – Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) | 93.323 | Not Provided | 61,783 |
| Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response | 93.354 | NU90TP922188 | 2,927 |
| Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$237,920) | 93.558 | NGA 1801MNTANF | 105,259 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | B04MC32551 | 98,594 |

**Southwest Health and Human Services
Marshall, Minnesota**

**Exhibit C-2
(Continued)**

**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022**

| Federal Grantor Pass-Through Agency Program or Cluster Title | Assistance Listing Number | Pass-Through Grant Numbers | Expenditures |
|---|---------------------------------|-------------------------------|---------------------|
| U.S. Department of Health and Human Services (Continued) | | | |
| Passed Through Minnesota Department of Human Services | | | |
| Promoting Safe and Stable Families Program | 93.556 | 2101MNFPS | 48,283 |
| Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families 93.558 \$237,920) | 93.558 | 2201MNTANF | 132,661 |
| Child Support Enforcement | 93.563 | 2201MNCSES | 173,531 |
| Child Support Enforcement (Total Child Support Enforcement 93.563 \$991,036) | 93.563 | 2201MNCEST | 817,505 |
| Refugee and Entrant Assistance – State Administered Programs CCDF Cluster | 93.566 | 2201MNRCA | 1,097 |
| Child Care and Development Block Grant | 93.575 | 2201MNCCDF | 17,349 |
| Community-Based Child Abuse Prevention Grants | 93.590 | 2102MNBCAP | 12,048 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 2001MNCWC3 | 11,876 |
| Foster Care – Title IV-E | 93.658 | 2201MNFOST | 305,012 |
| Social Services Block Grant | 93.667 | 2201MNSOSR | 517,668 |
| Child Abuse and Neglect State Grants | 93.669 | 2101MNNCAN | 15,334 |
| John H. Chafee Foster Care Program for Successful Transition to Adulthood | 93.674 | 2201MNCILP | 50,593 |
| COVID-19 – John H. Chafee Foster Care Program for Successful Transition to Adulthood (Total John H. Chafee Foster Care Program for Successful Transition to Adulthood 93.674 \$99,887) | 93.674 | 2101MNCILC | 49,294 |
| Children's Health Insurance Program Medicaid Cluster | 93.767 | 2205MNS021 | 3,504 |
| Medical Assistance Program | 93.778 | 2205MNSADM | 2,200,128 |
| Medical Assistance Program (Total Medical Assistance Program 93.778 \$2,237,271) | 93.778 | 2205MNSMAP | 37,143 |
| Total U.S. Department of Health and Human Services | | | \$ 4,886,698 |
| Total Federal Awards | | | \$ 6,112,214 |

The Health and Human Services did not pass any federal awards through to subrecipients during the year ended December 31, 2022.

Totals by Cluster

| | |
|---|------------|
| Total expenditures for SNAP Cluster | \$ 692,830 |
| Total expenditures for Highway Safety Cluster | 6,097 |
| Total expenditures for CCDF Cluster | 17,349 |
| Total expenditures for Medicaid Cluster | 2,237,271 |

Southwest Health and Human Services Marshall, Minnesota

Notes to the Schedule of Expenditures of Federal Awards
As of and for the Year Ended December 31, 2022

Note 1 – Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Southwest Health and Human Services under programs of the federal government for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Southwest Health and Human Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of Southwest Health and Human Services.

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 – De Minimis Cost Rate

Southwest Health and Human Services has elected to not use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Southwest Health and Human Services
Marshall, Minnesota**

Note 3 – Reconciliation to Schedule of Intergovernmental Revenue

| Reconciliation to Schedule of Intergovernmental Revenue | |
|---|---------------------|
| Federal grant revenue per Schedule of Intergovernmental Revenue | \$ 6,143,426 |
| Grants received more than 60 days after year-end, considered unavailable revenue in 2022 | |
| Special Education - Grants for Infants and Families (AL No. 84.181) | 225 |
| Early Hearing Detection and Intervention (AL No. 93.251) | 300 |
| Promoting Safe and Stable Families (AL No. 93.556) | 2,755 |
| Community-Based Child Abuse Prevention Grants (AL No. 93.590) | 3,946 |
| Stephanie Tubbs Jones Child Welfare Services Program (AL No. 93.645) | 4,911 |
| John H. Chafee Foster Care Program for Successful Transition to Adulthood (AL No. 93.674) | 12,805 |
| Unavailable revenue in 2021, recognized as revenue in 2022 | |
| State and Community Highway Safety (AL No. 20.600) | (658) |
| Promoting Safe and Stable Families (AL No. 93.556) | (4,147) |
| Community-Based Child Abuse Prevention Grants (AL No. 93.590) | (3,888) |
| Stephanie Tubbs Jones Child Welfare Services Program (AL No. 93.645) | (1,111) |
| Child Abuse and Neglect State Grants (AL No. 93.669) | (4,903) |
| Children's Health Insurance Program (AL No. 93.767) | (2,041) |
| Drug-Free Communities Support Program Grants (AL No. 93.276) | (39,406) |
| | <u>\$ 6,112,214</u> |
| Expenditures per Schedule of Expenditures of Federal Awards | <u>\$ 6,112,214</u> |

Management and Compliance Section



**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Health and Human Services as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Health and Human Services' basic financial statements, and have issued our report thereon dated August 8, 2023.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that Southwest Health and Human Services failed to comply with the provisions of the contracting – bid laws, depositories of public funds and public investments, conflicts of interest, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for Other Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Health and Human Services' noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Southwest Health and Human Services' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Southwest Health and Human Services' response to the internal control finding identified in our audit and described in the accompanying Corrective Action Plan. The Health and Human Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

/s/Julie Blaha

Julie Blaha
State Auditor

August 8, 2023



Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited Southwest Health and Human Services' compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of Southwest Health and Human Services' major federal programs for the year ended December 31, 2022. Southwest Health and Human Services' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Qualified Opinion on Medicaid Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, Southwest Health and Human Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster for the year ended December 31, 2022.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Southwest Health and Human Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2022.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Southwest Health and Human Services and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of Southwest Health and Human Services' compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on Medicaid Cluster

As described in the accompanying Schedule of Findings and Questioned Costs, Southwest Health and Human Services did not comply with requirements regarding Assistance Listing No. 93.778 Medical Assistance Program as described in finding number 2022-002 for Eligibility.

Compliance with such requirements is necessary, in our opinion, for Southwest Health and Human Services to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Southwest Health and Human Services' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Southwest Health and Human Services' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southwest Health and Human Services' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Southwest Health and Human Services' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances; and
- obtain an understanding of Southwest Health and Human Services' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Southwest Health and Human Services' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying Schedule of Findings and

Questioned Costs as item 2022-003. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Southwest Health and Human Services' response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. Southwest Health and Human Services' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2022-003 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Southwest Health and Human Services' response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. Southwest Health and Human Services' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

/s/Julie Blaha

Julie Blaha
State Auditor

August 8, 2023

Southwest Health and Human Services Marshall, Minnesota

Schedule of Findings and Questioned Costs For the Year Ended December 31, 2022

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report the auditor issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

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

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor’s report issued on compliance for the major federal programs: **Unmodified, except for the Medicaid Cluster, which is qualified.**

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

Identification of the major federal programs:

| Assistance Listing | |
|---------------------------|---|
| Number | Name of Federal Program or Cluster |
| 93.563 | Child Support Enforcement |
| 93.778 | Medicaid Cluster |

The threshold used to distinguish between Type A and B programs was \$750,000.

Southwest Health and Human Services qualified as a low-risk auditee? **No**

Section II – Financial Statement Findings

2022-001 Audit Adjustments

Prior Year Finding Number: 2021-001

Repeat Finding Since: 2021

Type of Finding: Internal Control Over Financial Reporting

Severity of Deficiency: Material Weakness

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

Southwest Health and Human Services Marshall, Minnesota

define a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Context: The inability to make all necessary accrual adjustments or to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented. The adjustments were found in the audit; however, independent external auditors cannot be considered part of the Health and Human Services' internal control.

Effect: The following audit adjustments were reviewed and approved by the appropriate management-level staff and are reflected in the financial statements:

Health Services Fund

- Increased due from other governments by \$196,497, deferred inflows of resources – unavailable revenue by \$74,490, and settlement revenues by \$122,007 for additional receivables noted during the audit.

Self-Insurance Fund

- Increased accounts receivable and charges for services revenues by \$327,931 for additional receivables noted during the audit.

Cause: The Health and Human Services did not properly calculate receivables when financial statement information was prepared.

Recommendation: We recommend the Health and Human Services' staff review the financial statement closing procedures, trial balances, and journal entries in detail to ensure the Health and Human Services' financial statements are fairly presented in accordance with generally accepted accounting principles.

View of Responsible Official: Acknowledge

Section III – Federal Award Findings and Questioned Costs

2022-002 Eligibility

Prior Year Finding Number: 2021-002

Repeat Finding Since: 2011

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Material Weakness and Modified Opinion

Federal Agency: U.S. Department of Health and Human Services

Program: 93.778 Medical Assistance Program

Award Number and Year: 2205MN5ADM and 2205MN5MAP, 2022

Pass-Through Agency: Minnesota Department of Human Services

Southwest Health and Human Services Marshall, Minnesota

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

Condition: The Minnesota Department of Human Services (DHS) maintains the computer systems, MAXIS and METS, which are used by the Health and Human Services to support the eligibility determination process. While periodic supervisory case reviews are performed to monitor compliance with grant requirements for eligibility, not all documentation was available, updated, or input correctly to support participant eligibility. The following exceptions were noted in the sample of 80 case files tested:

- Eight MAXIS case files included amounts for various client accounts (assets) that were not properly updated and/or substantiated for the most recent application/certification prior to being automatically renewed during the COVID-19 pandemic.
- Six MAXIS case files did not have the support for the income listed in MAXIS.
- Five MAXIS case files did not meet the application requirements, such as obtaining the required signature, obtaining the Authorized Representative (AREP) form for signatures of representatives of the applicant, or requesting and obtaining the case file information from the previous agency.
- Two METS case files did not have the support for the income listed in METS.
- Two METS case files attested to zero income on the application, but the income was not verified to an external source.
- Two METS case files included social security numbers, but the process was incomplete, and therefore, not verified.

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

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

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

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

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

Southwest Health and Human Services Marshall, Minnesota

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

View of Responsible Official: Acknowledge

2022-003 Activities Allowed or Unallowed and Allowable Costs/Cost Principles, and Reporting

Prior Year Finding Number: N/A

Repeat Finding Since: N/A

Type of Finding: Internal Control Over Compliance and Compliance

Severity of Deficiency: Significant Deficiency and Other Matter

Federal Agency: U.S. Department of Health and Human Services

Program: 93.563 Child Support Enforcement

93.778 Medical Assistance Program

Award Number and Year: 2201MNCEST and 2201MNCSES, 2022
2205MN5ADM and 2205MN5MAP, 2022

Pass-Through Agency: Minnesota Department of Human Services

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

For Health and Human Services' federal awards received from the Minnesota Department of Human Services (DHS), internal control should be established and maintained to provide assurance that program reports submitted to DHS are completed in accordance with DHS reporting instructions. As part of the Health and Human Services' reporting requirements for Child Support Enforcement and Medical Assistance Program, the County submits the DHS Income Maintenance DHS-2550 report and the Social Services DHS-2556 report on a quarterly basis.

The DHS instructions for the Social Services DHS-2556 report list general information which states, "Do not include property taxes, or penalties in any expenditure line. Do not include interest on investments, refunds that occurred in a prior calendar year or cancellations in any revenue line (these should be reported as a reduction to expenditures)." DHS Bulletin 16-32-04 indicates the reports should be submitted to include data related to each calendar quarter.

Condition: During testing of the sample of reports and while performing reconciliations to the general ledger, the following issues were investigated and found to be deficient:

- Southwest Health and Human Services split payroll that is reported in the quarterly reports for social services and income maintenance based on individual job duties rather than the Full Time Equivalent (FTE) as indicated by the DHS report instructions. In addition, payments made to Lyon County for the cost allocation plan funds and a payment to a local transportation company were included in the quarterly reports and should not have been.

Southwest Health and Human Services Marshall, Minnesota

- Eligible payroll expenditures were excluded from the Income Maintenance DHS-2550 reports for quarter 2 in the amount of \$22,704 and for quarter 4 in the amount of \$3,848.
- Investment income was improperly included on the Social Services DHS-2556 report for quarter 1 in the amount of \$690 and for quarter 3 in the amount of \$5,832 with the miscellaneous revenue.
- Allocated expenditures of \$7,002 and direct charges of \$255 reported in quarter 1 of the Local Collaborative Time Study (LCTS) Public Health Web-based Cost Schedule DHS-3220.3 report were reported again in the quarter 2 report.

Questioned Costs: Questioned costs identified were less than \$25,000.

Context: DHS relies on accurate submission of program costs to ensure that resulting grant funds paid to the the Health and Human Services are for applicable federal program activities/costs.

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

Effect: Errors in the submission of costs on the quarterly reports can result in the Health and Human Services receiving either more or less federal funding than can be justified based on the actual underlying activity.

Cause: The Health and Human Services' controls over preparation of the quarterly reports and maintenance of payroll allocations in the accounting system were not sufficient to identify these errors.

Recommendation: We recommend the Health and Human Services implement controls that ensure the quarterly reports are completed accurately and in accordance with DHS guidance.

View of Responsible Official: Concur



Offices Located in:

Redwood Falls, MN • 507-637-4041
Ivanhoe, MN • 507-694-1452 Slayton, MN • 507-836-6144
Pipestone, MN • 507-825-6720 Luverne, MN • 507-283-5070
Marshall, MN • Human Services 507-537-6747 • Health Services 507-537-6713

**Representation of Southwest Health and Human Services
Marshall, Minnesota**

Corrective Action Plan
For the Year Ended December 31, 2022

Finding Number: 2022-001
Finding Title: Audit adjustments

Name of Contact Person Responsible for Corrective Action:

Lisa DeBoer – Director of Business Management
Jenny Severson – Fiscal Officer
Tiffany Bailey – Fiscal Officer

Corrective Action Planned:

- Review and create a list of prior year journal entries to be reversed at the start of the next year to ensure all entries are recorded for the current year.
- Use all updated work papers to ensure appropriate documentation for all journal entries.
- Print the appropriate financial statements before and after recording journal entries to ensure appropriate reporting is occurring.
- After completing journal entries Fiscal Officer will review for accuracy and duplication.
- Ensure that only current year activity is included as receivables by verifying accrual codes and dates.

Anticipated Completion Date:

September 30, 2023

Finding Number: 2022-002
Finding Title: Eligibility
Program: 93.778 Medical Assistance Program

Name of Contact Person Responsible for Corrective Action:

Kathryn Herding – Financial Assistance Supervisor
Ashley VanOverbeke – Financial Assistance Supervisor
Corey Remiger – Financial Assistance Supervisor

Corrective Action Planned:

- Review and remind staff to utilize checklist with all applications and renewals to ensure all documentation was obtained and/or retained in the file.
- Discuss all verification of asset requirements and the importance of supporting documentation.
- Discuss all income verification requirements and the importance of supporting documentation.
- Discuss case transfer process to ensure all verifications and documentation is obtained and included in case files and in MAXIS.
- Discuss findings at unit meetings.

Anticipated Completion Date:

September 30, 2023

Finding Number: 2022-003

Finding Title: Activities Allowed or Unallowed and Allowable Costs/Cost Principles, and Reporting

Program: 93.563 Child Support Enforcement

93.778 Medical Assistance Program

Name of Contact Person Responsible for Corrective Action:

Lisa DeBoer – Director of Business Management

Jenny Severson – Fiscal Officer

Tiffany Bailey – Fiscal Officer

Michelle Salfer – County Program Specialist

Wendy Crawford – County Program Specialist

Corrective Action Planned:

- Payroll allocations will be reviewed prior to the start of the calendar year and any required updates will be implemented.
- Instructions for completing the report will be reviewed quarterly along with eligible revenues and expenditures.
- Upon completion of each respective report, the County Program Specialist and/or Fiscal Officer will send the report to the other County Program Specialist and/or Fiscal Officer or the Director of Business Management for a secondary review before submission.

Anticipated Completion Date:

September 30, 2023



Offices Located in:

Redwood Falls, MN • 507-637-4041
Ivanhoe, MN • 507-694-1452 Slayton, MN • 507-836-6144
Pipestone, MN • 507-825-6720 Luverne, MN • 507-283-5070
Marshall, MN • Human Services 507-537-6747 • Health Services 507-537-6713

**Representation of Southwest Health and Human Services
Marshall, Minnesota**

Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2022

Finding Number: 2021-001
Year of Finding Origination: 2021
Finding Title: Audit Adjustments

Summary of Condition: One material and two significant audit adjustments were identified that resulted in significant changes to the financial statements.

Summary of Corrective Action Previously Reported:

- Review prior year journal entries that are required to be reversed at the start of the next year to ensure this takes place for the current year.
- Use all updated work papers that are provided by the OSA to ensure appropriate documentation for all journal entries.
- Print the appropriate financial statements before and after doing journal entries to ensure appropriate reporting is occurring.
- After completing journal entries will have Fiscal Officer review for accuracy and no duplication.
- Ensure that only current year activity is included as receivables.

Status: Not Corrected.

Due to position changes and staff expanding knowledge of audit activities, corrective action plan was not completely implemented. The planned corrective action is to make sure all required journal entries are reversed, use the correct updated work papers that are provided, verify the financial statements before and after doing journal entries, implement dual review of journal entries for accuracy, and verify only current year activity is included as receivables by reviewing accrual codes and journal entries for current year dates.

Corrective action taken was not significantly different than the action previously reported.

Finding Number: 2021-002
Year of Finding Origination: 2011
Finding Title: Eligibility
Program: Medical Assistance Program (Assistance Listing #93.778)

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

- Six case files included amounts for various client accounts (assets) that were not properly updated and/or substantiated for the most recent application/application prior to being automatically renewed during the COVID-19 pandemic.
- One case file did not include the birth certificate to support citizenship.

Summary of Corrective Action Previously Reported:

- Review and remind staff to utilize checklist with all applications and renewals to ensure all documentations are in the file.
- Discuss all verification of asset requirements and the importance of supporting documentation.
- Discuss all income verification requirements and the importance of supporting documentation.
- Discuss case transfer process to ensure all verifications and documentation is obtained and included in case files and in MAXIS.
- Discuss findings at unit meetings.

Status: Not Corrected.

Due to a staff shortage and large amount of staff turnover, corrective action plan was not completely implemented. The planned corrective action is to continue reminding and reviewing with staff on a regular basis and at unit meetings the need to utilize checklists with all applications and renewals so all required documentation is on file, verify income and asset requirements, and complete case transfers correctly.

Corrective action taken was not significantly different than the action previously reported.

Finding Number: 2021-003

Year of Finding Origination: 2020

Finding Title: Local Collaborative Time Study (LCTS) Reporting (DHS 3220.3 Report)

Program: Medical Assistance Program (Assistance Listing #93.778)

Summary of Condition: The following exceptions were noted in the sample of the original DHS 3220.3 report tested:

- The third quarter report excluded revenues related to Assistance Listing No. 93.268 Immunization Cooperative Agreements program of \$2,350.
- Due to a formula error, the third quarter report excluded \$14,052 in direct labor and benefit expenditures.

Summary of Corrective Action Previously Reported:

- Instructions for completing the report will be reviewed quarterly along with eligible revenues and expenditures.
- Upon completion of the report, the County Program Specialist will send the report to the Fiscal Officer or the Director of Business Management to review before submission.

Status: Fully Corrected. Corrective action was taken.

Corrective action taken was not significantly different than the action previously reported.