STATE OF MINNESOTA
Office of the State Auditor

Rebecca Otto
State Auditor

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

YEAR ENDED DECEMBER 31, 2017

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

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

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

Year Ended December 31, 2017

Audit Practice Division
Office of the State Auditor
State of Minnesota

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MARSHALL, MINNESOTA

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

ORGANIZATION
2017

Name	Representing	Position
Board Members		
Jeffrey Lopez	Chippewa County	
Norm Holmen	Cottonwood County	Chair
Cathy Hohenstein	Jackson County	
Jim Butterfield	Kandiyohi County	
Jack Vizecky	Lincoln County	
Rick Anderson	Lyon County	
Gerald Magnus	Murray County	
Don Linssen	Nobles County	
Bob Van Hee	Redwood County	
Greg Burger	Rock County	
Gary Hendrickx	Swift County	Vice Chair
John Berends	Yellow Medicine County	
Management Team		
William Muenchow		Executive Director
Rick Anderson		Treasurer

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Southern Prairie Community Care
Marshall, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and the General Fund of Southern Prairie Community Care as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Southern Prairie Community Care's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Southern Prairie Center for Community Health Improvement, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Southern Prairie Center for Community Health Improvement were not audited in accordance with *Government Audit Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Southern Prairie Community Care's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southern Prairie Community Care's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and the General Fund of Southern Prairie Community Care as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southern Prairie Community Care's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of Southern Prairie Community Care's 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 Southern Prairie Community Care's 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 Southern Prairie Community Care's internal control over financial reporting and compliance. It does not include Southern Prairie Center for Community Health Improvement, which was audited by other auditors.

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

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 17, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017
(Unaudited)

As management of Southern Prairie Community Care (SPCC), we offer the readers of SPCC's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2017. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net position is $4,212,166, of which $49,741 is the investment in capital assets.
- SPCC's net position increased by $587,743 for the year ended December 31, 2017.
- Overall fund level revenues totaled $5,015,862 and were $775,327 more than expenditures.
- For the year ended December 31, 2017, the unassigned fund balance of the General Fund was $4,839,550, or 114.1 percent, of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information. This report also contains other required supplementary information such as a budgetary comparison schedule for the General Fund and schedules of proportionate share of net pension liability and of contributions for the pension plan.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of SPPC's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of SPCC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether SPCC's financial health is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows only in future fiscal periods.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. SPCC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. SPCC reports one individual governmental fund--the General Fund.

The General Fund's focus is on how money flows in and out and the balances left at year-end that are available for spending. The General Fund is reported using an accounting method called modified accrual accounting. This method measures cash and all other financial assets that can be readily converted to cash. The General Fund provides a detailed short-term view of SPCC's operations and the basic services it provides. The General Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs.

Because the focus of the General Fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the General Fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the General Fund balance sheet and the General Fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the General Fund and governmental activities.

Notes to the Financial Statements

The 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 can be found following Exhibit 6.

Other Information

In addition to the basic financial statements and the required supplementary information, this report also presents supplementary information concerning SPCC's intergovernmental revenue and federal awards programs.

Net Position

Over time, net position serves as a useful indicator of financial position. Southern Prairie Community Care's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $4,212,166 at the close of 2017. The largest portion of SPCC's net position reflects current assets.

Net Position

	2017	2016
Assets		
Current and other assets	$ 5,056,214	$ 4,302,691
Capital assets	49,741	41,060
Total Assets	$ 5,105,955	$ 4,343,751
Deferred Outflows of Resources	$ 512,790	$ 799,836
Liabilities		
Long-term liabilities outstanding	$ 1,068,411	$ 1,256,597
Other liabilities	157,335	174,628
Total Liabilities	$ 1,225,746	$ 1,431,225
Deferred Inflows of Resources	$ 180,833	$ 87,939
Net Position		
Investment in capital assets	$ 49,741	$ 41,060
Unrestricted	4,162,425	3,583,363
Total Net Position	$ 4,212,166	$ 3,624,423

Changes in Net Position

The following table summarizes the change in net position for 2017.

Changes in Net Position

	2017	2016
Revenues		
Program revenues		
Fees, charges, and other	$ 1,797,295	$ 4,335,803
Operating grants and contributions	2,202,369	265,236
General revenues		
Contributions not restricted to specific programs	1,000,000	2,700,000
Investment earnings	16,571	10,315
Total Revenues	$ 5,016,235	$ 7,311,354
Expenses		
Health	4,428,492	5,754,009
Increase (Decrease) in Net Position	$ 587,743	$ 1,557,345
Net Position - January 1	3,624,423	2,067,078
Net Position - December 31	$ 4,212,166	$ 3,624,423

FINANCIAL ANALYSIS OF THE GENERAL FUND

As shown in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance on Exhibit 5, the amount that was received through intergovernmental revenue in 2017 was 43.9 percent of the total revenue received, or $2,202,369. The SPCC's major sources of revenue were intergovernmental revenue and charges for services, with $2,202,369 and $1,570,212, respectively, received in 2017.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of 2017, the original revenue budget increased by $1,835,594, and the expenditure budget increased by $1,422,654. This was due to the addition of the Department of Human Service Long-Term Services and Support - Public Health Record (DHS LTSS-PHR) Contract during the year and to not having previously approved Grant Program Budgets included in the SPCC Budget.

Actual revenue exceeded budgeted amounts by a total of $391,740; this was due additional revenue from the DHS LTSS-PHR Contract, the Minnesota Department of Health SIM/Health Information Exchange Analytics Grant, and the receipt of the performance settlement for 2016-2017, which had not been included in the 2017 charges for services budget.

Actual expenditures were less than the budgeted expenditures by $150,654 due to unbudgeted performance settlement payments to providers and counties and savings, as all phases of operations were evaluated and reduced as warranted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Southern Prairie Community Care's depreciable capital assets (net of accumulated depreciation) at December 31, 2017, totaled $49,741. This investment in capital assets is mainly vehicles owned by SPCC. The total increase in the County's investment in capital assets, net of depreciation, for the current fiscal year was $8,681. There were two additional vehicles acquired in 2017.

Long-Term Debt

At the end of the fiscal year 2017, Southern Prairie Community Care had no outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Southern Prairie Community Care will adopt a 2018 budget based on continuing to implement the SIM grant awards and use the private contributions to expand the care coordination model to all 12 of its member counties.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT 1

STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Primary Government Governmental Activities	Southern Prairie Center for Community Health Improvement Component Unit
Assets		
Cash and cash equivalents	$ 2,331,012	$ 124,278
Investments	2,630,492	-
Due from other governments	30,870	-
Prepaid items	63,840	-
Capital assets		
Depreciable assets - net	49,741	-
Total Assets	**$ 5,105,955**	**$ 124,278**
Deferred Outflows of Resources		
Deferred pension outflows	**$ 512,790**	**$ -**
Liabilities		
Accounts payable	$ 77,990	$ -
Due to other governments	74,834	-
Long-term liabilities		
Due within one year	4,511	-
Due in more than one year	40,598	-
Net pension liability	1,027,813	-
Total Liabilities	**$ 1,225,746**	**$ -**
Deferred Inflows of Resources		
Deferred pension inflows	**$ 180,833**	**$ -**
Net Position		
Investment in capital assets	$ 49,741	$ -
Restricted for health	-	2,765
Unrestricted	4,162,425	121,513
Total Net Position	**$ 4,212,166**	**$ 124,278**

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Fees, Charges, and Other	Operating Grants and Contributions	Primary Government Governmental Activities	Southern Prairie Center for Community Health Improvement Component Unit
Functions/Programs					
Primary Government					
Governmental activities					
Health	**$ 4,428,492**	**$ 1,797,295**	**$ 2,202,369**	**$ (428,828)**	
Component Unit					
Southern Prairie Center for Community Health Improvement	**$ 197,418**	**$ -**	**$ -**		**$ (197,418)**
General Revenues					
Contributions not restricted to specific programs				$ 1,000,000	$ 21,760
Investment earnings				16,571	525
Total general revenues				**$ 1,016,571**	**$ 22,285**
Change in net position				**$ 587,743**	**$ (175,133)**
Net Position - January 1				**3,624,423**	**299,411**
Net Position - December 31				**$ 4,212,166**	**$ 124,278**

FUND FINANCIAL STATEMENTS

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT 3

BALANCE SHEET
GENERAL FUND
DECEMBER 31, 2017

Assets		
Cash and cash equivalents	$	2,331,012
Investments		2,630,492
Due from other governments		30,870
Prepaid items		63,840
Total Assets	**$**	**5,056,214**
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$	77,990
Due to other governments		74,834
Total Liabilities	**$**	**152,824**
Fund Balance		
Nonspendable - prepaid items	$	63,840
Unassigned		4,839,550
Total Fund Balance	**$**	**4,903,390**
Total Liabilities and Fund Balance	**$**	**5,056,214**

The notes to the financial statements are an integral part of this statement.

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT 4

RECONCILIATION OF THE GENERAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION DECEMBER 31, 2017

Fund Balance - General Fund (Exhibit 3)		**$ 4,903,390**
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the General Fund.		49,741
Deferred outflows of resources resulting from pension obligations are not available resources and, therefore, are not reported in the General Fund.		512,790
Long-term liabilities, including compensated absences and net pension liability, are not due and payable in the current period and, therefore, are not reported in the General Fund.		
Compensated absences payable	$ (45,109)	
Net pension liability	(1,027,813)	(1,072,922)
Deferred inflows of resources resulting from pension obligations are not due and payable in the current period and, therefore, are not reported in the General Fund.		(180,833)
Net Position of Governmental Activities (Exhibit 1)		**$ 4,212,166**

The notes to the financial statements are an integral part of this statement.

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT 5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

Revenues		
Intergovernmental	$	2,202,369
Contributions		1,000,000
Charges for services		1,570,212
Investment earnings		16,571
Miscellaneous		226,710
Total Revenues	**$**	**5,015,862**
Expenditures		
Current		
Public health		
Health		4,240,535
Net Change in Fund Balance	**$**	**775,327**
Fund Balance - January 1		**4,128,063**
Fund Balance - December 31	**$**	**4,903,390**

The notes to the financial statements are an integral part of this statement.

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT 6

RECONCILIATION OF THE GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

Net Change in Fund Balance - General Fund (Exhibit 5)		**$ 775,327**
Amounts reported for governmental activities in the statement of activities are different because:		
The General Fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for general capital assets	$ 24,138	
Current year depreciation	(15,457)	8,681
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 the General Fund.		
Change in deferred pension outflows	$ (287,046)	
Change in compensated absences payable	26,040	
Change in net pension liability	157,635	
Change in deferred pension inflows	(92,894)	(196,265)
Change in Net Position of Governmental Activities (Exhibit 2)		**$ 587,743**

The notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

Southern Prairie Community Care's 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, 2017. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). The more significant accounting policies established in GAAP and used by Southern Prairie Community Care are discussed below.

A. Financial Reporting Entity

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

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

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

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

Discretely Presented Component Unit

While part of the reporting entity, discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from Southern Prairie Community Care. Southern Prairie Community Care has one discretely presented component unit.

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Discretely Presented Component Unit (Continued)

Component Unit	Included in Reporting Entity Because	Separate Financial Statements
Southern Prairie Center for Community Health Improvement	Southern Prairie Community Care is financially accountable to and can impose its will on Southern Prairie Center for Community Health Improvement.	Southern Prairie Center For Community Health Improvement 607 West Main Street Marshall, MN 56258

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net position and the statement of activities) display information about Southern Prairie Community Care's governmental activities.

In the government-wide statement of net position, the governmental activities 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 net position is reported in three parts: (1) investment in capital assets, (2) restricted, and (3) unrestricted.

The statement of activities demonstrates the degree to which the direct expenses of each function of Southern Prairie Community Care's 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.

2. Fund Financial Statements

The fund financial statements (the balance sheet and statement of revenues, expenditures, and changes in fund balance) display information about Southern Prairie Community Care's General Fund.

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The governmental activities are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Southern Prairie Community Care considers all revenues as available if collected within 60 days after the end of the current period. Charges for services and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

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

1. Cash, Cash Equivalents, and Investments

Southern Prairie Community Care's available cash balances are invested in accordance with Minnesota statutes. Cash and cash equivalents are held by Des Moines Valley Health and Human Services. Investments are reported at their fair value at December 31, 2017, based on market prices.

2. Receivables

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

1. Summary of Significant Accounting Policies

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

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

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

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

5. Compensated Absences

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

1. Summary of Significant Accounting Policies

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

6. Long-Term Liabilities

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

7. Pension Plan

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. Southern Prairie Community Care has one item, deferred pension outflows, that qualifies for reporting in this category. This outflow arises only under the full accrual basis of accounting and consists of pension plan contributions paid subsequent to the measurement date, differences between expected and actual pension plan economic experience, changes in actuarial assumptions, and pension plan changes in proportionate share and, accordingly, is reported only in the statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue)

1. Summary of Significant Accounting Policies

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

8. Deferred Outflows/Inflows of Resources (Continued)

until that time. Currently, Southern Prairie Community Care has one item, deferred pension inflows, that qualifies for reporting in this category. This inflow arises only under the full accrual basis of accounting and consists of differences between expected and actual pension plan economic experience, changes in actuarial assumptions, pension plan changes in proportionate share, and differences between projected and actual earnings on pension plan investments and, accordingly, is reported only in the statement of net position.

9. Classification of Net Position

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

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

Restricted net position - the amount of net position for which external restrictions have been imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position - the amount of net position that is not included in the investment in capital assets or restricted components.

10. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Southern Prairie Community Care is bound to observe constraints imposed upon the use of the resources in the General Fund. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

1. Summary of Significant Accounting Policies

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

10. Classification of Fund Balances (Continued)

Restricted - amounts in which constraints have been placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Southern Prairie Community Care Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - amounts Southern Prairie Community Care intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Southern Prairie Community Care Board.

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

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

11. Use of Estimates

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

1. Summary of Significant Accounting Policies

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

11. Use of Estimates (Continued)

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.

12. Integrated Health Partnerships Program Savings Revenue

An actuary is used by Southern Prairie Community Care to calculate the savings of the Integrated Health Partnerships Program. Revenue received is based on the prior year savings, after analysis and study of an actuary hired by Southern Prairie Community Care, and reported to the Minnesota Department of Human Services.

2. Detailed Notes

A. Assets

1. Deposits and Investments

a. Deposits

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

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 that is not owned or controlled by the financial institution furnishing the collateral.

2. Detailed Notes

   A. Assets

      1. Deposits and Investments (Continued)

         Custodial Credit Risk

         Custodial credit risk for deposits is the risk that, in the event of a bank failure, Southern Prairie Community Care's deposits may not be returned. Southern Prairie Community Care's policy is to obtain collateral or bond for all uninsured amounts on deposit, necessary documentation to show compliance with state law, and a perfected security interest under federal law. As of December 31, 2017, Southern Prairie Community Care's deposits of $2,331,012 were not exposed to custodial credit risk.

      b. Investments

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

         (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

         (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

         (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

         (4) bankers' acceptances of United States banks;

         (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

2. Detailed Notes

   A. Assets

      1. Deposits and Investments

         b. Investments (Continued)

            (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Fair Value of Investments

Southern Prairie Community Care measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

At December 31, 2017, Southern Prairie Community Care had the following recurring fair value measurements.

		Fair Value Measurements Using		
	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
Negotiable certificates of deposit	$ 2,627,000	$ -	$ 2,627,000	$ -
Investments measured at the net asset value (NAV)				
Money market mutual fund	$ 3,492			

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Fair Value of Investments (Continued)

Debt securities classified in Level 2 are valued using matrix pricing based on the securities' relationship to benchmark quoted prices.

The money market mutual fund is valued at the NAV per share. Southern Prairie Community Care invests in this money market account for short-term holdings. Shares are available to be redeemed upon proper notice without restriction or limitation.

Interest Rate Risk

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

Credit Risk

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

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. Southern Prairie Community Care's policy is to minimize investment custodial credit risk by permitting brokers that obtained investments to hold them only to the extent Securities Investor Protection Corporation (SIPC) coverage and excess SIPC coverage is available. Securities purchased that exceed available SIPC coverage shall be transferred to Southern Prairie Community Care's custodian. As of December 31, 2017, Southern Prairie Community Care's investments were not exposed to custodial credit risk.

Concentration of Credit Risk

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

The following table presents Southern Prairie Community Care's deposit and investment balances at December 31, 2017, and information relating to potential investment risks:

2. Detailed Notes

A. Assets

1. Deposits and Investments

b. Investments

Concentration of Credit Risk (Continued)

Investment Type	Credit Risk: Credit Rating	Credit Risk: Rating Agency	Concentration Risk	Interest Rate Risk: Maturity Date	Carrying (Fair) Value
Negotiable certificates of deposit					
State Bank of India	N/A	N/A	9.3%	02/28/2018	$ 245,000
Morrill and Janes Bank	N/A	N/A	9.3%	03/08/2018	245,000
Wells Fargo Bank	N/A	N/A	9.3%	03/13/2018	245,000
Comenity Bank	N/A	N/A	<5%	06/06/2018	100,000
Compass Bank	N/A	N/A	8.3%	06/08/2018	219,000
Wex Bank	N/A	N/A	6.0%	06/08/2018	158,000
Merrick Bank	N/A	N/A	<5%	06/19/2018	86,000
Comenity Bank	N/A	N/A	<5%	06/21/2018	100,000
Goldman Sachs Bank	N/A	N/A	9.4%	06/27/2018	248,000
Bank of Baroda	N/A	N/A	9.4%	08/10/2018	246,000
Beal Bank USA	N/A	N/A	9.3%	09/26/2018	245,000
Safra National Bank	N/A	N/A	9.3%	10/18/2018	245,000
Plains Commerce Bank	N/A	N/A	9.3%	10/26/2018	245,000
Total negotiable certificates of deposit					$ 2,627,000
Money market mutual fund					3,492
Total investments					$ 2,630,492
Checking					1,828,804
Certificates of deposit					502,208
Total Cash and Investments					$ 4,961,504

N/A - Not Applicable
<5% - Concentration is less than 5% of investments

2. Detailed Notes

A. Assets (Continued)

2. Capital Assets

Capital asset activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets depreciated				
Machinery, furniture, and equipment	$ 68,146	$ 24,138	$ -	$ 92,284
Less: accumulated depreciation for				
Machinery, furniture, and equipment	27,086	15,457	-	42,543
Governmental Activities Capital Assets, Net	$ 41,060	$ 8,681	$ -	$ 49,741

Depreciation expense of $15,457 was charged to the health function/program for the year ended December 31, 2017.

B. Liabilities

1. Operating Leases

Southern Prairie Community Care has entered into operating leases for office space at four different locations throughout the state. The leases have different effective through dates as follows:

Location	Term Date
Willmar, Minnesota	January 31, 2019
Marshall, Minnesota	December 31, 2019
Montevideo, Minnesota	April 30, 2019
Worthington, Minnesota	July 31, 2018

The future minimum lease payments as of December 31, 2017, were as follows:

Year Ended December 31	Amount
2018	$ 43,193
2019	27,886
	$ 71,079

2. Detailed Notes

B. Liabilities (Continued)

2. Compensated Absences

Changes in compensated absences for the year ended December 31, 2017, were:

Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
$ 71,149	$ 90,575	$ 116,615	$ 45,109	$ 4,511

3. Pension Plans

A. Defined Benefit Pension Plan

1. Plan Description

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

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

3. Pension Plans

A. Defined Benefit Pension Plan (Continued)

2. Benefits Provided

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefit provisions are established by state statute and can be modified only by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Benefit recipients receive a future annual 1.0 percent post-retirement benefit increase. If the funding ratio reaches 90 percent for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent.

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for General Employees Retirement Plan Coordinated and Basic 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 Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. Only Method 2 is used for members hired after June 30, 1989.

3. Pension Plans

A. Defined Benefit Pension Plan

2. Benefits Provided (Continued)

For General Employees Retirement 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.

3. 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 Retirement Plan Basic members and Coordinated members were required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in 2017.

In 2017, Southern Prairie Community Care was required to contribute the following percentages of annual covered salary:

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

The employee and employer contribution rates did not change from the previous year.

Southern Prairie Community Care's contributions for the General Employees Retirement Plan for the year ended December 31, 2017, were $89,080. The contributions are equal to the contractually required contributions as set by state statute.

3. Pension Plans

A. Defined Benefit Pension Plan (Continued)

4. Pension Costs

At December 31, 2017, Southern Prairie Community Care reported a liability of $1,027,813 for its proportionate share of the General Employees Retirement Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Southern Prairie Community Care's proportion of the net pension liability was based on Southern Prairie Community Care's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, Southern Prairie Community Care's proportion was 0.0161 percent. It was 0.0146 percent measured as of June 30, 2016.

Southern Prairie Community Care recognized pension expense of $304,416 for its proportionate share of the General Employees Retirement Plan's pension expense.

Southern Prairie Community Care also recognized $373 as revenue, which results in a reduction of the net pension liability, for its proportionate share of the State of Minnesota's contribution to the General Employees Retirement Plan, which qualifies as a special funding situation. Legislation required the State of Minnesota to contribute $6 million to the General Employees Retirement Plan for the fiscal year ended June 30, 2017.

Southern Prairie Community Care's proportionate share of the net pension liability	$	1,027,813
State of Minnesota's proportionate share of the net pension liability associated with Southern Prairie Community Care		12,928
Total	$	1,040,741

3. Pension Plans

A. Defined Benefit Pension Plan

4. Pension Costs (Continued)

Southern Prairie Community Care reported its proportionate share of the General Employees Retirement Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 33,874	$ 55,781
Changes in actuarial assumptions	154,741	103,038
Difference between projected and actual investment earnings	-	22,014
Changes in proportion	285,013	-
Contributions paid to PERA subsequent to the measurement date	39,162	-
Total	$ 512,790	$ 180,833

The $39,162 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Pension Expense Amount
2018	$ 195,296
2019	134,543
2020	6,585
2021	(43,629)

3. Pension Plans

A. Defined Benefit Pension Plan (Continued)

5. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the individual entry-age normal actuarial cost method and the following additional actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. The cost of living benefit increases for retirees are assumed to be 1.0 percent through 2044, and 2.5 percent thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study for the General Employees Retirement Plan was dated June 30, 2015.

The long-term expected rate of return on pension plan investments is 7.5 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Cash	2	0.00

3. Pension Plans

A. Defined Benefit Pension Plan (Continued)

6. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent in 2017, which remained consistent with 2016. 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 Retirement 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.

7. Changes in Actuarial Assumptions

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8 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 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

3. Pension Plans

A. Defined Benefit Pension Plan (Continued)

8. Pension Liability Sensitivity

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

	Proportionate Share of the General Employees Retirement Plan	
	Discount Rate	Net Pension Liability
1% Decrease	6.50%	$ 1,594,215
Current	7.50	1,027,813
1% Increase	8.50	564,111

9. Pension Plan Fiduciary Net Position

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

4. Risk Management

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

4. Risk Management (Continued)

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 2017 and 2018. Should the MCIT Workers' Compensation Division liabilities exceed assets, MCIT may assess Southern Prairie Community Care in a method and amount to be determined by MCIT.

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

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

5. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

B. Claims and Litigation

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

5. Summary of Significant Contingencies and Other Items (Continued)

C. Subsequent Event

On June 11, 2018, the Southern Prairie Community Care Board voted to earmark $3 million of available fund balance for the 12 participating counties to join into PrimeWest Health. The funding will likely be distributed toward the end of 2019.

6. Southern Prairie Center for Community Health Improvement Component Unit Disclosures

A. Summary of Significant Accounting Policies

In addition to those identified in Note 1, Southern Prairie Community Care's discretely presented component unit has the following significant accounting policies.

Financial Reporting Entity

Southern Prairie Center for Community Health Improvement is a nonstock, nonprofit corporation organized pursuant to the provisions of the Minnesota Nonprofit Corporation Act.

Southern Prairie Center for Community Health Improvement was formed to engage and partner with community stakeholders, including the providers, payers, government services, community services, and consumers in the Southern Prairie Community Care region, through data collection and collaboration on health improvement strategies and implementation for the Southern Prairie Community Care counties and their residents.

The Southern Prairie Center for Community Health Improvement Board of Directors consists of not less than 11 or more than 17 members. The Board of Directors consists of up to 11 members who are health care providers in the region, up to 3 members who are appointed by the 12 counties in the region, and up to 3 members who are private consumers residing in the region.

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

6. Southern Prairie Center for Community Health Improvement Component Unit Disclosures

A. Summary of Significant Accounting Policies

Financial Reporting Entity (Continued)

Southern Prairie Center for Community Health Improvement is a discretely presented component unit of Southern Prairie Community Care and, therefore, is included in Southern Prairie Community Care's financial statements because Southern Prairie Community Care is financially accountable to and able to impose its will on Southern Prairie Center for Community Health Improvement.

Southern Prairie Center for Community Health Improvement prepares separate financial statements. Southern Prairie Center for Community Care presents its one fund as a governmental fund.

B. Assets

Deposits

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

Minnesota Statute § 118A.03 requires that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

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

6. Southern Prairie Center for Community Health Improvement Component Unit Disclosures

B. Assets

Deposits (Continued)

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

As of December 31, 2017, Southern Prairie Center for Community Health Improvement's deposits were entirely covered by federal depository insurance or by pledged collateral. As of December 31, 2017, Southern Prairie Center for Community Health Improvement's deposits were not exposed to custodial credit risk.

C. 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. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of the expenditures that may be disallowed by the grantor cannot be determined at this time, although Southern Prairie Center for Community Health Improvement expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT A-1

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	$ -	$ 1,835,594	$ 2,202,369	$ 366,775
Contributions	1,000,000	1,000,000	1,000,000	-
Charges for services	116,000	116,000	1,570,212	1,454,212
Investment earnings	-	-	16,571	16,571
Miscellaneous	1,672,528	1,672,528	226,710	(1,445,818)
Total Revenues	**$ 2,788,528**	**$ 4,624,122**	**$ 5,015,862**	**$ 391,740**
Expenditures				
Current				
Public health				
Health	2,968,535	4,391,189	4,240,535	150,654
Net Change in Fund Balance	**$ (180,007)**	**$ 232,933**	**$ 775,327**	**$ 542,394**
Fund Balance - January 1	**4,128,063**	**4,128,063**	**4,128,063**	**-**
Fund Balance - December 31	**$ 3,948,056**	**$ 4,360,996**	**$ 4,903,390**	**$ 542,394**

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

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT A-2

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

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 Southern Prairie Community Care (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
2017	0.0161%	$ 1,027,813	$ 12,928	$ 1,040,741	$ 1,037,487	99.07%	75.89%
2016	0.0146	1,185,448	15,492	1,200,940	903,857	131.15	68.91
2015	0.0098	507,886	N/A	507,886	568,172	89.39	78.19

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

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT A-3

SCHEDULE OF CONTRIBUTIONS
PERA GENERAL EMPLOYEES RETIREMENT PLAN
DECEMBER 31, 2017

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)
2017	$ 89,080	$ 89,080	$ -	$ 1,187,733	7.50%
2016	69,604	69,604	-	928,042	7.50
2015	54,728	54,728	-	729,698	7.50

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

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1. Budgetary Information

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

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

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

2. 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 year ended June 30:

   General Employees Retirement Plan

   2017

   - The Combined Service Annuity (CSA) loads were changed from 0.8 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 0.0 percent for active member liability, 15 percent for vested deferred member liability, and 3.0 percent for non-vested deferred member liability.

   - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2. Defined Benefit Pension Plans - Changes in Significant Plan Provisions, Actuarial Methods, and Assumptions

General Employees Retirement Plan

2017 (Continued)

- Minneapolis Employees Retirement Fund plan provisions change the employer supplemental contribution to $21,000,000 in calendar years 2017 and 2018 and returns to $31,000,000 through calendar year 2031. The state's required contribution is $16,000,000 in PERA's fiscal years 2018 and 2019 and returns to $6,000,000 annually through calendar year 2031.

2016

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent for all future years.

- The assumed investment rate was changed from 7.90 percent to 7.50 percent. The single discount rate was also changed from 7.90 percent to 7.50 percent.

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

SUPPLEMENTARY INFORMATION

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT B-1

SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2017

Reimbursement for services	
State	
Minnesota Department of Human Services	$ 672,055
Federal	
Department of Health and Human Services	1,530,314
Total Intergovernmental Revenue	**$ 2,202,369**

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

EXHIBIT B-2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

Federal Grantor Pass-Through Agency Program or Cluster Title	Federal CFDA Number	Pass-Through Grant Numbers	Expenditures
U.S. Department of Health and Human Services			
Passed through Des Moines Valley Health and Human Services			
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	None provided	$ 167,332
Passed through Minnesota Department of Health			
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	120664	170,515
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	3000025988	541,580
Passed through Minnesota Department of Human Services			
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	GRK%97209	487,818
(Total ACA- State Innovation Models: Funding for Model Design and Model Testing Assistance 93.624 $1,367,245)			
Affordable Care Act: Testing Experience and Functional Assessment Tools	93.627	32664	163,069
Total U.S. Department of Health and Human Services			**$ 1,530,314**
Total Federal Awards			**$ 1,530,314**

Southern Prairie Community Care did not pass any federal awards through to subrecipients during the year ended December 31, 2017.

SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Southern Prairie Community Care. Southern Prairie Community Care's reporting entity is defined in Note 1 to the financial statements.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Southern Prairie Community Care under programs of the federal government for the year ended December 31, 2017. 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 Southern Prairie Community Care, it is not intended to and does not present the financial position or changes in net position of Southern Prairie Community Care.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Southern Prairie Community Care has elected to not use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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Management and Compliance Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

Independent Auditor's Report

Governing Board
Southern Prairie Community Care
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, the discretely presented component unit, and the General Fund of Southern Prairie Community Care as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise Southern Prairie Community Care's basic financial statements, and have issued our report thereon dated September 17, 2018. Our report includes a reference to other auditors who audited the financial statements of Southern Prairie Center for Community Health Improvement, as described in our report on Southern Prairie Community Care's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Southern Prairie Center for Community Health Improvement were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

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

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of Southern Prairie Community Care's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention of those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 to be a material weakness.

Compliance and Other Matters

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

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Southern Prairie Community Care failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Counties*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Southern Prairie Community Care's noncompliance with the above referenced provisions.

Southern Prairie Community Care's Response to Finding

Southern Prairie Community Care's response to the internal control finding identified in our audit is described in the Corrective Action Plan. Southern Prairie Community Care's 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 Counties* and the results of that testing, and not to provide an opinion on the effectiveness of Southern Prairie Community Care's 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 Southern Prairie Community Care's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

September 17, 2018

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

Independent Auditor's Report

Governing Board
Southern Prairie Community Care
Marshall, Minnesota

Report on Compliance for the Major Federal Program

We have audited Southern Prairie Community Care's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Southern Prairie Community Care's major federal program for the year ended December 31, 2017. Southern Prairie Community Care's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

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

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Southern Prairie Community Care's compliance with those requirements.

Basis for Qualified Opinion on ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624)
As described in the accompanying Schedule of Findings and Questioned Costs, Southern Prairie Community Care did not comply with requirements regarding CFDA No. 93.624, ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance, as described in findings 2017-001 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance; 2017-002 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance; 2017-003 for Procurement, Suspension, and Debarment; 2017-004 for Reporting; and 2017-005 for Eligibility. Compliance with such requirements is necessary, in our opinion, for Southern Prairie Community Care to comply with the requirements applicable to that program.

Qualified Opinion on ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624)
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Southern Prairie Community Care complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA No. 93.624, ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance for the year ended December 31, 2017.

Southern Prairie Community Care's responses to the noncompliance findings identified in our audit are described in the accompanying Corrective Action Plan. Southern Prairie Community Care's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 through 2017-005 to be material weaknesses.

Southern Prairie Community Care's responses to the internal control over compliance findings identified in our audit are described in the accompanying Corrective Action Plan. Southern Prairie Community Care's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Purpose of This Report

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/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

September 17, 2018

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SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2017

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Internal control over financial reporting:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

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

Federal Awards

Internal control over major programs:
- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **None reported**

Type of auditor's report issued on compliance for major federal programs: **Qualified**

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

The major federal program is:

ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	CFDA No. 93.624

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

Southern Prairie Community Care qualified as a low-risk auditee? **No**

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

PREVIOUSLY REPORTED ITEM NOT RESOLVED

Finding Number 2014-001

Audit Adjustments

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

Condition: Material adjustments were identified which resulted in significant changes to Southern Prairie Community Care's financial statements.

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

Effect: Numerous adjusting entries were required to fairly state the financial statements resulting in material net decreases to liabilities and expenditures of $229,899 and $230,278, respectively.

Cause: This activity was overlooked by staff when financial statement information was prepared.

Recommendation: We recommend Southern Prairie Community Care review internal controls currently in place and design and implement procedures to improve internal controls over financial reporting which will prevent, or detect and correct, misstatements in the financial statements.

View of Responsible Official: Concur

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

ITEMS ARISING THIS YEAR

Finding Number 2017-001

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance

Program: U.S. Department of Health and Human Services' ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624), Award No. 120664, 2013

Pass-Through Agency: Minnesota Department of Health

Criteria: Title 2 U.S. *Code of Federal Regulations*, Appendix A to Part 225 (C)(1)(a) states that to be allowable under Federal Awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal Awards, and under (C)(1)(j) be adequately documented. The grant agreement requires services to have been performed and detailed invoices to be present for reimbursement under the grant. Title 2 U.S. *Code of Federal Regulations* § 215.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.

Condition: Southern Prairie Community Care requested and received reimbursement from the Minnesota Department of Health without documentation to support program expenditures.

Questioned Costs: $136,000

Context: Southern Prairie Community Care entered into a contract with a vendor to advance the Minnesota Accountable Health Model in support of Minnesota's market-based Health Information Exchange (HIE) approach. The vendor paid Southern Prairie Community Care $136,000, and then Southern Prairie Community Care reimbursed the full $136,000 back to the vendor, and requested and received reimbursement from the Minnesota Department of Health. No other project cost information is available.

The sample size was 13 disbursements, one of which was the transaction described above. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits.*

Effect: Noncompliance with federal requirements.

Cause: Due to turnover of staff, Federal Award expenditures were not properly supported and documented.

Recommendation: We recommend Southern Prairie Community Care properly support all Federal Award expenditures, and maintain documentation.

View of Responsible Official: Concur

Finding Number 2017-002

Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance

Program: U.S. Department of Health and Human Services' ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No.93.624), Award No. GRK%97209, 2013

Pass-Through Agency: Minnesota Department of Human Services

Criteria: Title 2 U.S. *Code of Federal Regulations* § 215.28 states that where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency. OMB Circular A-87, attachment A, paragraph C includes requirements that to be allowable under federal awards, costs must be authorized or not prohibited under State or local laws or regulations.

Condition: Southern Prairie Community Care received reimbursement of Federal Awards for subscription and hosting fees paid in advance for the period of October 1, 2017, through June 30, 2018, outside of the funding period. Additionally, under Minnesota law, local governments generally cannot prepay for goods or services unless required by contract or other means, which was not the circumstance.

Questioned Costs: $95,760

Context: According to the grant agreements, the funding period was extended to September 30, 2017.

Of the 13 claims tested, one disbursement identified $95,760 that was outside of the funding period identified by the grant agreement. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Noncompliance with federal regulations.

Cause: Unknown. Due to staff turnover, Southern Prairie Community Care could not determine why fees paid in advance outside of the funding period were charged to the grant.

Recommendation: We recommend Southern Prairie Community Care implement controls to ensure only amounts incurred during the funding period are charged to federal programs.

View of Responsible Official: Concur

Finding Number 2017-003

Procurement, Suspension, and Debarment

Program: U.S. Department of Health and Human Services' ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624), Award Nos. 3000025988 and GRK%97209, 2013.

Pass-Through Agencies: Minnesota Department of Health and Minnesota Department of Human Services

Criteria: Federal requirements prohibit non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred. Title 2 U.S. *Code of Federal Regulations* § 180.300 describes a required verification process. Prior to entering into the transaction, one of the following must be performed: (1) checking SAM exclusions, (2) collecting a certification, or (3) adding a clause or condition to the covered transaction.

Condition: For both procurement transactions tested over $25,000, there was no verification maintained that Southern Prairie Community Care performed any procedures to determine whether vendors were debarred, suspended, or otherwise excluded.

Questioned Costs: None.

Context: Southern Prairie Community Care has since implemented policies and procedures to maintain documentation.

Two of four procurement transactions over $25,000 were tested for compliance with federal regulations. The sample size was based on guidance from chapter 11 of the AICPA Audit Guide, *Government Auditing Standards and Single Audits*.

Effect: Noncompliance with federal regulations.

Cause: At the time the contracts were executed, Southern Prairie Community Care was not aware that documentation should be maintained to support verification that vendors are not suspended, debarred, or otherwise excluded.

Recommendation: We recommend Southern Prairie Community Care maintain documentation that suspension and debarment procedures have been performed at the time of contracting.

View of Responsible Official: Concur

Finding Number 2017-004

Reporting

Program: U.S. Department of Health and Human Services' ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624); Award Nos. 3000025988, GRK%97209, and 120664; 2013

Pass-Through Agencies: Minnesota Department of Health and Minnesota Department of Human Services

Criteria: As part of the grant agreements, both the Minnesota Department of Health and the Minnesota Department of Human Services required progress reports to be submitted by specified dates.

Condition: Three progress reports tested were submitted after the required deadline dates, and one report could not be provided for testing.

Questioned Costs: None.

Context: For one of the grants tested, four progress reports were required to be submitted to the Minnesota Department of Health in 2017, but Southern Prairie Community Care could only provide one of the four reports.

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

Effect: Noncompliance with requirements under the award.

Cause: Unknown. Due to staff turnover, Southern Prairie Community Care could not determine why progress reports were not submitted before the required deadline dates, or were not maintained.

Recommendation: We recommend Southern Prairie Community Care maintain documentation of all reports submitted in addition to submitting progress reports by required dates in accordance with grant agreements.

View of Responsible Official: Concur

Finding Number 2017-005

Eligibility

Program: U.S. Department of Health and Human Services' ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624), 2013

Pass-Through Agency: Des Moines Valley Health and 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. These controls should include a review process for case files to ensure the intake function related to eligibility requirements is met.

Condition: Not all documentation was available to support participant eligibility. Additionally, it is unclear if Southern Prairie Community Care could provide a complete list of all individuals receiving benefits during the audit period. The following exceptions were noted in the sample of nine individuals tested:

- Screening checklists used to support eligibility determinations were not maintained for any individuals tested.

- Screening recommendations were not documented or maintained for four of the individuals tested.

- Verification of residence within the service delivery area was not available for four of the individuals tested.

Questioned Costs: Unknown.

Context: Southern Prairie Community Care performed screenings to determine if individuals were at-risk for diabetes. Individuals determined to be at-risk were given the option to participate in a diabetes prevention program.

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

Effect: The lack of documentation to support eligibility determinations increases the risk that an individual will receive benefits when they are not eligible.

Cause: Southern Prairie Community Care did not maintain documentation to support eligibility determinations. Additionally, due to staff turnover, employees who performed eligibility determinations are no longer with Southern Prairie Community Care.

Recommendation: We recommend Southern Prairie Community Care implement additional procedures to provide reasonable assurance that all documentation to support eligibility determination is obtained and maintained for all program participants.

View of Responsible Official: Concur

REPRESENTATION OF SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 2014-001
Finding Title: Audit Adjustments

Name of Contact Person Responsible for Corrective Action:

Kristina Meulebroeck, Business and Administrative Manager

Corrective Action Planned:

All materials now go through the business office of SPCC and internal processes will be put in place to provide better oversight.

Anticipated Completion Date:

September 30, 2018

Finding Number: 2017-001
Finding Title: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Performance
Program: ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624)

Name of Contact Person Responsible for Corrective Action:

Kristina Meulebroeck, Business and Administrative Manager

Corrective Action Planned:

We will implement closer oversight of proposed expenditures and require all documentation be reviewed before request for grant reimbursement is submitted.

Anticipated Completion Date:

Immediately.

Finding Number: 2017-002
Finding Title: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance
Program: ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624)

Name of Contact Person Responsible for Corrective Action:

Kristina Meulebroeck, Business and Administrative Manager

Corrective Action Planned:

We will implement closer oversight of proposed expenditures before expenditures are approved.

Anticipated Completion Date:

Immediately.

Finding Number: 2017-003
Finding Title: Procurement, Suspension, and Debarment
Program: ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624)

Name of Contact Person Responsible for Corrective Action:

Kristina Meulebroeck, Business and Administrative Manager

Corrective Action Planned:

We will implement procedures and maintain documentation to ensure that Federal Regulations regarding the vendor status has been verified.

Anticipated Completion Date:

Immediately.

Finding Number: 2017-004
Finding Title: Reporting
Program: ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624)

Name of Contact Person Responsible for Corrective Action:

Kristina Meulebroeck, Business and Administrative Manager

Corrective Action Planned:

Maintain calendar showing required submission dates so all grant reports are filed by the deadline.

Anticipated Completion Date:

January 1, 2019

Finding Number: 2017-005
Finding Title: Eligibility
Program: ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA No. 93.624)

Name of Contact Person Responsible for Corrective Action:

Norris Anderson, Medical Director
Wendy Augeson, Intergrated Care Program Director

Corrective Action Planned:

We will review the requirements of eligibility and the documentation needed to prove eligibility with staff.

Anticipated Completion Date:

Immediately.

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REPRESENTATION OF SOUTHERN PRAIRIE COMMUNITY CARE
MARSHALL, MINNESOTA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017

Finding Number: 2014-001
Finding Title: Audit Adjustment

Summary of Condition: A material audit adjustment was identified that resulted in significant changes to Southern Prairie Community Care's financial statements.

Summary of Corrective Action Previously Reported: For the 2017 audit and in the future, Kristina Meulebroek, the Southern Prairie's Business and Administrative Manager, will be preparing the financial statements.

Status: Not Corrected. This was the first year the Business and Administrative Manager completed the trial balance.

Was corrective action taken significantly different than the action previously reported?
Yes _______ No __X___