

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

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, 2012



**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, 2012

<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

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Community Health Board
Horizon Community Health Board

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, 2012, 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, 2012, and the respective changes in financial position thereof and the budgetary comparison for the General Fund 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 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 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 26, 2013, 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'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 26, 2013

/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, 2012
(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, 2012. 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>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current and other assets	\$ 249,174	\$ 328,633	\$ (79,459)	(24.18)
Liabilities				
Current liabilities	<u>201,580</u>	<u>295,708</u>	<u>(94,128)</u>	(31.83)
Net Position				
Unrestricted	<u>\$ 47,594</u>	<u>\$ 32,925</u>	<u>\$ 14,669</u>	44.55

Changes in Net Position

	2012	2011	Increase (Decrease)	Percent Change (%)
Revenues				
Intergovernmental	\$ 1,496,935	\$ 1,624,802	\$ (127,867)	(7.87)
Charges for services	3,333	-	3,333	100.00
Miscellaneous	497	2,046	(1,549)	(75.71)
Total Revenues	\$ 1,500,765	\$ 1,626,848	\$ (126,083)	(7.75)
Expenses				
Health				
Current	\$ 34,733	\$ 38,072	\$ (3,339)	(8.77)
Intergovernmental	1,451,363	1,566,039	(114,676)	(7.32)
Total Expenses	\$ 1,486,096	\$ 1,604,111	\$ (118,015)	(7.36)
Change in Net Position	\$ 14,669	\$ 22,737	\$ (8,068)	(35.48)

Budgetary Highlights

Horizon’s Board did not make any budgetary amendments/revisions in 2012.

Actual revenues were more than budgeted revenues by \$289,260; 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 \$14,669. 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, 2012**

	General Fund	Reconciliation	Governmental Activities
<u>Assets</u>			
Cash and pooled investments	\$ 71,519	\$ -	\$ 71,519
Due from other governments	177,655	-	177,655
Total Assets	\$ 249,174	\$ -	\$ 249,174
 <u>Liabilities and Fund Balance/Net Position</u>			
Liabilities			
Due to other governments	\$ 181,014	\$ -	\$ 181,014
Deferred revenue - unavailable	19,530	(19,530)	-
Deferred revenue - unearned	20,566	-	20,566
Total Liabilities	\$ 221,110	\$ (19,530)	\$ 201,580
Fund Balance			
Unassigned	28,064	(28,064)	
Net Position			
Unrestricted		47,594	47,594
Total Liabilities and Fund Balance/Net Position	\$ 249,174	\$ -	\$ 249,174
 Reconciliation of the General Fund Balance to Net Position			
Fund Balance - General Fund			\$ 28,064
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds			19,530
Net Position - Governmental Activities			\$ 47,594

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT 2

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Reconciliation</u>	<u>Governmental Activities</u>
Revenues			
Intergovernmental			
Federal	\$ 725,423	\$ 1,050	\$ 726,473
State	751,982	18,480	770,462
Charges for services	3,333	-	3,333
Miscellaneous	497	-	497
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 1,481,235	\$ 19,530	\$ 1,500,765
Expenditures/Expenses			
Current			
General administration	\$ 34,733	\$ -	\$ 34,733
	<hr/>	<hr/>	<hr/>
Intergovernmental			
General administration	\$ 24,157	\$ -	\$ 24,157
Community Health Services Grant	278,083	-	278,083
Maternal and Child Health	78,164	-	78,164
Preconception Health	14,702	-	14,702
Women, Infants, and Children Food Program	325,714	-	325,714
TANF Home Visiting Grant	91,881	-	91,881
Statewide Health Improvement Program	231,118	-	231,118
Public Health Emergency Preparedness Grant	69,768	-	69,768
Environmental Public Health and Emergency Response	20,748	-	20,748
Immunization Grant	5,800	-	5,800
Eliminating Health Disparities Initiative and Birth Defects Information System	850	-	850
Eliminating Health Disparities Initiative and Birth Defects Information System (State portion)	1,750	-	1,750
Family Planning Grant	32,021	-	32,021
Family Planning Grant (State portion)	136,513	-	136,513
CTC Outreach Program	70,047	-	70,047
CTC Outreach Program (State portion)	70,047	-	70,047
	<hr/>	<hr/>	<hr/>
Total intergovernmental	\$ 1,451,363	\$ -	\$ 1,451,363
	<hr/>	<hr/>	<hr/>
Total Expenditures/Expenses	\$ 1,486,096	\$ -	\$ 1,486,096
	<hr/>	<hr/>	<hr/>
Net Change in Fund Balance/Net Position	\$ (4,861)	\$ 19,530	\$ 14,669
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Position - January 1	32,925	-	32,925
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Position - December 31	\$ 28,064	\$ 19,530	\$ 47,594
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

*EXHIBIT 2
(Continued)*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

Net Change in Fund Balance	\$ (4,861)
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In the funds, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenue between the fund statements and the statement of activities is the increase or decrease in revenue deferred as unavailable.

19,530

Change in Net Position of Governmental Activities

\$ 14,669

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT 3

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 1,191,975	\$ 1,191,975	\$ 1,477,405	\$ 285,430
Charges for services	-	-	3,333	3,333
Miscellaneous	-	-	497	497
Total Revenues	\$ 1,191,975	\$ 1,191,975	\$ 1,481,235	\$ 289,260
Expenditures				
Current				
General administration				
Other general government	\$ -	\$ -	\$ 3,333	\$ (3,333)
Administrative services and charges	31,400	31,400	31,400	-
Total current	\$ 31,400	\$ 31,400	\$ 34,733	\$ (3,333)
Intergovernmental				
General administration	\$ 30,116	\$ 30,116	\$ 24,157	\$ 5,959
Community Health Services Grant	278,022	278,022	278,083	(61)
Maternal and Child Health	79,630	79,630	78,164	1,466
Preconception Health	-	-	14,702	(14,702)
Women, Infants, and Children Food Program	313,235	313,235	325,714	(12,479)
TANF Home Visiting Grant	91,881	91,881	91,881	-
Statewide Health Improvement Program	-	-	231,118	(231,118)
Public Health Emergency Preparedness Grant	84,318	84,318	69,768	14,550
Environmental Public Health and Emergency Response	-	-	20,748	(20,748)
Immunization Grant	-	-	5,800	(5,800)
Eliminating Health Disparities Initiative and Birth Defects Information System	-	-	850	(850)
Eliminating Health Disparities Initiative and Birth Defects Information System (State portion)	-	-	1,750	(1,750)
Family Planning Grant	27,231	27,231	32,021	(4,790)
Family Planning Grant (State portion)	116,091	116,091	136,513	(20,422)
CTC Outreach Program	70,078	70,078	70,047	31
CTC Outreach Program (State portion)	70,078	70,078	70,047	31
Total intergovernmental	\$ 1,160,680	\$ 1,160,680	\$ 1,451,363	\$ (290,683)
Total Expenditures	\$ 1,192,080	\$ 1,192,080	\$ 1,486,096	\$ (294,016)
Net Change in Fund Balance	\$ (105)	\$ (105)	\$ (4,861)	\$ (4,756)
Fund Balance - January 1	32,925	32,925	32,925	-
Fund Balance - December 31	\$ 32,820	\$ 32,820	\$ 28,064	\$ (4,756)

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, 2012**

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, 2012. 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.

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.

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 COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity (Continued)

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

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

The governmental activities columns are 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 Community Health Board's net position is reported as unrestricted net position.

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

C. Measurement Focus and Basis of Accounting

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

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

Governmental funds (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, 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.

Capital Assets and Depreciation

Capital assets are reported in the governmental activities column in the government-wide financial statements. 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.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Position or Equity (Continued)

2. Liabilities

Deferred Revenue

Horizon's fund and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

3. Classification of Net Position

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

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

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

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

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 governmental funds. The classifications are as follows:

Nonspendable - amounts that cannot be spent because they are not in spendable form, or 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, and Net Position or Equity

4. 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 (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. The action must be approved no later than the close of the reporting period and remains binding unless removed in the same manner.

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, 2012, the General Fund had \$28,064 in unassigned fund balance.

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

The General Fund had expenditures in excess of budget for the year ended December 31, 2012, as follows:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 1,486,096	\$ 1,192,080	\$ 294,016

3. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2012, Horizon had \$71,519 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, 2012, Pope County's deposits were not exposed to custodial credit risk.

Receivables

Receivables as of December 31, 2012, are as follows:

Due from other governments	<u>\$ 177,655</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

Deferred Revenue

Deferred revenue consists of state and federal grants that are not collected soon enough after year-end to pay liabilities of the current period, and state and federal grants and other revenue received but not yet earned. Deferred revenue at December 31, 2012, is summarized below:

	<u>General Fund</u>
Deferred Revenue	
Unavailable	\$ 19,530
Unearned	<u>20,566</u>
Total Deferred Revenue	<u>\$ 40,096</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.

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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, 2012**

Grants

State

Minnesota Department of Health	\$ <u>751,982</u>
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Federal

Department of Agriculture	\$ 331,930
Health and Human Services	<u>393,493</u>

Total federal	\$ <u>725,423</u>
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Total Intergovernmental Revenue	\$ <u><u>1,477,405</u></u>
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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

EXHIBIT A-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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	<u>\$ 331,930</u>
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 75,309
Environmental Public Health and Emergency Response	93.070	22,624
Universal Newborn Hearing Screening	93.251	850
Immunization Cooperative Agreements	93.268	5,800
Temporary Assistance for Needy Families	93.558	132,451
Maternal and Child Health Services Block Grant to the States	93.994	84,502
Passed Through Minnesota Department of Human Services Medical Assistance Program	93.778	<u>73,007</u>
Total U.S. Department of Health and Human Services		<u>\$ 394,543</u>
		<u>\$ 726,473</u>

**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012. 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	\$ 725,423
Immunization Cooperative Agreements grant received more than 60 days after year end	<u>1,050</u>
Expenditures Per Schedule of Expenditures of Federal Awards	<u><u>\$ 726,473</u></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	\$ 325,654
93.069	Public Health Emergency Preparedness	69,768
93.070	Environmental Public Health and Emergency Response	20,748
93.251	Universal Newborn Hearing Screening	850
93.268	Immunization Cooperative Agreements	5,800
93.558	Temporary Assistance for Needy Families	123,849
93.994	Maternal and Child Health Services Block Grant to the States	78,164
93.778	Medical Assistance Program	70,047
	Total	<u>\$ 694,880</u>

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**HORIZON COMMUNITY HEALTH BOARD
GLENWOOD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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

06-1 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 does not have the economic resources needed to hire additional qualified accounting staff in order to adequately segregate duties.

Recommendation: We recommend that Horizon's Board and management be aware of the lack of segregation of the accounting functions and, where possible, implement oversight procedures to ensure that 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 2012 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.*

08-1 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 not had 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 31, 2013, Horizon Management will develop a formal plan addressing monitoring the internal control structure on a regular basis. The plan will include Horizon Management and personnel from the Auditor/Treasurer's Office of the Horizon Administrative County meeting no less than annually 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.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.



REBECCA OTTO
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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

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, 2012, and the related notes to the financial statements, which collectively comprise Horizon's basic financial statements, and have issued our report thereon dated September 26, 2013.

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 06-1 and 08-1, 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 of 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: 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 2012 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.

Other Matters

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 subject 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 26, 2013

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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

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, 2012. Horizon Community Health Board'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 each of its federal programs.

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 each 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, 2012.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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 the 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 26, 2013

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR