

MEDTRONIC XOMED, INC.

QUICK ACTION CLOSING FUND
PROGRAM-SPECIFIC AUDIT

APRIL 26, 2013

MEDTRONIC XOMED, INC.

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Harbeson, Fletcher & Bateh, LLP
Certified Public Accountants

E. Cobb Harbeson
John C. Fletcher, Jr.
Raymond Z. Bateh
M. Ronald Hargraves, Jr.

INDEPENDENT AUDITOR'S REPORT

October 31, 2013

To the Board of Directors of
Medtronic Xomed, Inc.

Report on Schedule of Expenditures of State Financial Assistance

We have audited the accompanying schedule of expenditures of state financial assistance for the Quick Action Closing Fund of Medtronic Xomed, Inc. for the year ended April 26, 2013.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the financial statement of the program in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement of the program 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 Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the schedule of expenditures of state financial assistance referred to above presents fairly, in all material respects, the expenditures of state financial assistance under the Quick Action Closing Fund in accordance with accounting principles generally accepted in the United States of America.

Harbeson, Fletcher & Bateh, LLP

MEDTRONIC XOMED, INC.
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL
ASSISTANCE AND NOTES TO THE SCHEDULE OF
EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED APRIL 26, 2013

<u>STATE AGENCY/ STATE PROJECT:</u>	<u>CSFA NUMBER</u>	<u>EXPENDITURES</u>
<u>State of Florida Executive</u>		
<u>Office of the Governor</u>		
<i>Direct Program:</i>		
Quick Action Closing Fund	31.009	<u>\$630,000</u>

Note 1 – Basis of Presentation:

The accompanying schedule of expenditures of state financial assistances includes the state grant activity of Medtronic Xomed, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 10.650, Rules of the Auditor General.

The Quick Action Closing Fund requires Medtronic Xomed, Inc. (the Company) to retain 615 full-time jobs and create an additional 175 full-time jobs with an average salary of \$68,000 excluding benefits. The Company is also required to invest \$14 million in a new facility. Both conditions must be met by December 31, 2015. In addition, the Company must maintain that investment for an additional three years. The Company must report to the state of Florida its compliance annually through January 31, 2019.



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REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

October 31, 2013

To the Board of Directors of
Medtronic Xomed, Inc.

Report on Compliance for Each State Project

We have audited the Medtronic Xomed, Inc. (the "Company") compliance with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of the Company's major State projects for the year ended April 26, 2013. The Company's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance on the Company's major State projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, 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 State project occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Company's major State project. However, our audit does not provide a legal determination of the Company's compliance.

To the Board of Directors of
Medtronic Xomed, Inc.
October 31, 2013

Opinion on Each Major State Project

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State projects for the year ended April 26, 2013.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major State project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major State project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 State project 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 State project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with the type of compliance requirement of a State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

Harbeson, Fletcher & Batch, LLP

MEDTRONIC XOMED, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED APRIL 26, 2013

Section A – Summary of Auditor's Results:

1. The auditor's report expresses an unmodified opinion on the schedule of expenditures of state financial assistance of Medtronic Xomed, Inc.
2. No significant deficiencies were disclosed during the audit of the schedule of expenditures of state financial assistance.
3. No instances of noncompliance material to the schedule of expenditures of state financial assistance of Medtronic Xomed, Inc., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in the internal control over major state projects were identified during the audit.
5. The auditor's report on compliance for the major state projects for Medtronic Xomed, Inc. expresses an unmodified opinion.
6. There were no reportable audit findings relative to major state projects for Medtronic Xomed, Inc.
7. The state project tested as a major project was:
State of Florida Executive Office of the Governor:
Quick Action Closing Fund – CSFA# 31.009
8. The threshold used for distinguishing between Type A and B programs was \$300,000 for major state projects.
9. There were no findings required to be reported and no management letter was issued.