

# 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, 2011

## **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).

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

**Year Ended December 31, 2011**



**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, 2011

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

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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## INDEPENDENT AUDITOR'S REPORT

Community Health Board  
Horizon Community Health Board

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, 2011, which collectively comprise Horizon's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Horizon's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Horizon adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended December 31, 2011. GASB Statement 54 provides clearer fund balance classifications that can be more consistently applied and clarifies existing governmental fund type definitions.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Horizon's basic financial statements as a whole. The supplementary information, including the Schedule of Expenditures of Federal Awards required by OMB Circular A-133, 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. This 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 presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2012, 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, 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* and should be considered in assessing the results of our audit.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)**

**INTRODUCTION**

Horizon Community Health Board (Horizon) Management's Discussion and Analysis (MD&A) provides an overview of Horizon's financial activities for the fiscal year ended December 31, 2011. 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.

The first two statements are each presented in a single column. Because Horizon had no capital assets, long-term liabilities, or revenue deferred as unavailable at December 31, 2010 or 2011, the balance sheet and the operating statement presented on the modified accrual basis of accounting are the same as the statement of net assets and the statement of activities, respectively, presented on a full accrual basis of accounting.

## FINANCIAL ANALYSIS

	Net Assets			
	2011	2010	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	\$ 328,633	\$ 180,757	\$ 147,876	81.81
Liabilities				
Current liabilities	295,708	170,569	125,139	73.36
Net Assets				
Unrestricted	\$ 32,925	\$ 10,188	\$ 22,737	223.17

	Changes in Net Assets			
	2011	2010	Increase (Decrease)	Percent Change (%)
Revenues				
Intergovernmental	\$ 1,624,802	\$ 855,598	\$ 769,204	89.90
Miscellaneous	2,046	1,373	673	49.02
Total Revenues	\$ 1,626,848	\$ 856,971	\$ 769,877	89.84
Expenses				
Health				
Current	\$ 38,072	\$ 34,081	\$ 3,991	11.71
Intergovernmental	1,566,039	905,466	660,573	72.95
Total Expenses	\$ 1,604,111	\$ 939,547	\$ 664,564	70.73
Change in Net Assets	\$ 22,737	\$ (82,576)	\$ 105,313	(127.53)

### Budgetary Highlights

Horizon's Board did not make any budgetary amendments/revisions in 2011.

Actual revenues were more than budgeted revenues by \$477,658; expenditures were also higher than budgeted. Factors contributing included grant changes and variations of grant revenues for grants that span more than one calendar year.

The increase in total net assets is due to excess revenues over expenditures. Net assets increased by \$22,737. Revenues came in higher than expected (budgeted); they were higher than in previous years due to the addition of Douglas County Public Health.

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

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

## **CONTACTING THE BOARD'S FINANCIAL MANAGEMENT**

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

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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 ASSETS  
DECEMBER 31, 2011**

**Assets**

Cash held by Pope County	\$ 152,413
Due from other governments	<u>176,220</u>
<b>Total Assets</b>	<b><u><u>\$ 328,633</u></u></b>

**Liabilities and Fund Balance/Net Assets**

**Liabilities**

Accounts payable	\$ 5,278
Due to other governments	209,270
Deferred revenue - unearned	<u>81,160</u>

**Total Liabilities** **\$ 295,708**

**Fund Balance/Net Assets**

Unassigned/unrestricted	<u>32,925</u>
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**Total Liabilities and Fund Balance/Net Assets** **\$ 328,633**

Horizon Community Health Board has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Balance Sheet of the General Fund is the same as the Statement of Net Assets of the Governmental Activities.

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

**EXHIBIT 2**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
AND STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>Revenues</b>	
Intergovernmental	
Federal	\$ 839,634
State	785,168
Miscellaneous	<u>2,046</u>
<b>Total Revenues</b>	<b>\$ <u>1,626,848</u></b>
<b>Expenditures/Expenses</b>	
<b>Health</b>	
<b>Current</b>	
General administration	<b>\$ <u>38,072</u></b>
<b>Intergovernmental</b>	
General administration	\$ 10,374
Community Health Services Grant	278,022
Maternal and Child Health	79,630
Women, Infants, and Children Food Program	369,910
TANF Home Visiting Grant	98,246
Statewide Health Improvement Program	301,680
Quality Improvement Leadership	4,786
Strengthening Public Health Infrastructure for Improved Health Outcomes	4,500
Public Health Emergency Preparedness Grant	82,657
Public Health Emergency Response Supplemental	42,454
Health Impact Assessment	5,000
Immunization Grant	440
Immunization Grant - ARRA	27,478
Eliminating Health Disparities Initiative and Birth Defects Information System	1,675
Eliminating Health Disparities Initiative and Birth Defects Information System (State portion)	2,500
Family Planning Grant	24,437
Family Planning Grant (State portion)	104,178
CTC Outreach Program	64,036
CTC Outreach Program (State portion)	<u>64,036</u>
<b>Total intergovernmental</b>	<b>\$ <u>1,566,039</u></b>
<b>Total Expenditures/Expenses</b>	<b>\$ <u>1,604,111</u></b>
<b>Change in Fund Balance/Net Assets</b>	<b>\$ 22,737</b>
<b>Fund Balance/Net Assets - January 1</b>	<b><u>10,188</u></b>
<b>Fund Balance/Net Assets - December 31</b>	<b><u><u>\$ 32,925</u></u></b>

Horizon Community Health Board has no capital assets, long-term liabilities, or revenue deferred as unavailable. Therefore, the Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund is the same as the Statement of Activities for the Governmental Activities.

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

*EXHIBIT 3*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 1,149,190	\$ 1,149,190	\$ 1,624,802	\$ 475,612
Miscellaneous	-	-	2,046	2,046
<b>Total Revenues</b>	<b>\$ 1,149,190</b>	<b>\$ 1,149,190</b>	<b>\$ 1,626,848</b>	<b>\$ 477,658</b>
<b>Expenditures</b>				
<b>Health</b>				
<b>Current</b>				
<b>General administration</b>				
Accounting and auditing	\$ 10,000	\$ 10,000	\$ 9,840	\$ 160
Administrative services and charges	29,000	29,000	28,232	768
Medical consultant services	900	900	-	900
<b>Total current expenditures</b>	<b>\$ 39,900</b>	<b>\$ 39,900</b>	<b>\$ 38,072</b>	<b>\$ 1,828</b>
<b>Intergovernmental</b>				
General Administration	\$ 11,500	\$ 11,500	\$ 10,374	\$ 1,126
Community Health Services Grant	278,022	278,022	278,022	-
Maternal and Child Health	79,630	79,630	79,630	-
Women, Infants, and Children Food Program	279,300	279,300	369,910	(90,610)
TANF Home Visiting Grant	91,881	91,881	98,246	(6,365)
Statewide Health Improvement Program	-	-	301,680	(301,680)
Quality Improvement Leadership	-	-	4,786	(4,786)
Strengthening Public Health Infrastructure for Improved Health Outcomes	-	-	4,500	(4,500)
Public Health Emergency Preparedness Grant	92,829	92,829	82,657	10,172
Public Health Emergency Response Supplemental	58,782	58,782	42,454	16,328
Health Impact Assessment	-	-	5,000	(5,000)
Immunization Grant	-	-	440	(440)
Immunization Grant - ARRA	-	-	27,478	(27,478)
Eliminating Health Disparities Initiative and Birth Defects Information System	-	-	1,675	(1,675)
Eliminating Health Disparities Initiative and Birth Defects Information System (State portion)	-	-	2,500	(2,500)
Family Planning Grant	13,706	13,706	24,437	(10,731)
Family Planning Grant (State portion)	58,430	58,430	104,178	(45,748)
CTC Outreach Program	67,055	67,055	64,036	3,019
CTC Outreach Program (State portion)	67,055	67,055	64,036	3,019
<b>Total intergovernmental expenditures</b>	<b>\$ 1,098,190</b>	<b>\$ 1,098,190</b>	<b>\$ 1,566,039</b>	<b>\$ (467,849)</b>

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

*EXHIBIT 3  
(Continued)*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Total Expenditures</b>	<b>\$ 1,138,090</b>	<b>\$ 1,138,090</b>	<b>\$ 1,604,111</b>	<b>\$ (466,021)</b>
<b>Net Change in Fund Balance</b>	<b>\$ 11,100</b>	<b>\$ 11,100</b>	<b>\$ 22,737</b>	<b>\$ 11,637</b>
<b>Fund Balance - January 1</b>	<b>10,188</b>	<b>10,188</b>	<b>10,188</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 21,288</b>	<b>\$ 21,288</b>	<b>\$ 32,925</b>	<b>\$ 11,637</b>

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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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, 2011. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by Horizon are discussed below.

A. Financial Reporting Entity

Mid-State Community Health Services was originally established January 1, 1983, by a joint powers agreement among Grant, Pope, Stevens, and Traverse Counties. Mid-State was dissolved on December 31, 2010. A new joint powers agreement was entered into, and Douglas County was added as a fifth county partner effective January 1, 2011. As a result, the name was changed from Mid-State 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, 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 financial statements combine fund level financial statements (General Fund) and government-wide financial statements (governmental activities), which are the same for Horizon. These statements include the overall financial activities.

The government-wide statements are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Horizon's net assets are reported as unrestricted net assets.

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

C. Measurement Focus and Basis of Accounting

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

Governmental funds (the General Fund) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Horizon considers all revenues to be available if collected within 60 days after the end of the current period. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments, which are recognized as expenditures to the extent that they have matured. When both restricted and unrestricted resources are available for use, it is Horizon's policy to use restricted resources first and then unrestricted resources as needed.

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Assets, Liabilities, and Net Assets or Equity

1. Assets

Due From/To Other Governments

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

Capital Assets and Depreciation

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

2. Liabilities

Deferred Revenue

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

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

3. Classification of Net Assets

Net assets in government-wide statements are classified in the following categories:

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

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

Unrestricted net assets - the amount of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

4. Classification of Fund Balances

In 2011, Horizon implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The standard's objectives are to enhance the usefulness of fund balance information included in the financial report through clearer fund balance classifications that can be consistently applied and to clarify existing governmental fund type definitions. The statement requires retroactive restatement of fund balance for the reclassifications made to conform to this statement. Total fund balance did not change.

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

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

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

4. Classification of Fund Balances (Continued)

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

Committed - amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of Horizon. Those committed amounts cannot be used for any other purpose unless Horizon removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. The action must be approved no later than the close of the reporting period and remains binding unless removed in the same manner.

Assigned - amounts for specific purposes but do not meet the criteria to be classified as restricted or committed.

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

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

At December 31, 2011, the General Fund had \$32,925 in unassigned fund balance.

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies

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

5. Reclassifications

Fund balance account balances were reclassified as of and for the year ended December 31, 2010, as previously reported, due to the implementation of GASB 54. Total fund balance did not change. These reclassifications were required for comparability to the financial statements as of and for the year ended December 31, 2011. Although comparative statements for 2010 are not presented here, these reclassifications must be considered when comparing the financial statements of this report with those of prior reports.

E. Potential Impact of New Accounting Standards on Current Period Financial Statements

The GASB has approved GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Application of GASB Statement 63 may restate portions of these financial statements.

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations

The General Fund had expenditures in excess of budget for the year ended December 31, 2011, as follows:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 1,604,111	\$ 1,138,090	\$ 466,021

3. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2011, Horizon had \$152,413 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.

**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

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3. Detailed Notes on Accounts

A. Assets

Cash Deposits (Continued)

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, 2011, Pope County had \$16,947 of uninsured deposits; a portion thereof belongs to Horizon and is exposed to custodial credit risk.

Receivables

Receivables as of December 31, 2011, are as follows:

Due from other governments	<u>\$ 176,220</u>
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Horizon had no receivables scheduled to be collected beyond one year.

B. Liabilities

Deferred Revenue

Revenue in the amount of \$81,160 in connection with the Special Supplemental Nutrition Program for Women, Infants, and Children; the Public Health Emergency Preparedness Grant; and the Local Public Health Association was available but not earned in the current period and is, therefore, reported as deferred revenue - unearned in the General Fund.

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.

**SUPPLEMENTARY INFORMATION**

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**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

*EXHIBIT A-1*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

<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	<b>\$ 376,862</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness	93.069	\$ 138,734
Universal Newborn Hearing Screening Immunization Cluster	93.251	1,675
Immunization Cooperative Agreements	93.268	440
Immunization - ARRA	93.712	28,585
The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5,000
PPHF 2012 National Public Health Improvement Initiative	93.507	4,500
Temporary Assistance for Needy Families	93.558	131,246
Maternal and Child Health Services Block Grant to the States	93.994	86,087
Passed Through Minnesota Department of Human Services Medical Assistance Program	93.778	<u>66,505</u>
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 462,772</b>
<b>Total Federal Awards</b>		<b>\$ 839,634</b>

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**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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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, 2011. 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 assets of Horizon.

3. Summary of Significant Accounting Policies

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

4. Cluster

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Immunization Cluster	\$ 29,025
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**HORIZON COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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5. Subrecipients

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

CFDA Number	Program Name	Amount Provided to Subrecipients
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 369,910
93.069	Public Health Emergency Preparedness	123,086
93.251	Universal Newborn Hearing Screening	1,675
93.268	Immunization Grants	440
93.283	The Affordable Care Act: Centers for Disease Control and Prevention - Investigations and Technical Assistance	5,000
93.507	PPHF 2012 National Public Health Improvement Initiative	3,905
93.558	Temporary Assistance for Needy Families	122,683
93.712	Immunization - ARRA	14,512
93.994	Maternal and Child Health Services Block Grant to the States	79,630
93.778	Medical Assistance Program	61,471
Total		<u>\$ 782,312</u>

6. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.



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**HORIZON COMMUNITY HEALTH BOARD  
GLENWOOD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

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

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

**Federal Awards**

Internal control over major programs:

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

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

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

The major programs are:

Special Supplemental Nutrition Program for Women, Infants, and Children	CFDA #10.557
Public Health Emergency Preparedness	CFDA #93.069

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

Horizon qualified as a low-risk auditee? **No**

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 06-1 Segregation of Duties

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

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

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

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

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

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

#### Client's Response:

*The Horizon Community Health Services Board and Horizon Management will continue to be aware of the inherent risks limited staffing creates relative to safeguarding the agency's assets and the reporting of financial activity. Horizon Management will continue to monitor and use best fiscal practices to decrease this risk. During 2011, Horizon utilized the following system utilizing checks and balances from Horizon Administrative staff and County Auditor staff:*

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

#### 08-1 Documenting and Monitoring Internal Controls

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

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

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

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

**Cause:** Horizon has not had the staffing resources available to complete the risk assessment process.

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

Client's Response:

*By December 31, 2012, Horizon Management will develop a formal plan addressing monitoring the internal control structure on a regular basis. The plan will include Horizon Management and personnel from the Auditor/Treasurer's Office of the Horizon Administrative County meeting no less than annually to discuss Horizon's fiscal processes, assess risks, and identify processes to minimize the risks. Internal control areas assessed will include:*

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

*Documentation will be maintained which will include date of review, attendees, issues discussed, results of the review, including corrective actions needed and who will be responsible for implementation.*

PREVIOUSLY REPORTED ITEMS RESOLVED

**Internal Control over Financial Reporting (06-1)**

Horizon needed to broaden its participation in the preparation of its financial statements and not rely so extensively on its external auditors for financial reporting.

**Resolution**

Horizon, or its fiscal agent, prepared the trial balance and other supporting schedules necessary for preparing fund level and government-wide financial statements. Horizon has improved its understanding and preparation of underlying accounting data used in the preparation of the financial statements.

**Preparation of the Schedule of Expenditures of Federal Awards (10-1)**

Horizon needed to improve its system of identifying federal award information to facilitate preparation of the Schedule of Expenditures of Federal Awards (SEFA).

**Resolution**

Horizon, with the assistance of its fiscal agent, has improved its system of identifying federal award information and prepared the preliminary SEFA.

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

#### **PREVIOUSLY REPORTED ITEM RESOLVED**

##### **Subrecipient Monitoring - Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557), and Public Health Emergency Preparedness (CFDA #93.069) (10-2)**

Horizon needed to improve its documentation and system of monitoring subrecipients to ensure that compliance requirements over subrecipients are met and that subrecipients are monitored in accordance with OMB Circular A-133.

##### **Resolution**

Horizon has improved its documentation and system of monitoring subrecipients by sending award identification forms containing the required federal information to the subrecipients, reviewing detailed subrecipient expenditures, and reviewing subrecipient audit reports.

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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***

Community Health Board  
Horizon Community Health Board

We have audited 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, 2011, which collectively comprise Horizon's basic financial statements, and have issued our report thereon dated September 27, 2012. 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.

### Internal Control Over Financial Reporting

Management of Horizon Community Health Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Horizon's internal control over financial reporting as a basis for designing our auditing procedures 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the Schedule of Findings and Questioned Costs as items 06-1 and 08-1, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

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

### Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories, except that we did not test for compliance in contracting and bidding and public indebtedness because Horizon did no contracting in 2011 and has no debt.

The results of our tests indicate that, for the items tested, Horizon Community Health Board complied with the material terms and conditions of applicable legal provisions.

Horizon's written responses to the internal control findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. We did not audit Horizon's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Community Health Board, management, others within Horizon, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

September 27, 2012

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Community Health Board  
Horizon Community Health Board

### Compliance

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 each of its major federal programs for the year ended December 31, 2011. Horizon's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Horizon's management. Our responsibility is to express an opinion on Horizon's compliance based on our audit.

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. Our audit does not provide a legal determination of Horizon's compliance with those requirements.

In our opinion, Horizon Community Health Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### Internal Control Over Compliance

Management of Horizon Community Health Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Horizon's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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

This report is intended solely for the information and use of the Community Health Board, management and others within Horizon, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

September 27, 2012