

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

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**MEEKER-MCLEOD-SIBLEY**  
**COMMUNITY HEALTH SERVICES**  
**HUTCHINSON, 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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This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

**MEEKER-MCLEOD-SIBLEY  
COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

**Year Ended December 31, 2013**



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

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

ORGANIZATION  
2013

Office	Name
<b>Board Members</b>	
<b>McLeod County Commissioners</b>	
Member	Jon Christensen
Member	Sheldon Nies
Member	Ron Shimanski
Secretary	Kermit Terlinden
Member	Paul Wright
<b>Meeker County Commissioners</b>	
Chair	Dale Fenrich
Member	Mike Housman
Member	Mike Huberty
Member	Bryan Larson
Member	Beth Oberg
<b>Sibley County Commissioners</b>	
Vice Chair	Joy Cohrs
Member	Jim Nytes
Member	Harold Pettis
Member	Bill Pinske
Member	Jim Swanson
<b>Fiscal Officer</b>	Cindy Schultz
<b>Management Team</b>	
McLeod County Public Health Director	Kathy Nowak
Meeker County Public Health Director	Diane Winter
Sibley County Public Health Director	Vicki Stock
Community Health Services Director	Allie Freidrichs

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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  
Meeker-McLeod-Sibley Community  
Health Services  
Hutchinson, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of Meeker-McLeod-Sibley Community Health Services as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Services' 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 the Health Services' 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 the Health Services' 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 Meeker-McLeod-Sibley Community Health Services as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter - Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2013 the Health Services 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 represent changes 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 Required Supplementary Information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Meeker-McLeod-Sibley Community Health Services' basic financial statements. The other schedules, including the Schedule of Intergovernmental Revenue and Schedule of Expenditures of Federal Awards (SEFA) required by OMB Circular A-133, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules are the responsibility of management and were derived from and relate 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, 2014, on our consideration of Meeker-McLeod-Sibley Community Health Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Meeker-McLeod-Sibley Community Health Services' 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 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, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR



## **BASIC FINANCIAL STATEMENTS**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES  
STATEMENT OF NET POSITION WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2013**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 260,292	\$ -	\$ 260,292
Due from other governments	543,454	-	543,454
Capital assets			
Depreciable - net of accumulated depreciation	-	7,833	7,833
<b>Total Assets</b>	<b>\$ 803,746</b>	<b>\$ 7,833</b>	<b>\$ 811,579</b>
 <b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u></b>			
<b>Liabilities</b>			
Current liabilities			
Accounts payable	\$ 10,344	\$ -	\$ 10,344
Salaries payable	5,736	-	5,736
Accrued payroll taxes	317	-	317
Other accrued liabilities	1,240	-	1,240
Due to other governments	589,121	-	589,121
Unearned revenue	1,500	-	1,500
Long-term liabilities			
Due within one year	-	2,215	2,215
Due in more than one year	-	1,043	1,043
<b>Total Liabilities</b>	<b>\$ 608,258</b>	<b>\$ 3,258</b>	<b>\$ 611,516</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	76,943	<b>\$ (76,943)</b>	<b>\$ -</b>
<b>Fund Balance</b>			
Assigned	118,545	<b>\$ (118,545)</b>	
<b>Net Position</b>			
Net investment in capital assets		\$ 7,833	\$ 7,833
Unrestricted		192,230	192,230
<b>Total Net Position</b>		<b>\$ 200,063</b>	<b>\$ 200,063</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</b>	<b>\$ 803,746</b>	<b>\$ 7,833</b>	<b>\$ 811,579</b>

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

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

***EXHIBIT 1  
(Continued)***

**GENERAL FUND BALANCE SHEET AND GOVERNMENTAL ACTIVITIES  
STATEMENT OF NET POSITION WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
DECEMBER 31, 2013**

**Reconciliation of the General Fund Balance to Net Position**

<b>Fund Balance - General Fund</b>	<b>\$ 118,545</b>
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	7,833
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	76,943
Compensated absences liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds.	<u>(3,258)</u>
<b>Net Position - Governmental Activities</b>	<b><u><u>\$ 200,063</u></u></b>

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE AND GOVERNMENTAL ACTIVITIES  
STATEMENT OF ACTIVITIES WITH ADJUSTMENTS TO CONVERT MODIFIED TO FULL ACCRUAL  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>General Fund</b>	<b>Adjustments</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental	\$ 2,159,154	\$ (24,474)	\$ 2,134,680
Gifts and contributions	6,000	-	6,000
<b>Total Revenues</b>	<b>\$ 2,165,154</b>	<b>\$ (24,474)</b>	<b>\$ 2,140,680</b>
<b>Expenditures/Expenses</b>			
<b>Health</b>			
Current	\$ 445,244	\$ (1,019)	\$ 444,225
Intergovernmental	1,681,283	-	1,681,283
Depreciation	-	1,720	1,720
<b>Total Expenditures/Expenses</b>	<b>\$ 2,126,527</b>	<b>\$ 701</b>	<b>\$ 2,127,228</b>
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ 38,627</b>	<b>\$ (25,175)</b>	<b>\$ 13,452</b>
<b>Fund Balance/Net Position - January 1</b>	<b>79,918</b>	<b>106,693</b>	<b>186,611</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 118,545</b>	<b>\$ 81,518</b>	<b>\$ 200,063</b>

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

**Net Change in Fund Balance** **\$ 38,627**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays reported as expenditures	\$ 2,228	
Current year depreciation	(1,720)	508

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 revenues is the increase or decrease in revenues deferred as unavailable. (24,474)

Decreases in compensated absences payable decrease expenses but do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (1,209)

**Change in Net Position of Governmental Activities** **\$ 13,452**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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

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1. Summary of Significant Accounting Policies

Meeker-McLeod-Sibley Community Health Services' 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 the Health Services are discussed below.

Changes in Accounting Principles

During 2013, Meeker-McLeod-Sibley Community Health Services implemented the provisions of Governmental Accounting Standards Board (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.4. for additional information regarding Meeker-McLeod-Sibley Community Health Services' 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

The Meeker-McLeod-Sibley Community Health Board was established pursuant to Minn. Stat. §§ 145A.09-145A.14 and a joint powers agreement as the Meeker-McLeod-Sibley Health Services Board effective April 1, 1980. This joint powers agreement was revised, effective April 19, 1990, and the Board was renamed the Meeker-McLeod-Sibley Community Health Board. The Community Health Board consists of 15 members, five each from Meeker, McLeod, and Sibley Counties. The primary function of the joint venture is to provide health services and to promote efficiency and economy in the delivery of health services.

McLeod County, in an agent capacity, reports the cash transactions of the Health Services as an agency fund on its annual financial statements.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

Basic financial statements include information on Meeker-McLeod-Sibley Community Health Services' activities as a whole and information on the General Fund of the Health Services. 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 Meeker-McLeod-Sibley Community Health Services 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. Meeker-McLeod-Sibley Community Health Services' net position is reported as unrestricted net position. Meeker-McLeod-Sibley Community Health Services first utilizes restricted resources to finance qualifying activities. The statement of activities demonstrates the degree to which the expenses of Meeker-McLeod-Sibley Community Health Services are offset by revenues.

The balance sheet and statement of revenues, expenditures, and changes in fund balance for the General Fund are presented on the modified accrual basis of accounting and report current financial resources.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Meeker-McLeod-Sibley Community Health Services considers all revenues as available if collected within 90 days after the end of the current period. Charges for services are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred.



**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

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

1. Due From/To Other Governments

Due from/to other governments amounts represent receivables and payables related to grants from other federal, state, and local governments for the program administration.

2. Capital Assets

Capital assets are recorded in the governmental activities column in the statement of net position. Meeker-McLeod-Sibley Community Health Services defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital assets of Meeker-McLeod-Sibley Community Health Services are depreciated using the straight-line method over an estimated five-year useful life.

3. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation, comp time, vested sick leave balances, and sick leave balances in excess of the maximum balance. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. 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. The Health Services has no items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Meeker-McLeod-Sibley Community Health Services 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 governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

5. 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.

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

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

6. Classification of Fund Balance

Fund balance is divided into classifications based primarily on the extent to which the Health Services is bound to observe restraints upon the use of resources in the General Fund.

Assigned - Amounts in the assigned fund balance classification Meeker-McLeod-Sibley Community Health Services intends to use for specific purposes but does not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Health Services Board or the McLeod County Auditor-Treasurer, who has been delegated that authority as fiscal agent by Board resolution.

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

7. Budgetary Information

The Health Services adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis. The legal level of budgetary control is the function level. Appropriations lapse at year-end. The budgets may be amended or modified at any time by the Community Health Board.

2. Stewardship, Compliance, and Accountability

Expenditures in Excess of Budget

For the year ended December 31, 2013, the General Fund expenditures of \$2,126,527 exceeded the final budget of \$1,378,931 by \$747,596.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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3. Detailed Notes

A. Assets

1. Deposits and Investments

Cash is on deposit with McLeod County. Cash transactions are administered by the McLeod County Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit cash in financial institutions designated by the County Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement with which the County was in compliance at December 31, 2013.

2. Receivables

The Health Services did not have any receivables scheduled to be collected beyond one year as of December 31, 2013.

3. Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Office equipment	\$ 8,041	\$ 2,228	\$ -	\$ 10,269
Less: accumulated depreciation for				
Office equipment	<u>(716)</u>	<u>(1,720)</u>	<u>-</u>	<u>(2,436)</u>
Total Capital Assets Depreciated, Net	<u>\$ 7,325</u>	<u>\$ 508</u>	<u>\$ -</u>	<u>\$ 7,833</u>

Depreciation expense of \$1,720 was charged to the Health Services' health function in 2013.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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3. Detailed Notes (Continued)

B. Liabilities

1. Unearned Revenue

The Health Services reported \$1,500 of unearned revenue in the General Fund for grant money advanced to it, but not spent as of year-end.

2. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 2,049	\$ 1,209	\$ -	\$ 3,258	\$ 2,215

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

General Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan and benefits vest after three years of credited service (five years for those first eligible for membership after June 30, 2010).

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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4. Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

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

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

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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4. Pension Plans (Continued)

B. Funding Policy

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

The Health Services is required to contribute the following percentages of annual covered payroll in 2013:

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

The Health Services' contributions for the years ending December 31, 2013, 2012, and 2011, for the General Employees Retirement Fund were \$9,916, \$9,421, and \$8,904, respectively.

These contributions are equal to the contractually required contribution rates for the year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

Meeker-McLeod-Sibley Community Health Services is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; or natural disasters. The Health Services has entered into a joint powers agreement with Minnesota counties to form the Minnesota Counties Intergovernmental Trust (MCIT) to cover its property and casualty liabilities. There were no significant reductions in insurance from the previous year or settlements in excess of insurance for any of the past three years.

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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5. Summary of Significant Contingencies and Other Items

A. Risk Management (Continued)

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

B. Claims and Litigation

Meeker-McLeod-Sibley Community Health Services, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Health Services' attorney estimates that the potential claims against the Health Services resulting from litigation not covered by insurance would not materially affect the financial statements of the Health Services.



**REQUIRED SUPPLEMENTARY INFORMATION**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

**EXHIBIT A-1**

**BUDGETARY COMPARISON SCHEDULE  
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>		
<b>Revenues</b>				
Intergovernmental	\$ 1,372,931	\$ 1,372,931	\$ 2,159,154	\$ 786,223
Gifts and contributions	6,000	6,000	6,000	-
<b>Total Revenues</b>	<b>\$ 1,378,931</b>	<b>\$ 1,378,931</b>	<b>\$ 2,165,154</b>	<b>\$ 786,223</b>
<b>Expenditures</b>				
<b>Health</b>				
Community Health Services Grant	\$ 284,858	\$ 284,858	\$ 331,223	\$ (46,365)
Early Hearing Detection and Intervention Women, Infants, and Children	3,000	3,000	2,325	675
Maternal and Child Health Services Block Grant	312,444	312,444	494,903	(182,459)
Family Planning Special Projects	80,967	80,967	62,249	18,718
Block Grants for Prevention and Treatment of Substance Abuse	49,300	49,300	103,994	(54,694)
Immunization Grants	160,000	160,000	139,872	20,128
Healthy Communities Activities	3,000	3,000	2,250	750
Home Visiting Temporary Assistance for Needy Families	6,000	6,000	2,775	3,225
Drug-Free Communities	95,011	95,011	73,174	21,837
Child and Teen Checkups Medical Assistance Program	-	-	102,940	(102,940)
Public Health Emergency Preparedness Grants	177,921	177,921	182,926	(5,005)
MIECHV Grants	69,836	69,836	68,424	1,412
Statewide Health Improvement Program	-	-	187,534	(187,534)
	136,594	136,594	371,938	(235,344)
<b>Total Expenditures</b>	<b>\$ 1,378,931</b>	<b>\$ 1,378,931</b>	<b>\$ 2,126,527</b>	<b>\$ (747,596)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 38,627</b>	<b>\$ 38,627</b>
<b>Fund Balance - January 1</b>	<b>79,918</b>	<b>79,918</b>	<b>79,918</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 79,918</b>	<b>\$ 79,918</b>	<b>\$ 118,545</b>	<b>\$ 38,627</b>

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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1. Budgetary Information

Meeker-McLeod-Sibley Community Health Services adopts estimated revenue and expenditure budgets for the General Fund on the modified accrual basis. The legal level of budgetary control is the function level. Appropriations and encumbrances lapse at year-end. The budgets may be amended or modified at any time by the Community Health Board.

2. Excess of Expenditures Over Appropriations

In the General Fund, the expenditures exceeded appropriations for the year ended December 31, 2013, by \$747,596.

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## **OTHER SCHEDULES**

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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

***EXHIBIT B-1***

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

**Grants**

**State**

**Minnesota Department of**

Health	\$ 803,905
Human Services	84,778

<b>Total state</b>	<b><u>\$ 888,683</u></b>
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**Federal**

**U.S. Department of Agriculture**

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	\$ 491,953
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**U.S. Department of Health and Human Services**

Drug-Free Communities Support Program Grants	102,940
Block Grants for Prevention and Treatment of Substance Abuse	132,619
TANF Home Visiting (Temporary Assistance for Needy Families)	117,883
Child and Teen Checkups MA (Medical Assistance Program)	84,777
Immunization Cooperative Agreements	2,250
Universal Newborn Hearing Screening	1,125
PHEP Grants (Public Health Emergency Preparedness)	68,423
MIECHV Grants (Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting)	187,534
Maternal and Child Health Services Block Grant (MCH)	80,967

<b>Total federal</b>	<b><u>\$ 1,270,471</u></b>
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<b>Total Intergovernmental Revenue</b>	<b><u><u>\$ 2,159,154</u></u></b>
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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

*EXHIBIT B-2*

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

<b>Federal Grantor Pass-Through Agency Grant Program Title</b>	<b>Federal CFDA Number</b>	<b>Expenditures</b>
<b>U.S. Department of Agriculture</b>		
Passed Through Minnesota Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	<u>\$ 494,864</u>
<b>U.S. Department of Health and Human Services</b>		
Direct		
Drug-Free Communities Support Program Grants	93.276	\$ 102,940
Passed Through Minnesota Department of Health		
Public Health Emergency Preparedness	93.069	68,423
Universal Newborn Hearing Screening	93.251	1,125
Immunization Cooperative Agreements	93.268	2,250
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	187,534
Temporary Assistance for Needy Families	93.558	117,883
Maternal and Child Health Services Block Grant to the States	93.994	80,967
Passed Through Minnesota Department of Human Services		
Medical Assistance Program	93.778	103,773
Block Grants for Prevention and Treatment of Substance Abuse	93.959	<u>168,619</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>\$ 833,514</u>
<b>Total Federal Awards</b>		<u>\$ 1,328,378</u>

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, 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 Meeker-McLeod-Sibley Community Health Services. The Health Services' 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 Meeker-McLeod-Sibley Community Health Services 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 Meeker-McLeod-Sibley Community Health Services, it is not intended to and does not present the financial position or changes in net position of Meeker-McLeod-Sibley Community Health Services.

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	\$ 1,270,471
Grants received more than 60 days after year-end, deferred in 2013	
Special Supplemental Nutrition Program for Woman, Infants, and Children	2,911
Block Grants for Prevention and Treatment of Substance Abuse	36,000
Medical Assistance Program	18,996
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 1,328,378

**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, MINNESOTA**

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5. Subrecipients

Of the expenditures presented in the schedule, Meeker-McLeod-Sibley Community Health Services provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 419,254
93.276	Drug-Free Communities Support Program Grants	102,940
93.069	Public Health Emergency Preparedness	68,423
93.251	Universal Newborn Hearing Screening	1,125
93.268	Immunization Cooperative Agreements	2,250
93.558	Temporary Assistance for Needy Families	85,065
93.994	Maternal and Child Health Services Block Grant to the States	62,249
93.778	Medical Assistance Program	87,963
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	187,534
93.959	Block Grants for Prevention and Treatment of Substance Abuse	113,332
	Total	<u>\$ 1,130,135</u>



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**MEEKER-MCLEOD-SIBLEY COMMUNITY HEALTH SERVICES  
HUTCHINSON, 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? **No**

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 No. 10.557

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

Meeker-McLeod-Sibley Community Health Services qualified as a low-risk auditee? **Yes**

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

None.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

PREVIOUSLY REPORTED ITEM RESOLVED

**Subrecipient Monitoring (CFDA No. 10.557) (2011-01)**

Based on our review of the documentation of subrecipient monitoring performed, the monitoring of subrecipients' expenditures to provide reasonable assurance that the subrecipients administered the federal award in compliance with federal requirements was not performed in 2012.

**Resolution**

The Meeker-McLeod-Sibley Community Health Services' Director performed monitoring over subrecipient expenditures in 2013 on a quarterly basis and maintained documentation of the review.





REBECCA OTTO  
STATE AUDITOR

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

### Independent Auditor's Report

Community Health Board  
Meeker-McLeod-Sibley Community  
Health Services  
Hutchinson, 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 Meeker-McLeod-Sibley Community Health Services as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Health Services' basic financial statements, and have issued our report thereon dated September 26, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Meeker-McLeod-Sibley Community Health Services' 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 the Health Services' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Services' internal control over financial reporting.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Meeker-McLeod-Sibley Community Health Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Meeker-McLeod-Sibley Community Health Services' 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 deposits and investments and claims and disbursements because these categories were tested in conjunction with the McLeod County audit; McLeod County is the fiscal agent. We also did not test for contracting and bidding and public indebtedness because neither of these categories applied to Meeker-McLeod-Sibley Community Health Services.

In connection with our audit, nothing came to our attention that caused us to believe that Meeker-McLeod-Sibley Community Health Services 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 the Health Services' noncompliance with the above referenced provisions.

## **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 the Health Services' internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Services' 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, 2014

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REBECCA OTTO  
STATE AUDITOR

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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  
Meeker-McLeod-Sibley Community  
Health Services  
Hutchinson, Minnesota

### **Report on Compliance for Each Major Federal Program**

We have audited Meeker-McLeod-Sibley Community Health Services' 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 the Health Services' major federal program for the year ended December 31, 2013. Meeker-McLeod-Sibley Community Health Services' 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 each of Meeker-McLeod-Sibley Community Health Services' major federal programs 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 Meeker-McLeod-Sibley Community Health Services' 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 its major federal program. However, our audit does not provide a legal determination of the Meeker-McLeod-Sibley Community Health Services' compliance with those requirements.

### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

Management of Meeker-McLeod-Sibley Community Health Services 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 the Health Services' 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 the Health Services' 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 26, 2014

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR