

# STATE OF MINNESOTA

## Office of the State Auditor



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

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

**YEAR ENDED DECEMBER 31, 2014**

## **Description of the Office of the State Auditor**

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

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

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

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

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

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

**Pension** - monitors investment, financial, and actuarial reporting for approximately 700 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, 2014**



**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, 2014

Community Health Board	Position	Entity
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
Dave Salberg	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 - Administration and Finance		
Sharon Braaten, Pope County Public Health		
Administrator - Performance Improvement and Planning		
Sandra Tubbs, Douglas County Public Health		

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Public Health Board  
Horizon Public Health  
Alexandria, Minnesota

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the General Fund of Horizon Community Health Board (Horizon) as of and for the year ended December 31, 2014, 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, 2014, and the respective changes in financial position thereof and the budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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 23, 2015, on our consideration of Horizon Community Health Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Horizon Community Health Board's internal control over financial reporting and compliance.

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

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

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 23, 2015

*/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, 2014  
(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, 2014. 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**

	<b>Net Position</b>			
	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percent Change (%)</u>
Assets				
Current and other assets	\$ 382,913	\$ 386,457	\$ (3,544)	(0.9)
Liabilities				
Current liabilities	<u>321,451</u>	<u>304,587</u>	<u>16,864</u>	5.5
Net Position				
Unrestricted	<u>\$ 61,462</u>	<u>\$ 81,870</u>	<u>\$ (20,408)</u>	(24.9)

### Changes in Net Position

	2014	2013	Increase (Decrease)	Percent Change (%)
<b>Revenues</b>				
Intergovernmental	\$ 1,692,474	\$ 1,586,466	\$ 106,008	6.7
Charges for services	-	7,333	(7,333)	(100.0)
Gifts and contributions	51,050	61,281	(10,231)	(16.7)
Miscellaneous	433	754	(321)	(42.6)
<b>Total Revenues</b>	<b>\$ 1,743,957</b>	<b>\$ 1,655,834</b>	<b>\$ 88,123</b>	<b>5.3</b>
<b>Expenses</b>				
<b>Health</b>				
Current	\$ 91,823	\$ 80,347	\$ 11,476	14.3
Intergovernmental	1,672,542	1,541,211	131,331	8.5
<b>Total Expenses</b>	<b>\$ 1,764,365</b>	<b>\$ 1,621,558</b>	<b>\$ 142,807</b>	<b>8.8</b>
<b>Change in Net Position</b>	<b>\$ (20,408)</b>	<b>\$ 34,276</b>	<b>\$ (54,684)</b>	<b>(159.5)</b>

### Budgetary Highlights

Horizon's Board did not make any budgetary amendments/revisions in 2014.

Actual revenues were more than budgeted revenues by \$63,421; 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 along with increased expenses related to the transition to Horizon Public Health.

The decrease in total net position is due to excess expenditures over revenues. Net position decreased by \$20,408. Horizon budgets only grants that are known to be funded at the time the budget is developed. 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.

The counties that comprise Horizon Community Health Board had been exploring the potential integration of the three existing Public Health departments (Douglas County Public Health, Pope County Public Health, and Stevens Traverse Grant Public Health) into one Public Health department, Horizon Public Health. During the month of September 2014, each of the five County Boards passed a resolution entering into a new joint powers agreement, effectively creating a new joint powers entity, Horizon Public Health, effective January 1, 2015. Horizon Community Health Board approved preparatory transition items, resulting in increased expenditures. This resulted in increased expenditures over revenues.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

Effective January 1, 2015, Horizon Public Health will be an integrated stand-alone Public Health department and Public Health Board. In 2015, Horizon Public Health will not utilize a member county as a fiscal agent. The funding for Horizon Public Health for 2015 will include dollars from fees for services from third-party payers, county tax contribution, and state and federal grant dollars. The year-to-year uncertainty of these funds, particularly the state and federal grant dollars, creates planning challenges. Horizon Public Health will continue 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 Horizon Public Health's Administrator, Sandy Tubbs, 809 Elm Street, Suite 1200, Alexandria, Minnesota 56308.

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## **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, 2014**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b><u>Assets</u></b>			
Cash and pooled investments	\$ 97,801	\$ -	\$ 97,801
Accounts receivable	21,378	-	21,378
Due from other governments	263,734	-	263,734
	<b>\$ 382,913</b>	<b>\$ -</b>	<b>\$ 382,913</b>
<b><u>Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ 9,576	\$ -	\$ 9,576
Due to other governments	301,659	-	301,659
Unearned revenue	10,216	-	10,216
	<b>\$ 321,451</b>	<b>\$ -</b>	<b>\$ 321,451</b>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue	\$ 43,125	\$ (43,125)	
<b>Fund Balance</b>			
Unassigned	\$ 18,337	\$ (18,337)	
<b>Net Position</b>			
Unrestricted		\$ 61,462	61,462
	<b>\$ 382,913</b>	<b>\$ -</b>	<b>\$ 382,913</b>
<b>Reconciliation of the General Fund Balance to Net Position</b>			
<b>Fund Balance - General Fund</b>			<b>\$ 18,337</b>
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental fund.			43,125
<b>Net Position - Governmental Activities</b>			<b>\$ 61,462</b>

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

*EXHIBIT 2*

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>General Fund</b>	<b>Reconciliation</b>	<b>Governmental Activities</b>
<b>Revenues</b>			
Intergovernmental			
Reimbursement for services	\$ 70,212	\$ -	\$ 70,212
State	953,580	30,496	984,076
Federal	638,186	-	638,186
Gifts and contributions	51,050	-	51,050
Miscellaneous	433	-	433
	<b>\$ 1,713,461</b>	<b>\$ 30,496</b>	<b>\$ 1,743,957</b>
<b>Expenditures/Expenses</b>			
<b>Current</b>			
General administration	<b>\$ 91,823</b>	<b>\$ -</b>	<b>\$ 91,823</b>
<b>Intergovernmental</b>			
General administration	\$ 47,516	\$ -	\$ 47,516
Community Health Services Subsidy	270,159	-	270,159
Maternal and Child Health	67,320	-	67,320
Preconception Health	33,374	-	33,374
Women, Infants, and Children Food Program	328,289	-	328,289
TANF Family Home Visiting Grant	86,656	-	86,656
Statewide Health Improvement Program	242,495	-	242,495
Public Health Emergency Preparedness	90,465	-	90,465
Immunization Cooperative Agreements	5,650	-	5,650
Special Education Grants for Infants and Families	11,442	-	11,442
Early Detection and Intervention and Birth Defects Information System (State Portion)	4,150	-	4,150
Early Detection and Intervention and Birth Defects Information System (Federal Portion)	150	-	150
Universal Newborn Hearing Screening	300	-	300
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	75	-	75
Family Planning Special Projects (State Portion)	107,301	-	107,301
Family Planning Special Projects (Federal Portion)	25,169	-	25,169
Child and Teen Check-Ups	135,073	-	135,073
Tobacco Free Communities	209,565	-	209,565
Toward Zero Deaths	7,069	-	7,069
Robert Wood Johnson Foundation	324	-	324
	<b>\$ 1,672,542</b>	<b>\$ -</b>	<b>\$ 1,672,542</b>
<b>Total intergovernmental</b>	<b>\$ 1,672,542</b>	<b>\$ -</b>	<b>\$ 1,672,542</b>
<b>Total Expenditures/Expenses</b>	<b>\$ 1,764,365</b>	<b>\$ -</b>	<b>\$ 1,764,365</b>
<b>Net Change in Fund Balance/Net Position</b>	<b>\$ (50,904)</b>	<b>\$ 30,496</b>	<b>\$ (20,408)</b>
<b>Fund Balance/Net Position - January 1</b>	<b>69,241</b>	<b>12,629</b>	<b>81,870</b>
<b>Fund Balance/Net Position - December 31</b>	<b>\$ 18,337</b>	<b>\$ 43,125</b>	<b>\$ 61,462</b>

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

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**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

*EXHIBIT 2  
(Continued)*

**GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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

<b>Net Change in Fund Balance - General Fund</b>	<b>\$ (50,904)</b>
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In the fund, under the modified accrual basis, receivables not available for expenditure are deferred. In the statement of activities, those revenues are recognized when earned. The adjustment to revenues between the General Fund and the statement of activities is the change in unavailable revenue.

30,496

**Net Change in Net Position of Governmental Activities**

**\$ (20,408)**

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

**EXHIBIT 3**

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 1,612,334	\$ 1,612,334	\$ 1,661,978	\$ 49,644
Gifts and contributions	37,706	37,706	51,050	13,344
Miscellaneous	-	-	433	433
<b>Total Revenues</b>	<b>\$ 1,650,040</b>	<b>\$ 1,650,040</b>	<b>\$ 1,713,461</b>	<b>\$ 63,421</b>
<b>Expenditures</b>				
<b>Current</b>				
<b>General administration</b>				
Administrative services and charges	\$ 33,000	\$ 33,000	\$ 33,106	\$ (106)
Other general government	10,000	10,000	58,717	(48,717)
<b>Total current</b>	<b>\$ 43,000</b>	<b>\$ 43,000</b>	<b>\$ 91,823</b>	<b>\$ (48,823)</b>
<b>Intergovernmental</b>				
General administration	\$ 27,708	\$ 27,708	\$ 47,516	\$ (19,808)
Community Health Services Subsidy	270,159	270,159	270,159	-
Maternal and Child Health	71,920	71,920	67,320	4,600
Preconception Health	50,058	50,058	33,374	16,684
Women, Infants, and Children Food Program	278,562	278,562	328,289	(49,727)
TANF Family Home Visiting Grant	97,594	97,594	86,656	10,938
Statewide Health Improvement Program	255,766	255,766	242,495	13,271
Public Health Emergency Preparedness	90,338	90,338	90,465	(127)
Immunization Cooperative Agreements	-	-	5,650	(5,650)
Special Education Grants for Infants and Families	-	-	11,442	(11,442)
Early Detection and Intervention and Birth Defects Information System (State Portion)	-	-	4,150	(4,150)
Early Detection and Intervention and Birth Defects Information System (Federal Portion)	-	-	150	(150)
Universal Newborn Hearing Screening	-	-	300	(300)
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	-	-	75	(75)
Family Planning Special Projects (State Portion)	113,868	113,868	107,301	6,567
Family Planning Special Projects (Federal Portion)	26,710	26,710	25,169	1,541
Child and Teen Check-Ups	143,813	143,813	135,073	8,740
Tobacco Free Communities	145,920	145,920	209,565	(63,645)
Toward Zero Deaths	-	-	7,069	(7,069)
Robert Wood Johnson Foundation	35,024	35,024	324	34,700
<b>Total intergovernmental</b>	<b>\$ 1,607,440</b>	<b>\$ 1,607,440</b>	<b>\$ 1,672,542</b>	<b>\$ (65,102)</b>
<b>Total Expenditures</b>	<b>\$ 1,650,440</b>	<b>\$ 1,650,440</b>	<b>\$ 1,764,365</b>	<b>\$ (113,925)</b>
<b>Net Change in Fund Balance</b>	<b>\$ (400)</b>	<b>\$ (400)</b>	<b>\$ (50,904)</b>	<b>\$ (50,504)</b>
<b>Fund Balance - January 1</b>	<b>69,241</b>	<b>69,241</b>	<b>69,241</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 68,841</b>	<b>\$ 68,841</b>	<b>\$ 18,337</b>	<b>\$ (50,504)</b>

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

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

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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, 2014. 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 composed 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**

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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

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

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

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

C. Measurement Focus and Basis of Accounting

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

The governmental funds financial statement columns (the General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Horizon considers all revenues to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Horizon's policy to use restricted resources first and then unrestricted resources as needed.

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

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

1. Assets

Due From/To Other Governments

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

Capital Assets and Depreciation

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

2. Liabilities and Deferred Outflows/Inflows of Resources

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

2. Liabilities and Deferred Outflows/Inflows of Resources

Deferred Outflows/Inflows of Resources (Continued)

of resources (expenditure/expense) until then. No deferred outflows of resources affect the governmental funds or governmental activities financial statements in the current year.

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

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

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

3. Classification of Net Position

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

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

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

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

3. Classification of Net Position (Continued)

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

4. Classification of Fund Balances

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

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

Restricted - amounts subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or is imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can be used only for the specific purposes imposed by formal action (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 (resolution) it employed to previously commit these amounts.

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

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

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

4. Classification of Fund Balances (Continued)

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, 2014, the General Fund had \$18,337 in unassigned fund balance.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The General Fund had expenditures in excess of budget for the year ended December 31, 2014, as follows:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 1,764,365	\$ 1,650,440	\$ 113,925

3. Detailed Notes

A. Assets

Cash Deposits

As of December 31, 2014, Horizon had \$97,801 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, 2014, Pope County's deposits were not exposed to custodial credit risk.

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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3. Detailed Notes

A. Assets (Continued)

Receivables

Receivables as of December 31, 2014, are as follows:

Accounts	\$ 21,378
Due from other governments	<u>263,734</u>
Total	<u><u>\$ 285,112</u></u>

Horizon had no receivables scheduled to be collected beyond one year.

B. Liabilities and Deferred Inflows of Resources

Unearned Revenues/Deferred Inflows of Resources

Unearned revenues consists of state and federal grants received but not yet earned. Deferred inflows of resources consists of state and federal grant receivables that are not collected soon enough after year-end to pay liabilities of the current period. Unearned revenues and deferred inflows of resources at December 31, 2014, are summarized below:

	<u>General Fund</u>
Liability	
Unearned revenue	\$ 10,216
Deferred Inflows of Resources	
Unavailable revenue	<u>43,125</u>
Total	<u><u>\$ 53,341</u></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.

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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

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.

C. Subsequent Event

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

**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, 2014**

**Reimbursement for Services**

**State**

Minnesota Department of Human Services	<u>\$ 70,212</u>
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**Grants**

**State**

Minnesota Department of Health	\$ 883,368
Human Services	<u>70,212</u>

<b>Total state</b>	<u><b>\$ 953,580</b></u>
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**Federal**

Department of Agriculture	\$ 332,826
Transportation	7,069
Education	11,442
Health and Human Services	<u>286,849</u>

<b>Total federal</b>	<u><b>\$ 638,186</b></u>
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<b>Total Intergovernmental Revenue</b>	<u><u><b>\$ 1,661,978</b></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, 2014**

<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>\$ 332,826</u>
<b>U.S. Department of Transportation</b>		
Passed Through Minnesota Department of Public Safety State and Community Highway Safety	20.600	<u>\$ 7,069</u>
<b>U.S. Department of Education</b>		
Passed Through Minnesota Department of Health Special Education - Grants for Infants and Families	84.181	<u>\$ 11,442</u>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 95,248
Universal Newborn Hearing Screening	93.251	300
Immunization Cooperative Agreements	93.268	5,650
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	150
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314	75
PPHF National Public Health Improvement Initiative	93.507	2,000
Temporary Assistance for Needy Families	93.558	114,810
Maternal and Child Health Services Block Grant to the States	93.994	<u>68,616</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>\$ 286,849</u>
<b>Total Federal Awards</b>		<u>\$ 638,186</u>

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

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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, 2014. 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.

**HORIZON COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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4. 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	\$ 328,289
20.600	State and Community Highway Safety	7,069
84.181	Special Education - Grants for Infants and Families	11,442
93.069	Public Health Emergency Preparedness	90,465
93.251	Universal Newborn Hearing Screening	300
93.268	Immunization Cooperative Agreements	5,650
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	150
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	75
93.558	Temporary Assistance for Needy Families	111,825
93.994	Maternal and Child Health Services Block Grant to the States	67,320
	Total	<u>\$ 622,585</u>



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**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**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? **Yes**

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? **Yes**

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 ITEM NOT RESOLVED

Finding 2006-001

#### Segregation of Duties

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

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

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

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

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

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

#### Client's Response:

*The Horizon Public Health Board and Horizon Public Health 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 segregate accounting functions whenever possible and will closely supervise those areas where proper segregation of duties cannot be achieved.*

PREVIOUSLY REPORTED ITEM RESOLVED

**Documenting and Monitoring Internal Controls (2008-001)**

A formal risk assessment of existing controls over significant functions used to produce financial information had not been completed.

**Resolution**

A formal risk assessment was completed and documented by the Community Health Board in December 2014.

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

ITEM ARISING THIS YEAR

Finding 2014-001

Reporting

**Program:** U.S. Department of Agriculture's Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA No. 10.557)

**Pass-Through Agency:** Minnesota Department of Health

**Criteria:** Standard internal control procedures should include a review and approval process to ensure reports submitted to the State of Minnesota are accurate and meet reporting requirements.

**Condition:** During our testing of controls over reporting, we noted that, during the last half of 2014, financial reports were being prepared and submitted by a supervisory-level individual, but there was a lack of review by an additional supervisory-level individual independent of the one preparing the reports.

**Questioned Costs:** None.

**Context:** Because of the lack of evidence that program reports were reviewed by a supervisory-level individual other than the one preparing the reports during the second half of the year, we selected an additional report to perform a more detailed examination to ensure the data reported was accurate and complete. No discrepancies with supporting documentation were found with any of the reports selected for testing.

**Effect:** The lack of supervisory review of reports increases the risk that reports submitted will not be correct.

**Cause:** Horizon informed us that, during 2014, it was in the process of transitioning from a joint Community Health Board with Pope County acting as its fiscal agent into its own independent entity as a public health organization. Staff employed by Pope County who assisted with Horizon Community Health Board were transitioned into other County departments during the last half of the year.

**Recommendation:** Although the monthly reports submitted to the Minnesota Department of Health were prepared by a supervisory-level individual, we recommend Horizon document additional review of these reports by someone independent of the preparer to ensure they are accurate and meet reporting requirements.

Corrective Action Plan:

Name of Contact Person Responsible for Corrective Action:

*Sandra Tubbs, Horizon Public Health Administrator*

Corrective Action Planned:

*Horizon accounting staff will prepare the monthly grant reports and submit them to a designated Horizon Supervisory staff for review. The designated Supervisory staff will review the prepared monthly grant reports for accuracy and for conformance with expenditure guidelines and reporting requirements. The designated Supervisory staff will approve submission of the reports and will document review and submission dates.*

Anticipated Completion Date:

*Corrective action plan will be implemented for all reports submitted on or after September 1, 2015, and will be ongoing.*

#### **IV. OTHER ITEM FOR CONSIDERATION**

GASB Statement No. 68, Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments. Effective for Horizon Public Health's calendar year 2015 financial statements, the GASB changed those standards as they apply to employers that provide pension benefits.

GASB Statement 68 significantly changes pension accounting and financial reporting for governmental employers that prepare financial statements on the accrual basis by separating pension accounting methodology from pension funding methodology. Statement 68 requires employers to include a portion of the Public Employees Retirement Association (PERA) total employers' unfunded liability, called the "net pension liability" on the face of Horizon's government-wide statement of financial position. Horizon's financial position will be immediately impacted by its unfunded share of the pension liability.

In 2015, the new entity, Horizon Public Health, will have employees and will be required to pay employer contributions to PERA. Under Statement 68, the amount employers report as pension expense requires pension costs to be calculated by an actuary. Certain deferred outflows or inflows of resources, footnote disclosures, and required supplementary information schedules are also required by Statement 68.

The net pension liability that will be reported in Horizon Public Health's financial statements is an accounting estimate of the proportionate share of PERA's unfunded liability at a specific point in time. That number will change from year to year and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary increases, and how well pension trust investments will do. PERA has been proactive in taking steps toward implementation and will be providing most of the information needed by employers to report the net pension liability and deferred outflows/inflows of resources.

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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

Public Health Board  
Horizon Public Health  
Alexandria, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Horizon Community Health Board (Horizon) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise Horizon's basic financial statements, and have issued our report thereon dated September 23, 2015.

### **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 a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2006-001, that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

## **Minnesota Legal Compliance**

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains six categories of compliance to be tested in connection with the audit of Horizon's financial statements: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for contracting and bidding and public indebtedness because Horizon did no contracting in 2014 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**

Also included in the Schedule of Findings and Questioned Costs is an other item for consideration. We believe this information to be of benefit to Horizon, and it is reported for that purpose.

## **Horizon Public Health's Response to Findings**

Horizon Public Health's response to the internal control finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. Horizon's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance, and the provisions of the *Minnesota Legal Compliance Audit Guide for 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 23, 2015

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

### Independent Auditor's Report

Public Health Board  
Horizon Public Health  
Alexandria, Minnesota

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

We have audited Horizon Community Health Board's (Horizon) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on Horizon's major federal program for the year ended December 31, 2014. 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 the major federal program. However, our audit does not provide a legal determination of Horizon's compliance with those requirements.

### ***Opinion on Each 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, 2014.

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

Management of Horizon Community Health Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Horizon's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Horizon's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001, that we consider to be a significant deficiency.

Horizon Public Health's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. Horizon's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 23, 2015

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
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