

# STATE OF MINNESOTA

## Office of the State Auditor



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

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**MID-STATE COMMUNITY HEALTH SERVICES**  
**GLENWOOD, MINNESOTA**

**YEAR ENDED DECEMBER 31, 2010**

## **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).

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

**Year Ended December 31, 2010**



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

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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

ORGANIZATION  
DECEMBER 31, 2010

<u>Community Health Board</u>	<u>Position</u>	<u>County</u>
Todd Schneeberger	Chair	Grant
Phil Groneberg	Member	Grant
Larry Kittelson	Member	Pope
Larry Lindor	Member	Pope
Paul Watzke	Vice Chair	Stevens
Larry Sayre	Member	Stevens
Gerald Kaus	Member	Traverse
Jerry M. Deal	Member	Traverse

<u>Advisory Committee</u>	<u>Position</u>	<u>County</u>
Todd Schneeberger	Member	Grant
Deb Hengel	Member	Grant
Larry Kittelson	Member	Pope
Cody Rogahn	Member	Pope
Paul Watzke	Member	Stevens
Gerald Kaus	Member	Traverse

Administrator  
Sharon Braaten, Pope County Public Health

Fiscal Officer  
Mindy Hoffmann

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REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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### INDEPENDENT AUDITOR'S REPORT

Community Health Board  
Mid-State Community Health Services

We have audited the accompanying financial statements of the governmental activities and the General Fund of Mid-State Community Health Services (Mid-State) as of and for the year ended December 31, 2010, which collectively comprise Mid-State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mid-State'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 Mid-State Community Health Services as of December 31, 2010, 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.

The accompanying financial statements have been prepared as if Mid-State Community Health Services were continuing under this name. As discussed in Note 4.C. to the financial statements, the joint venture added Douglas County as a fifth county partner effective January 1, 2011. The name was subsequently changed from Mid-State Community Health Services to Horizon Community Health Board. This had no effect on Mid-State's tax identification or filing obligations with the U.S. Department of the Treasury Internal Revenue Service or the Minnesota Secretary of State.

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. 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 Mid-State Community Health Service's basic financial statements taken as a whole. The supplementary information, which is 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 stated in all material respects in relation to the basic financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2011, on our consideration of Mid-State Community Health Service'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, 2011

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

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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2010  
(Unaudited)**

**INTRODUCTION**

Mid-State Community Health Services' (Mid-State) Management's Discussion and Analysis (MD&A) provides an overview of Mid-State's financial activities for the fiscal year ended December 31, 2010. 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.

Mid-State is a joint powers governmental operation of 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. Mid-State 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. Mid-State'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 Mid-State had no capital assets, long-term liabilities, or revenue deferred as unavailable at December 31, 2009 or 2010, 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			
	2010	2009	Increase (Decrease)	Percent Change (%)
Assets				
Current and other assets	\$ 180,757	\$ 223,495	\$ (42,738)	(19.12)
Liabilities				
Current liabilities	170,569	130,731	39,838	30.47
Net Assets				
Unrestricted	\$ 10,188	\$ 92,764	\$ (82,576)	(89.02)

	Changes in Net Assets			
	2010	2009	Increase (Decrease)	Percent Change (%)
Revenues				
Intergovernmental	\$ 855,598	\$ 753,208	\$ 102,390	13.59
Miscellaneous	1,373	27,927	(26,554)	(95.08)
Total Revenues	\$ 856,971	\$ 781,135	\$ 75,836	9.71
Expenses				
Health				
Current	\$ 34,081	\$ 54,659	\$ (20,578)	(37.65)
Intergovernmental	905,466	735,378	170,088	23.13
Total Expenses	\$ 939,547	\$ 790,037	\$ 149,510	18.92
Change in Net Assets	\$ (82,576)	\$ (8,902)	\$ (73,674)	827.61

### Budgetary Highlights

Mid-State's Board did not make any budgetary amendments/revisions in 2010.

Actual revenues were less than budgeted revenues by \$24,668. Factors contributing included grant changes and variations of grant revenues for grants that span more than one calendar year.

The decrease in total net assets is due to excess expenditures over revenues. Net assets decreased by \$82,576. Revenues came in less than expected (budgeted); however, they were higher than the previous year. The Mid-State Board authorized a distribution of \$80,000 from fund balance to the agencies as follows: 30 percent to Pope County and 70 percent to Stevens, Traverse, and Grant Counties.

## **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. In light of this goal, effective January 1, 2011, Douglas County was added as a partner, and Mid-State Community Health Services changed its name to Horizon Community Health Board.

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

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Mid-State's finances and to show Mid-State'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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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

*EXHIBIT 1*

**GENERAL FUND BALANCE SHEET  
AND GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS  
DECEMBER 31, 2010**

Assets

Cash held by Pope County	\$ 76,066
Due from other governments	<u>104,691</u>
<b>Total Assets</b>	<b><u>\$ 180,757</u></b>

Liabilities and Fund Balance/Net Assets

**Liabilities**

Accounts payable	\$ 2,827
Due to other governments	151,400
Deferred revenue - unearned	<u>16,342</u>

**Total Liabilities** **\$ 170,569**

**Fund Balance/Net Assets**

Unreserved/Unrestricted	<u>10,188</u>
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**Total Liabilities and Fund Balance/Net Assets** **\$ 180,757**

Mid-State Community Health Services 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.

**MID-STATE COMMUNITY HEALTH SERVICES  
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, 2010**

<b>Revenues</b>	
Intergovernmental	
Federal	\$ 525,914
State	329,684
Miscellaneous	1,373
	<u>856,971</u>
<b>Total Revenues</b>	<b>\$ 856,971</b>
<b>Expenditures/Expenses</b>	
<b>Health</b>	
<b>Current</b>	
General administration	\$ 34,081
	<u>34,081</u>
<b>Intergovernmental</b>	
General administration	\$ 90,295
Community Health Services Grant	141,179
Maternal and Child Health	48,608
Women, Infants, and Children Food Program	175,867
TANF Home Visiting Grant	53,287
Public Health Preparedness Grant	52,057
Public Health Emergency Response I and II	34,200
Public Health Emergency Response III	82,594
Public Health Emergency Response IV	4,147
Immunization Grant	2,400
Immunization Grant - ARRA	6,381
Family Planning Grant	30,763
Family Planning Grant (State portion)	131,146
CTC Outreach Program	26,782
CTC Outreach Program (State portion)	25,760
	<u>905,466</u>
<b>Total Intergovernmental</b>	<b>\$ 905,466</b>
<b>Total Expenditures/Expenses</b>	<b>\$ 939,547</b>
<b>Change in Fund Balance/Net Assets</b>	<b>\$ (82,576)</b>
<b>Fund Balance/Net Assets - January 1</b>	<b>92,764</b>
	<u>92,764</u>
<b>Fund Balance/Net Assets - December 31</b>	<b>\$ 10,188</b>
	<u>10,188</u>

Mid-State Community Health Services 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.

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

*EXHIBIT 3*

**BUDGETARY COMPARISON STATEMENT  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 881,639	\$ 881,639	\$ 855,598	\$ (26,041)
Miscellaneous	-	-	1,373	1,373
<b>Total Revenues</b>	<b>\$ 881,639</b>	<b>\$ 881,639</b>	<b>\$ 856,971</b>	<b>\$ (24,668)</b>
<b>Expenditures</b>				
<b>Health</b>				
<b>Current</b>				
<b>General administration</b>				
Accounting and auditing	\$ 10,000	\$ 10,000	\$ 18,546	\$ (8,546)
Administrative services and charges	54,865	54,865	15,535	39,330
Medical consultant services	600	600	-	600
<b>Total current expenditures</b>	<b>\$ 65,465</b>	<b>\$ 65,465</b>	<b>\$ 34,081</b>	<b>\$ 31,384</b>
<b>Intergovernmental</b>				
General administration	\$ -	\$ -	\$ 90,295	\$ (90,295)
Community Health Services Grant	145,554	145,554	141,179	4,375
Maternal and Child Health	44,233	44,233	48,608	(4,375)
Women, Infants, and Children Food Program	153,200	153,200	175,867	(22,667)
TANF Home Visiting Grant	56,084	56,084	53,287	2,797
Public Health Preparedness Grant	69,900	69,900	52,057	17,843
Public Health Emergency Response I and II	34,200	34,200	34,200	-
Public Health Emergency Response III	82,594	82,594	82,594	-
Public Health Emergency Response IV	4,147	4,147	4,147	-
Immunization Grant	-	-	2,400	(2,400)
Immunization Grant - ARRA	22,515	22,515	6,381	16,134
Family Planning Grant	27,366	27,366	30,763	(3,397)
Family Planning Grant (State portion)	116,665	116,665	131,146	(14,481)
CTC Outreach Program	29,858	29,858	26,782	3,076
CTC Outreach Program (State portion)	29,858	29,858	25,760	4,098
<b>Total intergovernmental expenditures</b>	<b>\$ 816,174</b>	<b>\$ 816,174</b>	<b>\$ 905,466</b>	<b>\$ (89,292)</b>
<b>Total Expenditures</b>	<b>\$ 881,639</b>	<b>\$ 881,639</b>	<b>\$ 939,547</b>	<b>\$ (57,908)</b>
<b>Net Change in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (82,576)</b>	<b>\$ (82,576)</b>
<b>Fund Balance - January 1</b>	<b>92,764</b>	<b>92,764</b>	<b>92,764</b>	<b>-</b>
<b>Fund Balance - December 31</b>	<b>\$ 92,764</b>	<b>\$ 92,764</b>	<b>\$ 10,188</b>	<b>\$ (82,576)</b>

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

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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

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1. Summary of Significant Accounting Policies

Mid-State Community Health Services' (Mid-State) financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2010. 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 Mid-State are discussed below.

A. Financial Reporting Entity

Mid-State was established January 1, 1983, by a joint powers agreement among Grant, Pope, Stevens, and Traverse Counties. 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 Mid-State's Board, which consists of eight members, two from each county. 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 Mid-State are accounted for in an agency fund by Pope County. The employees who administer the activities of Mid-State are considered to be employees of Pope County Public Health.

Mid-State 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 and Advisory Committee. The funding is allocated in accordance with the actual expenses incurred by representatives of the respective counties on the Board and its Advisory Committee. In addition, administrative operating costs are allocated proportionately, with total subsidy funds available to each member county.

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

B. Basic Financial Statements

The financial statements combine fund level financial statements (General Fund column) and government-wide financial statements (governmental activities column). These statements include the overall financial activities of Mid-State.

The government-wide columns 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. Mid-State's net assets are reported as unrestricted net assets.

Mid-State reports one governmental fund. The General Fund is Mid-State's primary operating fund. It accounts for all the 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 (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. Mid-State 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 Mid-State'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.

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets

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. Mid-State 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, Mid-State has no capital assets that meet the threshold for capitalization.

2. Liabilities

Deferred Revenue

Mid-State'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.

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, 2010:

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 939,547	\$ 881,639	\$ 57,908

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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3. Detailed Notes on Accounts

A. Assets

Cash Deposits

As of December 31, 2010, Mid-State had \$76,066 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, a requirement with which Pope County was in compliance at December 31, 2010.

Receivables

Receivables as of December 31, 2010, are as follows:

Due from other governments	\$ 104,691
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Mid-State did not have any receivables scheduled to be collected beyond one year.

B. Liabilities

Deferred Revenue

Revenue in the amount of \$16,342 in connection with the Health Preparedness Grant was available but not earned in the current period and is therefore reported as deferred revenue - unearned in the General Fund.

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

A. Claims and Litigation

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

B. Risk Management

Mid-State is exposed to various risks of loss related to torts and errors and omissions or natural disasters. To cover these risks, Mid-State is a member of the Minnesota Counties Intergovernmental Trust (MCIT), a public entity risk pool. Mid-State 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

Effective January 1, 2011, Douglas County became the fifth county partner to participate in the joint venture. The By-Laws and Joint Powers Agreements were amended to include five counties, and the name of the entity was changed from Mid-State Community Health Services to Horizon Community Health Board (Horizon). Both the U.S. Department of the Treasury Internal Revenue Service and the Minnesota Secretary of State were notified of this name change, and they deemed that it did not warrant any change in tax identification or filing obligations. Under Horizon, the Board of Commissioners was restructured to include eight County Commissioners and three Community Representatives, as follows:

2011 Board Members

Commissioner Representatives

Douglas County: Dan Olson and Jerry Johnson

Pope County: Larry Kittelson and Larry Lindor

Stevens County: Larry Sayre - Chair

Traverse County: Jerry Deal

Grant County: Todd Schneeberger

Stevens-Traverse-Grant Joint Powers: Paul Watzke - Vice Chair

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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4. Summary of Significant Contingencies and Other Items

C. Subsequent Event (Continued)

Community Representatives

Douglas County: Dennis Thompson

Pope County: Jeanne Olson

Stevens-Traverse-Grant Joint Powers: Deb Hengel

**SUPPLEMENTARY INFORMATION**

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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

*EXHIBIT A-1*

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

<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>\$ 174,378</b>
<b>U.S. Department of Health and Human Services</b>		
Passed Through Minnesota Department of Health Public Health Emergency Preparedness Immunization Cluster	93.069	\$ 128,646
Immunization Grants	93.268	2,400
Immunization - ARRA	93.712	6,381
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	55,658
Temporary Assistance for Needy Families	93.558	83,061
Maternal and Child Health Services Block Grant to the States	93.994	48,608
Passed Through Minnesota Department of Human Services Medical Assistance Program	93.778	26,782
<b>Total U.S. Department of Health and Human Services</b>		<b>\$ 351,536</b>
<b>Total Federal Awards</b>		<b>\$ 525,914</b>

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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Mid-State Community Health Services (Mid-State). Mid-State'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 Mid-State Community Health Services under programs of the federal government for the year ended December 31, 2010. 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 Mid-State Community Health Services, it is not intended to and does not present the financial position or changes in net assets of Mid-State.

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.

**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

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4. Subrecipients

Of the expenditures presented in the schedule, Mid-State Community Health Services provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$ 174,378
93.069	Public Health Emergency Preparedness	120,941
93.268	Immunization Grants	2,400
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	52,057
93.558	Temporary Assistance for Needy Families	83,061
93.712	Immunization - ARRA	6,381
93.994	Maternal and Child Health Services Block Grant to the States	48,608
93.778	Medical Assistance Program	26,782
	Total	<u>\$ 514,608</u>

5. 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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**MID-STATE COMMUNITY HEALTH SERVICES  
GLENWOOD, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

- A. Our report expresses unqualified opinions on the basic financial statements of Mid-State Community Health Services.
- B. Significant deficiencies in internal control were disclosed by the audit of financial statements of Mid-State Community Health Services and are reported in the "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*." None were material weaknesses.
- C. No instances of noncompliance material to the financial statements of Mid-State Community Health Services were disclosed during the audit.
- D. A significant deficiency relating to the audit of the major federal award programs is reported in the "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." It was not a material weakness.
- E. The Auditor's Report on Compliance for the major federal award programs for Mid-State Community Health Services expresses an unqualified opinion.
- F. A finding relative to major federal award programs for Mid-State Community Health Services was reported as required by Section 510(a) of OMB Circular A-133.
- G. The major programs are:
  - Special Supplemental Nutrition Program for Women,  
Infants, and Children CFDA #10.557
  - Public Health Emergency Preparedness CFDA #93.069
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Mid-State Community Health Services was not determined to be a low-risk auditee.

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

### INTERNAL CONTROL

#### PREVIOUSLY REPORTED ITEMS NOT RESOLVED

##### 06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of Mid-State Community Health Services (Mid-State) and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements. Mid-State has established controls and procedures for the recording, processing, and summarizing of its accounting data used in the preparation of its financial statements.

As is the case with many small and medium-sized entities, Mid-State has relied on its independent external auditors to assist in the preparation of the basic financial statements, including notes to the financial statements, as part of its external financial reporting process. Accordingly, Mid-State's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal control. This condition is a result of Mid-State's decision that it is more cost effective to have its auditors prepare its annual basic financial statements than to incur the time and expense of obtaining the necessary training and expertise required to prepare financial statements internally. As a result of this condition, the government lacks internal controls over the preparation and reporting of financial statements in accordance with GAAP.

We recommend the Mid-State's Board be mindful that limited staffing causes inherent risks in safeguarding the agency's assets and the proper reporting of its financial activity.

Client's Response:

*Mid-State Community Health Board was dissolved effective December 31, 2010. The member partners of Mid-State merged with Douglas County to form Horizon Community Health Board, effective January 1, 2011. The Horizon Community Health Board and Horizon Management are 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.*

08-1 Documenting and Monitoring Internal Controls

Management is responsible for Mid-State's 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. The 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. Although Mid-State 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.

At a minimum, the following significant internal control areas should be documented:

- cash and investment activities,
- major funding sources (intergovernmental revenues and miscellaneous items), and
- expenditure/expense processing.

We recommend that Mid-State's management document the significant internal controls in its accounting system, including an assessment of risk and the processes used to minimize the risks. 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:

*Mid-State Community Health Board was dissolved effective December 31, 2010. The member partners of Mid-State merged with Douglas County to form Horizon Community Health Board, effective January 1, 2011. Horizon Management and personnel from the Auditor/Treasurer's Office of the Horizon Administrative County will meet no less than annually to discuss Horizon's fiscal processes, assess risks, and identify processes to minimize the risks. Documentation of the review will be maintained.*

ITEM ARISING THIS YEAR

10-1 Preparation of the Schedule of Expenditures of Federal Awards

The Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Auditee responsibilities* subpart C § .300, requires, "The auditee shall (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (d) prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with subpart C § .310."

Mid-State does not prepare a Schedule of Expenditures of Federal Awards (SEFA), nor does it adequately identify federal programs by amount received and expended, federal grantor agency, pass-through agency, and Catalog of Federal Domestic Assistance (CFDA) title and number as required under OMB Circular A-133.

This condition results in a deficiency in internal control over financial statement preparation and the reporting of federal financial assistance by Mid-State. Since Mid-State has not developed procedures for properly identifying all federal financial assistance, Mid-State relies on its auditors for assistance with preparing the SEFA. Independent auditors cannot be considered part of Mid-State's internal control over financial reporting.

We recognize that this is the first year Mid-State is required to prepare a SEFA. We recommend that Mid-State management develop a process, including written procedures, which will allow staff to adequately identify federal revenues and accumulate the information needed to prepare the SEFA. Specific measures could include having departments informing accounting/finance when they have received a grant award, holding in suspense accounts until properly identified as to nature and source any intergovernmental revenue receipts, and comparison of the prior year SEFA to the current year. For each federal award identified, Mid-State should determine the

correct program CFDA title and number, award number and year, federal grantor agency, pass-through agency, amount received and expended, and whether American Recovery and Reinvestment Act funding is involved. The federal CFDA website is available to assist in this process. Those responsible for compiling the SEFA should obtain the training necessary (through courses or reference materials) to understand the components of the SEFA and properly gather the correct information and maintain supporting documentation. Mid-State should also reconcile the SEFA amounts to the general ledger and financial statements.

Client's Response:

*Mid-State Community Health Board was dissolved effective December 31, 2010. The member partners of Mid-State merged with Douglas County to form Horizon Community Health Board, effective January 1, 2011. Horizon will consider the requirements of OMB Circular A-133 as it relates to the SEFA and will incorporate the requirements in the development and implementation of Horizon policies and procedures.*

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

ITEM ARISING THIS YEAR

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

Mid-State provided federal awards to subrecipients for the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA #10.557), and Public Health Emergency Preparedness (CFDA #93.069) grants during the year ended December 31, 2010.

OMB Circular A-133, subpart C § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements); (2) monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on Mid-State's ability to comply with applicable federal regulations.

Based on our review, Mid-State provides the CFDA number and compliance requirements to the subrecipients by passing on the grant agreements. However, Mid-State did not have subrecipient agreements with its subrecipients and was not monitoring its subrecipient, Stevens-Traverse-Grant Public Health. Furthermore, Mid-State did not obtain audit reports from Pope County Public Health or Stevens-Traverse-Grant Public Health to determine whether the subrecipients had instances of noncompliance noted during their audits.

We recommend Mid-State develop a system and written policies and procedures to ensure that compliance requirements over subrecipients are met, and that subrecipients are monitored in accordance with OMB Circular A-133.

Client's Response:

*Mid-State Community Health Board was dissolved effective December 31, 2010. The member partners of Mid-State merged with Douglas County to form Horizon Community Health Board, effective January 1, 2011. Following is the plan Horizon will utilize to assure compliance with federal requirements:*

Corrective Action Plan:

Contact Person(s):

*Sharon Braaten  
Horizon CHS Administrator  
211 East Minnesota Avenue, Suite 100  
Glenwood, MN 56334  
(320) 634-5720  
sharon.braaten@co.pope.mn.us*

Corrective Action Planned:

- (1) Horizon administration will review OMB Circular A-133, Subpart C, § .400 and develop a data sheet to be sent to subrecipients for all federal grants identifying the required federal information.*
- (2) Horizon administration will review Horizon Delegation Agreements issued to subrecipients to determine if additional language needs to be added to be in compliance with Federal requirements.*
- (3) Review of federal grants will be a standing agenda item for Horizon Administrative team meetings.*

- (4) *Horizon Administration will develop a procedure for requesting back-up documentation for grant expenditures (such as copies of receipts, invoices, etc.) from subrecipients on an ongoing, random grant request basis.*
- (5) *Annually, Horizon will access subrecipients audit reports and require the subrecipient take corrective action on any audit findings.*
- (6) *Horizon Administration will utilize ongoing interactions with subrecipients to evaluate the impact of subrecipient activities on Horizon's ability to comply with federal regulations. Corrective actions will be requested for issues that would result in Horizon being out of compliance.*

Anticipated Completion Date:

*All items are anticipated to be completed by December 31, 2011, and will be maintained on an ongoing basis after that date.*

#### **IV. OTHER FINDINGS AND RECOMMENDATIONS**

##### OTHER ITEM FOR CONSIDERATION

##### GASB Statement 54

The Governmental Accounting Standards Board's (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for Mid-State for the year ending December 31, 2011. 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.

##### Fund Balance Reporting

Statement 54 establishes new fund balance classifications based on constraints imposed on how resources can be spent. The existing components of fund balance are reserved, unreserved-designated, and unreserved-undesignated. Statement 54 replaces these components with nonspendable, restricted, committed, assigned, and unassigned as defined below:

- *Nonspendable* - amounts that cannot be spent because they are either not spendable form (for example, inventory or prepaid items) or legally or contractually required to be maintained intact (such as the corpus of a permanent fund).

- *Restricted* - amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for specific purposes determined by a formal action of a government's highest level of decision-making authority.
- *Assigned* - amounts a government intends to use for a specific purpose that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - spendable amounts not contained in the other classifications.

Mid-State should begin the process for implementing the new fund balance classifications. A key step in successfully implementing the new fund balance requirements is to plan ahead. Mid-State can start with the following steps:

- review the requirements of GASB Statement 54;
- review current fund balance and compare to the new classifications;
- reclassify January 1, 2011, fund balance using the new classifications;
- review/update/prepare a comprehensive fund balance policy;
- prepare appropriate Board resolutions to commit fund balance; and
- if the Board intends to delegate authority to assign fund balance, prepare the resolutions delegating that authority.

Additional implementation steps could include deciding on how fund balance will be presented in the financials, for example, detailed vs. aggregate methods, and developing the potential note disclosures. Additional guidance on GASB Statement 54 can be found on the Office of the State Auditor's website at:

[http://www.auditor.state.mn.us/other/Statements/fundbalances\\_postGASB54\\_1012\\_statement.pdf](http://www.auditor.state.mn.us/other/Statements/fundbalances_postGASB54_1012_statement.pdf)



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA

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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  
Mid-State Community Health Services

We have audited the financial statements of the governmental activities and the General Fund of Mid-State Community Health Services (Mid-State) as of and for the year ended December 31, 2010, which collectively comprise Mid-State's basic financial statements, and have issued our report thereon dated September 27, 2011. 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

In planning and performing our audit, we considered Mid-State'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 Mid-State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mid-State'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 Mid-State'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, 08-1, and 10-1 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 Mid-State'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 Mid-State did not do any contracting in 2010 and has no debt.

The results of our tests indicate that, for the items tested, Mid-State complied with the material terms and conditions of applicable legal provisions.

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 Mid-State, and we are reporting it for that purpose.

Mid-State'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 Mid-State'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 Mid-State, 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, 2011

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

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REBECCA OTTO  
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# STATE OF MINNESOTA

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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  
Mid-State Community Health Services

#### Compliance

We have audited Mid-State Community Health Service's (Mid-State) 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, 2010. Mid-State'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 Mid-State's management. Our responsibility is to express an opinion on Mid-State'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 Mid-State'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 on Mid-State's compliance with those requirements.

In our opinion, Mid-State Community Health Services complied, in all material respects, with the 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, 2010.

### Internal Control Over Compliance

Management of Mid-State Community Health Services 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 Mid-State'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 Mid-State'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. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questioned Costs as item 10-2. 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 attention by those charged with governance.

Mid-State's corrective action plan to the federal award finding identified in our audit is included in the accompanying Schedule of Findings and Questioned Costs. We did not audit Mid-State's corrective action plan and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Community Health Board, management and others within Mid-State, 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, 2011