

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA

YEAR ENDED DECEMBER 31, 2013

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 160 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 730 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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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

Year Ended December 31, 2013



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

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2013

<u>Community Health Board</u>	<u>Position</u>	<u>Entity</u>
Commissioner Representatives		
Bev Bales	Member	Douglas County
Jerry Johnson	Member	Douglas County
Larry Kittelson	Member	Pope County
Larry Lindor	Chair	Pope County
Jeanne Ennen	Vice Chair	Stevens County
Jerry M. Deal	Member	Traverse County
Todd Schneeberger	Member	Grant County
Ron Woltjer	Member	STG Joint Powers
Community Representatives		
Dennis Thompson	Member	Douglas County
Jeanne Olson	Member	Pope County
Deb Hengel	Member	STG Joint Powers
Administrator		
Sharon Braaten, Pope County Public Health		
Fiscal Officer		
Mindy Hoffmann		

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REBECCA OTTO
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Community Health Board
Horizon Community Health Board
Glenwood, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Horizon Community Health Board (Horizon) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Horizon's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Horizon'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 Horizon's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Horizon Community Health Board as of December 31, 2013, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 Horizon adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which represents a change in accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Horizon Community Health Board'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 29, 2014, on our consideration of Horizon Community Health Board'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 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 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 Horizon Community Health Board's internal control over financial reporting and compliance.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 29, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013
(Unaudited)**

INTRODUCTION

Horizon Community Health Board's (Horizon) Management's Discussion and Analysis (MD&A) provides an overview of Horizon's financial activities for the fiscal year ended December 31, 2013. 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.

Horizon is a joint powers governmental operation of Douglas, Grant, Pope, Stevens, and Traverse Counties, created with the intention to establish and maintain an integrated and cooperative system of community health services under local administration and within a system of state guidelines and standards, for the mutual benefit of the joint participants. Horizon serves as the conduit to distribute grants received by other governments to the public health programs of the counties in the joint powers.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. Horizon's basic financial statements consist of two statements that combine government-wide financial statements and fund financial statements, a budgetary comparison statement, and notes to the financial statements. The MD&A (this section) is required to accompany the basic financial statements and, therefore, is included as required supplementary information.

FINANCIAL ANALYSIS

	Net Position			
	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current and other assets	\$ 386,457	\$ 249,174	\$ 137,283	55.10
Liabilities				
Current liabilities	<u>304,587</u>	<u>201,580</u>	<u>103,007</u>	51.10
Net Position				
Unrestricted	<u>\$ 81,870</u>	<u>\$ 47,594</u>	<u>\$ 34,276</u>	72.02

Changes in Net Position

	2013	2012	Increase (Decrease)	Percent Change (%)
Revenues				
Intergovernmental	\$ 1,586,466	\$ 1,496,935	\$ 89,531	5.98
Charges for services	7,333	3,333	4,000	120.01
Gifts and contributions	61,281	-	61,281	100.00
Miscellaneous	754	497	257	51.71
Total Revenues	\$ 1,655,834	\$ 1,500,765	\$ 155,069	10.33
Expenses				
Health				
Current	\$ 80,347	\$ 34,733	\$ 45,614	131.33
Intergovernmental	1,541,211	1,451,363	89,848	6.19
Total Expenses	\$ 1,621,558	\$ 1,486,096	\$ 135,462	9.12
Change in Net Position	\$ 34,276	\$ 14,669	\$ 19,607	133.66

Budgetary Highlights

Horizon's Board did not make any budgetary amendments/revisions in 2013.

Actual revenues were more than budgeted revenues by \$333,670; expenditures were also higher than budgeted. Factors contributing included grant changes and variations of grant revenues for grants that span more than one calendar year.

The increase in total net position is due to excess revenues over expenditures. Net position increased by \$34,276. Revenues came in higher than expected (budgeted) due to variations in grant revenues budgeted during the budget cycle and grant revenues actually received during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The source of community health board funding is largely state and federal grant dollars. The year-to-year uncertainty of these funds creates planning challenges. Horizon continues to focus on efficiency and effectiveness in service delivery to provide for meeting the needs of the population served within the allocated resources.

CONTACTING HORIZON'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Horizon's finances and to show Horizon's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrator, Sharon Braaten, 211 E. Minnesota Avenue, Glenwood, Minnesota 56344.

BASIC FINANCIAL STATEMENTS

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT 1

**GENERAL FUND BALANCE SHEET AND
GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 132,872	\$ -	\$ 132,872
Due from other governments	253,585	-	253,585
Total Assets	\$ 386,457	\$ -	\$ 386,457
 <u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u>			
Liabilities			
Accounts payable	\$ 23,102	\$ -	\$ 23,102
Due to other governments	240,465	-	240,465
Unearned revenue	41,020	-	41,020
Total Liabilities	\$ 304,587	\$ -	\$ 304,587
Deferred Inflows of Resources			
Unavailable revenue	\$ 12,629	\$ (12,629)	
Fund Balance			
Unassigned	\$ 69,241	\$ (69,241)	
Net Position			
Unrestricted		\$ 81,870	81,870
Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position	\$ 386,457	\$ -	\$ 386,457
 Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 69,241
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental fund.			12,629
Net Position - Governmental Activities			\$ 81,870

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT 2

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>	<u>Reconciliation</u>	<u>Governmental Activities</u>
Revenues			
Intergovernmental			
State	\$ 867,558	\$ (5,851)	\$ 861,707
Federal	725,809	(1,050)	724,759
Charges for services	7,333	-	7,333
Gifts and contributions	61,281	-	61,281
Miscellaneous	754	-	754
	<u>1,662,735</u>	<u>(6,901)</u>	<u>1,655,834</u>
Total Revenues	\$ 1,662,735	\$ (6,901)	\$ 1,655,834
Expenditures/Expenses			
Current			
General administration	<u>\$ 80,347</u>	<u>\$ -</u>	<u>\$ 80,347</u>
Intergovernmental			
General administration	\$ 19,851	\$ -	\$ 19,851
Community Health Services Subsidy	277,959	-	277,959
Maternal and Child Health	78,299	-	78,299
Preconception Health	29,683	-	29,683
Women, Infants, and Children Food Program	300,688	-	300,688
TANF Family Home Visiting Grant	91,881	-	91,881
Statewide Health Improvement Program	245,940	-	245,940
Public Health Emergency Preparedness	124,428	-	124,428
Immunization Cooperative Agreements	3,000	-	3,000
Universal Newborn Hearing Screening	825	-	825
Early Detection and Intervention and Birth Defects Information System (State Portion)	4,500	-	4,500
Early Detection and Intervention and Birth Defects Information System (Federal Portion)	300	-	300
Family Planning Special Projects (State Portion)	105,236	-	105,236
Family Planning Special Projects (Federal Portion)	24,685	-	24,685
Child and Teen Check-Ups (State Portion)	69,394	-	69,394
Child and Teen Check-Ups (Federal Portion)	69,394	-	69,394
Meadowlark Institute	1,047	-	1,047
Tobacco Free Communities	81,171	-	81,171
Robert Wood Johnson Foundation	12,930	-	12,930
	<u>1,541,211</u>	<u>-</u>	<u>1,541,211</u>
Total intergovernmental	\$ 1,541,211	\$ -	\$ 1,541,211
Total Expenditures/Expenses	\$ 1,621,558	\$ -	\$ 1,621,558
Net Change in Fund Balance/Net Position	\$ 41,177	\$ (6,901)	\$ 34,276
Fund Balance/Net Position - January 1	<u>28,064</u>	<u>19,530</u>	<u>47,594</u>
Fund Balance/Net Position - December 31	<u><u>\$ 69,241</u></u>	<u><u>\$ 12,629</u></u>	<u><u>\$ 81,870</u></u>

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

***EXHIBIT 2
(Continued)***

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Reconciliation of the General Fund's Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities**

Net Change in Fund Balance - General Fund	\$ 41,177
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In the fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the General Fund and the statement of activities is the amount of unavailable revenue.

(6,901)

Net Change in Net Position of Governmental Activities

\$ 34,276

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 1,329,065	\$ 1,329,065	\$ 1,593,367	\$ 264,302
Charges for services	-	-	7,333	7,333
Gifts and contributions	-	-	61,281	61,281
Miscellaneous	-	-	754	754
Total Revenues	\$ 1,329,065	\$ 1,329,065	\$ 1,662,735	\$ 333,670
Expenditures				
Current				
General administration				
Administrative services and charges	\$ 31,400	\$ 31,400	\$ 31,400	\$ -
Other general government	-	-	48,947	(48,947)
Total current	\$ 31,400	\$ 31,400	\$ 80,347	\$ (48,947)
Intergovernmental				
General administration	\$ 36,500	\$ 36,500	\$ 19,851	\$ 16,649
Community Health Services Subsidy	278,022	278,022	277,959	63
Maternal and Child Health	79,630	79,630	78,299	1,331
Preconception Health	59,317	59,317	29,683	29,634
Women, Infants, and Children Food Program	278,073	278,073	300,688	(22,615)
TANF Family Home Visiting Grant	91,881	91,881	91,881	-
Statewide Health Improvement Program	171,184	171,184	245,940	(74,756)
Public Health Emergency Preparedness	90,511	90,511	124,428	(33,917)
Immunization Cooperative Agreements	-	-	3,000	(3,000)
Universal Newborn Hearing Screening	-	-	825	(825)
Early Detection and Intervention and Birth Defects Information System (State Portion)	-	-	4,500	(4,500)
Early Detection and Intervention and Birth Defects Information System (Federal Portion)	-	-	300	(300)
Family Planning Special Projects (State Portion)	55,080	55,080	105,236	(50,156)
Family Planning Special Projects (Federal Portion)	12,920	12,920	24,685	(11,765)
Child and Teen Check-Ups (State Portion)	72,641	72,641	69,394	3,247
Child and Teen Check-Ups (Federal Portion)	72,641	72,641	69,394	3,247
Meadowlark Institute	-	-	1,047	(1,047)
Tobacco Free Communities	-	-	81,171	(81,171)
Robert Wood Johnson Foundation	-	-	12,930	(12,930)
Total intergovernmental	\$ 1,298,400	\$ 1,298,400	\$ 1,541,211	\$ (242,811)
Total Expenditures	\$ 1,329,800	\$ 1,329,800	\$ 1,621,558	\$ (291,758)
Net Change in Fund Balance	\$ (735)	\$ (735)	\$ 41,177	\$ 41,912
Fund Balance - January 1	28,064	28,064	28,064	-
Fund Balance - December 31	\$ 27,329	\$ 27,329	\$ 69,241	\$ 41,912

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

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

1. Summary of Significant Accounting Policies

Horizon Community Health Board's (Horizon) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2013. 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 Horizon are discussed below.

Changes in Accounting Principles

During 2013, Horizon implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items previously reported as assets and liabilities. See Note 1.D.2. for additional information regarding Horizon's deferred outflows/inflows of resources.

Restatements of December 31, 2012, net position or fund balance were not required as a result of this change in accounting principle.

A. Financial Reporting Entity

Mid-State Community Health Services (CHS) was originally established January 1, 1983, by a joint powers agreement among Grant, Pope, Stevens, and Traverse Counties. Mid-State CHS was dissolved on December 31, 2010, a new joint powers agreement was formed, and Douglas County was added as a fifth county partner effective January 1, 2011. As a result, the name was changed from Mid-State CHS to Horizon Community Health Board on January 1, 2011. This had no effect on Horizon's tax identification or filing obligations with the U.S. Department of the Treasury Internal Revenue Service or the Minnesota Secretary of State. The agreement was established to secure more efficient health care services for the mutual benefit of each of the joint participants. The joint powers agreement remains in force until any single county notifies the State Board of Health and the other parties of its intentions to withdraw, at least one year before the beginning of the calendar year in which it takes effect.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

Control is vested in Horizon's Board, which consists of 11 members comprised of 8 County Commissioners and 3 community representatives. Each member of the Board is appointed by the County Commissioners of the county they represent. Members of the Board serve an annual term, with no more than three consecutive terms.

The financial activities of Horizon are accounted for in an agency fund by Pope County. The individuals who administer the activities of Horizon are considered to be employees of Pope County Public Health.

Horizon is a joint venture independent of the counties that formed it. Each county has an ongoing responsibility to provide funding for the operating costs of the Board. The funding is allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board. In addition, administrative operating costs are allocated proportionately, with total subsidy funds available to each member county.

B. Basic Financial Statements

The basic financial statements display information about Horizon's activities as a whole and information on the individual fund. These separate presentations are reported in different columns on Exhibits 1 and 2. Each exhibit starts with a column of information based on activities of the General Fund and reconciles it to a column that reports the governmental activities of Horizon as a whole.

The governmental activities statement of net position column is reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Horizon's net position is reported as unrestricted net position. The statement of activities demonstrates the degree to which the expenses of Horizon are offset by revenues.

Horizon reports one governmental fund. The General Fund is Horizon's primary operating fund and accounts for all financial resources of the organization.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

The governmental funds financial statement columns (the General Fund) 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. Horizon considers all revenues to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Horizon's policy to use restricted resources first and then unrestricted resources as needed.

Intra-fund transactions have not been eliminated in the financial statements. Eliminations have not been presented so that expenditures for each of the grants are reported in their entirety.

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

1. Assets

Due From/To Other Governments

Amounts represent receivables and payables related to grants from other federal, state, and local governments for program administration.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

1. Assets (Continued)

Capital Assets and Depreciation

Capital assets are reported in the governmental activities statement of net position. Horizon has adopted Pope County's capitalization policy, which defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Currently, Horizon has no capital assets that meet the threshold for capitalization.

2. Liabilities and Deferred Outflows/Inflows of Resources

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. No deferred outflows of resources affect the governmental funds or governmental activities financial statements in the current year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Horizon has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category.

Accordingly, the item, unavailable revenue, is reported only in the General Fund balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Liabilities and Deferred Outflows/Inflows of Resources

Deferred Outflows/Inflows of Resources (Continued)

Horizon's General Fund and the governmental activities statement of net position report unearned revenue in connection with resources that have been received, but not yet earned.

3. Classification of Net Position

Net position in the governmental activities statement of net position is classified in the following categories:

Net investment in capital assets - the amount of net position representing capital assets, net of accumulated depreciation, and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

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

Unrestricted net position - the amount of net position that does not meet the definition of restricted or net investment in capital assets.

4. Classification of Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which Horizon 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.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies

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

4. Classification of Fund Balances (Continued)

Restricted - amounts subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, 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 (ordinance or resolution) of Horizon. Those committed amounts cannot be used for any other purpose unless Horizon removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit these amounts.

Assigned - amounts Horizon intends to use for specific purposes that do not meet the criteria to be classified as “restricted” or “committed.”

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

Horizon 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.

At December 31, 2013, the General Fund had \$69,241 in unassigned fund balance.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2013, as follows:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 1,621,558	\$ 1,329,800	\$ 291,758

3. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2013, Horizon had \$132,872 on deposit with Pope County. Cash transactions are administered by the Pope County Auditor/Treasurer, who is authorized by Minn. Stat. §§ 118A.02 and 118A.04 to deposit cash in financial institutions designated by the County Board. All funds of Pope County are pooled.

Custodial credit risk is the risk that in the event of a financial institution failure, the County's deposits may not be returned to it. Minnesota statutes require that all county deposits be covered by insurance, surety bond, or collateral. As of December 31, 2013, Pope County's deposits were not exposed to custodial credit risk.

Receivables

Receivables as of December 31, 2013, are as follows:

Due from other governments	<u>\$ 253,585</u>
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Horizon had no receivables scheduled to be collected beyond one year.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

3. Detailed Notes on Accounts (Continued)

B. Liabilities and Deferred Inflows of Resources

Unearned Revenues/Deferred Inflows of Resources

Deferred inflows of resources consists of state and federal grant receivables that are not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues consists of state and federal grants received but not yet earned. Deferred inflows of resources and unearned revenues at December 31, 2013, are summarized below:

	<u>General Fund</u>
Liability	
Unearned revenue	\$ 41,020
Deferred Inflows of Resources	
Unavailable revenue	<u>12,629</u>
Total	<u>\$ 53,649</u>

4. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

The attorney for Horizon estimates that potential claims against Horizon resulting from litigation would not materially affect the financial statements.

B. Risk Management

Horizon is exposed to various risks of loss related to torts and errors and omissions or natural disasters. To cover these risks, Horizon is a member of the Minnesota Counties Intergovernmental Trust (MCIT), a public entity risk pool. Horizon retains the risk for the deductible portions of its insurance policies. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year or settlements that exceeded insurance coverage for the past three years.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

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

C. Subsequent Event

Three County public health departments (Pope County Public Health, Douglas County Public Health, and Stevens Traverse Grant Public Health) will form the Horizon Public Health organization, and Pope County will no longer be Horizon's fiscal agent. A joint powers agreement between the five partner counties will be signed and effective January 1, 2015.

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SUPPLEMENTARY INFORMATION

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT A-1

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

Grants

State

Minnesota Department of Health	\$ 795,434
Human Services	<u>72,124</u>
Total state	<u>\$ 867,558</u>

Federal

Department of Agriculture	\$ 306,081
Health and Human Services	<u>419,728</u>
Total federal	<u>\$ 725,809</u>
Total Intergovernmental Revenue	<u><u>\$ 1,593,367</u></u>

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 306,081
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 132,116
Universal Newborn Hearing Screening	93.251	825
Immunization Cooperative Agreements	93.268	3,000
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	300
Temporary Assistance for Needy Families	93.558	125,666
Maternal and Child Health Services Block Grant to the States	93.994	84,647
Passed Through Minnesota Department of Human Services Medical Assistance Program	93.778	72,124
Total U.S. Department of Health and Human Services		\$ 418,678
Total Federal Awards		\$ 724,759

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Horizon Community Health Board (Horizon). Horizon’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 Horizon Community Health Board under programs of the federal government for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Horizon Community Health Board, it is not intended to and does not present the financial position or changes in net position of Horizon.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 725,809
Expenditures incurred in 2012 and revenue recognized in 2013 Immunization Cooperative Agreements	(1,050)
Expenditures Per Schedule of Expenditures of Federal Awards	<u>\$ 724,759</u>

**HORIZON COMMUNITY HEALTH SERVICES
GLENWOOD, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, Horizon Community Health Board provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 300,688
93.069	Public Health Emergency Preparedness	124,428
93.251	Universal Newborn Hearing Screening	825
93.268	Immunization Cooperative Agreements	3,000
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	300
93.558	Temporary Assistance for Needy Families	116,566
93.994	Maternal and Child Health Services Block Grant to the States	78,299
93.778	Medical Assistance Program	67,519
	Total	<u>\$ 691,625</u>

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **No**

The major program is:

Special Supplemental Nutrition Program for Women,
Infants, and Children

CFDA #10.557

The threshold for distinguishing between Types A and B programs was \$300,000.

Horizon Community Health Board qualified as a low-risk auditee? **Yes**

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

Finding 2006-001

Segregation of Duties

Criteria: A good system of internal control provides for an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: Horizon has one person who is responsible for billing, collecting, recording, and depositing receipts.

Context: Due to the limited number of personnel within Horizon, segregation of the accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Horizon; however, Horizon's management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an accounting point of view.

Effect: Inadequate segregation of duties could adversely affect Horizon's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: Horizon has informed us that it does not have the economic resources needed to hire additional qualified accounting staff in order to adequately segregate duties.

Recommendation: We recommend Horizon's Board and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure the internal control policies and procedures are being implemented by staff to the extent possible.

Client's Response:

The Horizon Community Health Services Board and Horizon Management will continue to be aware of the inherent risks limited staffing creates relative to safeguarding the agency's assets and the reporting of financial activity. Horizon Management will continue to monitor and use best fiscal practices to decrease this risk. During 2013, Horizon utilized the following system utilizing checks and balances from Horizon Administrative staff and County Auditor staff:

- *The fiscal officer of the Horizon Administrative Agency prepares the vouchers/invoices for payment. The Horizon CHS Administrator approves all disbursements. Personnel in the Auditor's office of the Horizon Administrative County process the disbursements assuring payment has not previously been made. Additionally, they contact the Horizon Management regarding any questionable requests for disbursement. Documentation supporting the request for disbursement is maintained as part of the Horizon fiscal file. Disbursements correlate either with the Horizon CHS Administrative budget approved by the Horizon Community Health Services Board, or with the grant payment schedule developed by the Horizon CHS Administrator. A revenues and expenditures report is maintained and reviewed with the Horizon Community Health Services Board.*

Finding 2008-001

Documenting and Monitoring Internal Controls

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting. This responsibility requires performing an assessment of existing controls over significant functions used to produce financial information for the Board, management, and for external financial reporting.

Condition: Although Horizon may informally assess risks and adjust internal control procedures to address those risks, there are no formal procedures or documentation of those procedures in place.

Context: Risk assessment is intended to determine if the internal controls that have been established by management are still effective or if changes are needed to maintain a sound internal control structure. Changes may be necessary due to such things as organizational restructuring, updates to information systems, or changes to services being provided.

Effect: Weaknesses in internal control could go undetected, which could affect Horizon's ability to detect material misstatements in the financial statements.

Cause: Horizon has informed us that it does not have the staffing resources available to complete the risk assessment process.

Recommendation: We recommend Horizon's management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize those risks. At a minimum, the following significant internal control areas should be documented: cash and investment activities, major funding sources, and expenditure/expense processing. We also recommend that a formal plan be developed that calls for monitoring the internal control structure on a regular basis, no less than annually. The monitoring activity should also be documented to show the results of the review, any changes required, and who performed the work.

Client's Response:

By December 15, 2014, Horizon Management and personnel from the Auditor/Treasurer's Office of the Horizon Administrative County (Pope County) will meet to discuss Horizon's fiscal processes, assessment of risks, and identification of processes to minimize the risks. Internal control areas assessed will include:

- *Cash and investment activities*
- *Major funding sources*
- *Expenditure/expense processing*

Documentation will be maintained which will include date of review, attendees, issues discussed, results of the review, including corrective actions needed and who will be responsible for implementation. A summary of the meeting will be communicated with the Horizon Community Health Board.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



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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

Community Health Board
Horizon Community Health Board
Glenwood, 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 and the General Fund of Horizon Community Health Board (Horizon) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Horizon's basic financial statements, and have issued our report thereon dated September 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Horizon Community Health Board'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 Horizon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Horizon's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2006-001 and 2008-001, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Horizon Community Health Board'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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of Horizon's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding and public indebtedness because Horizon did no contracting in 2013 and has no debt.

In connection with our audit, nothing came to our attention that caused us to believe that Horizon Community Health Board failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 Horizon's noncompliance with the above referenced provisions.

Horizon Community Health Board's Response to Findings

Horizon Community Health Board's responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. Horizon's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of Horizon'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 Horizon'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 29, 2014

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

Independent Auditor's Report

Community Health Board
Horizon Community Health Board
Glenwood, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Horizon Community Health Board's (Horizon) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on Horizon's major federal program for the year ended December 31, 2013. Horizon'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 the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Horizon Community Health Board'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Horizon Community Health Board'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 Horizon's compliance with those requirements.

Opinion on the Major Federal Program

In our opinion, Horizon Community Health Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of Horizon Community Health Board 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 Horizon's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Horizon's internal control over compliance.

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

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

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

September 29, 2014

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR