



ROBERT R. PETERSON  
STATE AUDITOR

LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

# Audit Report

For the Years Ended  
December 31, 2014 and 2013

Office of the State Auditor

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

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For the Years Ended December 31, 2014 and 2013

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**LAKE REGION DISTRICT HEALTH UNIT**

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

**OFFICIALS**

December 31, 2014

Mike Steffan	Chairman
Neal Rud	Vice Chairman
Dr. Paul Fetterly	Secretary/Treasurer
Mike Christenson	Board Member
Elonda Nord	Board Member
Glenda Collier	Board Member
Myrna Heisler	Board Member
Curtis Hvinden	Board Member
Duane Johnston	Board Member
Allen McKay	Administrator
Sheri Hettwer	Bookkeeper

December 31, 2013

Mike Steffan	Chairman
Neal Rud	Vice Chairman
Dr. Paul Fetterly	Secretary/Treasurer
Mike Christenson	Board Member
Elonda Nord	Board Member
Glenda Collier	Board Member
Myrna Heisler	Board Member
Curtis Hvinden	Board Member
Duane Johnston	Board Member
Allen McKay	Administrator
Sheri Hettwer	Bookkeeper

**STATE AUDITOR**

ROBERT R. PETERSON  
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Local Government Division:  
FARGO OFFICE  
MANAGER – DAVID MIX  
Phone: (701) 239-7252 Fax: (701) 239-7251

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

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**INDEPENDENT AUDITOR'S REPORT**

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Heath Unit Board  
Lake Region District Health Unit  
Devils Lake, North Dakota

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Lake Region District Health Unit, Devils Lake, North Dakota, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Health Unit's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lake Region District Health Unit, Devils Lake, North Dakota, as of December 31, 2014 and 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information* on pages 25-26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Region District Health Unit's basic financial statements. The *schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements.

The *schedule of expenditures of federal awards* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *schedule of expenditures of federal awards* is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2016 on our consideration of Lake Region District Health Unit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Region District Health Unit's internal control over financial reporting and compliance.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 26, 2016

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

STATEMENT OF NET POSITION  
December 31, 2014

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<u>ASSETS:</u>	
Cash	\$ 855,136
Accounts Receivable	14,134
Intergovernmental Receivable	72,242
Capital Assets (being depreciated):	
Equipment	47,126
Total Capital Assets	<u>\$ 47,126</u>
 Total Assets	 <u>\$ 988,638</u>
 <u>LIABILITIES:</u>	
Salaries Payable	4,041
Long-Term Liabilities:	
Due Within One Year:	
Compensated Absences Payable	7,839
Due After One Year:	
Compensated Absences Payable	<u>70,559</u>
 Total Liabilities	 <u>\$ 82,439</u>
 <u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 47,126
Restricted for:	
Health and Welfare	<u>859,073</u>
 Total Net Position	 <u><u>\$ 906,199</u></u>

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

LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
<u>Governmental Activities:</u>				
Health & Welfare	\$ 1,475,936	\$ 304,069	\$ 1,399,826	\$ 227,959
<u>General Revenues:</u>				
Interest				\$ 1,897
Miscellaneous Revenue				30,591
Total General Revenues				\$ 32,488
Change in Net Position				\$ 260,447
Net Position - January 1				\$ 645,752
Net Position - December 31				\$ 906,199

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

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2014

---

ASSETS

Cash	\$ 855,136
Accounts Receivable	14,134
Intergovernmental Receivable	<u>72,242</u>
Total Assets	<u>\$ 941,512</u>

LIABILITIES, DEFERRED INFLOWS OF  
RESOURCES AND FUND BALANCES

Liabilities:

Salaries Payable	\$ 4,041
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Fund Balances:

Unassigned:

General Fund	<u>\$ 937,471</u>
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Total Fund Balances	<u>\$ 937,471</u>
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Total Liabilities and Fund Balances	<u>\$ 941,512</u>
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The notes to the financial statements are an integral part of this statement.

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2014

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Total *Fund Balances* for Governmental Funds \$ 937,471

Total *net position* reported for government activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of Capital Assets	\$ 211,148	
Less Accumulated Depreciation	<u>(164,022)</u>	47,126

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position. Balance at December 31, 2014 is:

Compensated Absences	<u>(78,398)</u>
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Total Net Position of Governmental Activities	<u><u>\$ 906,199</u></u>
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The notes to the financial statements are an integral part of this statement.

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2014

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	<u>General</u>
<u>Revenues:</u>	
Intergovernmental	\$ 1,399,826
Charges for Services	304,069
Interest Income	1,897
Miscellaneous	<u>30,591</u>
Total Revenues	<u>\$ 1,736,383</u>
<u>Expenditures:</u>	
Current:	
Health and Welfare	<u>\$ 1,462,475</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 273,908</u>
Fund Balance - January 1	<u>\$ 663,563</u>
Fund Balance - December 31	<u><u>\$ 937,471</u></u>

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

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2014

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Net Change in *Fund Balances* - Total Governmental Funds \$ 273,908

The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Depreciation Expense (14,999)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Change in Compensated Absences 1,538

Change in Net Position of Governmental Activities \$ 260,447

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

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

STATEMENT OF NET POSITION  
December 31, 2013

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<u>ASSETS:</u>	
Cash	\$ 569,437
Accounts Receivable	43,736
Intergovernmental Receivable	61,585
Capital Assets (being depreciated):	
Equipment	62,125
Total Capital Assets	<u>\$ 62,125</u>
Total Assets	<u>\$ 736,883</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 6,489
Salaries Payable	4,706
Long-Term Liabilities:	
Due Within One Year:	
Compensated Absences Payable	7,994
Due After One Year:	
Compensated Absences Payable	<u>71,942</u>
Total Liabilities	<u>\$ 91,131</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 62,125
Restricted for:	
Health and Welfare	<u>583,627</u>
Total Net Position	<u><u>\$ 645,752</u></u>

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



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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2013

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<u>ASSETS</u>	
Cash	\$ 569,437
Accounts Receivable	43,736
Intergovernmental Receivable	<u>61,585</u>
Total Assets	<u>\$ 674,758</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
<u>Liabilities:</u>	
Accounts Payable	\$ 6,489
Salaries Payable	<u>4,706</u>
Total Liabilities	<u>\$ 11,195</u>
<u>Fund Balances:</u>	
Unassigned:	
General Fund	<u>\$ 663,563</u>
Total Fund Balances	<u>\$ 663,563</u>
Total Liabilities and Fund Balances	<u>\$ 674,758</u>

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

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2013

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Total <i>Fund Balances</i> for Governmental Funds		\$	663,563
Total <i>net position</i> reported for government activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.			
Cost of Capital Assets		\$	211,148
Less Accumulated Depreciation			<u>(149,023)</u>
			62,125
Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position. Balance at December 31, 2013 is:			
Compensated Absences			<u>(79,936)</u>
Total Net Position of Governmental Activities		\$	<u>645,752</u>

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

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2013

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	<u>General</u>
<u>Revenues:</u>	
Intergovernmental	\$ 1,243,707
Charges for Services	341,748
Interest Income	1,656
Miscellaneous	<u>22,675</u>
Total Revenues	<u>\$ 1,609,786</u>
<u>Expenditures:</u>	
Current:	
Health and Welfare	<u>\$ 1,396,365</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 213,421</u>
Fund Balance - January 1	\$ 450,731
Prior Period Adjustment	<u>(589)</u>
Fund Balance - January 1, As Restated	<u>\$ 450,142</u>
Fund Balance - December 31	<u><u>\$ 663,563</u></u>

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

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2013

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Net Change in *Fund Balances* - Total Governmental Funds \$ 213,421

The change in net position reported for governmental activities in the statement of activities is different because:

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

Current Year Depreciation Expense (16,755)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Change in Prepaid Asset	\$ (5,405)	
Change in Compensated Absences	<u>(606)</u>	<u>(6,011)</u>

Change in Net Position of Governmental Activities \$ 190,655

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

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LAKE REGION DISTRICT HEALTH UNIT  
Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2014 and 2013

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lake Region District Health Unit, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Lake Region District Health Unit's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements present the activities of the Lake Region District Health Unit. The Lake Region District Health Unit has considered all potential component units for which the Lake Region District Health Unit is financially accountable and other organizations for which the nature and significance of their relationships with the Lake Region District Health Unit such that exclusion would cause the Lake Region District Health Unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Lake Region District Health Unit to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Lake Region District Health Unit.

Based on these criteria, there are no component units to be included within the Lake Region District Health Unit as a reporting entity.

B. Government-wide and fund financial statements

*Government-wide statements:* The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made, when applicable, to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues, charges for services, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Lake Region District Health Unit's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including interest and non-restricted grants and contributions are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Lake Region District Health Unit's fund. Separate statements are provided for the governmental fund. The emphasis of fund financial statements is on the major governmental fund.

The Lake Region District Health Unit reports the following major governmental fund:

*General Fund.* This is the Lake Region District Health Unit's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

*Government-wide Financial Statements.* The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Lake Region District Health Unit gives (or receives) value without directly receiving (or giving) equal value in exchange, include, county operating grants, grants, entitlements, and donations. Revenue from county operating grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* The governmental fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Lake Region District Health Unit considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. All revenues are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Lake Region District Health Unit funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Lake Region District Health Unit's policy to first apply cost-reimbursement grant resources to such programs, and then by general revenues.

When both restricted and unrestricted resources are available for use, it is the Lake Region District Health Unit's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Investments

Cash consists of amounts in demand deposits and money market accounts.

The investments consist of certificates of deposit stated at cost with maturities in excess of 90 days.

E. Capital Assets

Capital assets include property, plant, and equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<b>ASSETS</b>	<b>YEARS</b>
Equipment	5 – 10
Vehicles	5 – 10

**F. Compensated Absences**

All full-time employees and permanent part-time employees are granted vacation and sick leave benefits. Vacation leave is earned on a month-to-month basis based on length of service and percentage of time they work. Unused vacation time may be accumulated for use in succeeding years. The maximum accumulation to carry over year to year is 240 hours for full time employees. Employees that work less than full time are able to carry over the same percentage as the percentage of time they work. Annual leave in excess of the limitation for any year will be lost if not used by April 30 of each year. Vested or accumulated vacation leave is reported in the government-wide statement of net position. Sick leave is earned on a month-to-month basis based on employment status. Full time employees (40 hours) will earn a maximum of 8 hours per month. Employees not classified as full time will earn sick leave on a percentage of hours worked per month. Unused sick leave accumulates without limit. Employees are entitled to receive a lump sum payment equal to one tenth (10%) of their unused sick leave upon termination, with the maximum payout not to exceed 10% of 1,000 hours.

**G. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums, discounts and issuance costs are recognized in the current period since the amounts are not material.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**H. Fund Balances / Net Position**

Fund balance classifications comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

***Fund Balance Spending Policy:***

It is the policy of Lake Region District Health Unit to spend restricted resources first, followed by unrestricted resources. It is also the policy of the Board to spend unrestricted resources of funds in the following order: committed, assigned and then unassigned.

***Fund Balance Reporting and Governmental Fund Type Definitions***

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

<b>CLASSIFICATION</b>	<b>DEFINITION</b>	<b>EXAMPLES</b>
Nonspendable	Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.	Inventories, prepaid amounts (expenses), long-term receivables, endowment funds.
Restricted	Fund balance is reported as restricted when constraints are placed on the use of resources that are either (a) Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. (b) Imposed by law through constitutional provisions or enabling legislation.	Funds restricted by State Statute, unspent bond proceeds, grants earned but not spent, debt covenants.
Committed	A committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the governing board. Formal action is required to be taken to establish, modify or rescind a fund balance commitment.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Assigned	Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are under the direction of the board and the business manager.	By board action, construction, claims and judgments, retirements of loans and notes payable, capital expenditures and self-insurance.
Unassigned	Unassigned fund balance is the lowest classification for the General Fund. This is fund balance that has not been reported in any other classification. (a) The General Fund is the only fund that can report a positive unassigned fund balance (b) A negative unassigned fund balance may be reported in other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes.	Available for any remaining general fund expenditure.

Unassigned Fund Balances:

For each year the fund balance was considered unassigned fund balance at December 31, 2014 and 2013.

Net Position:

When both restricted and unrestricted resources are available for use, it is the Lake Region District Health Unit's policy to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets is reported for capital assets less accumulated depreciation. The resources needed to repay this related debt must be provided from other sources, since the capital assets are not used to liquidate these liabilities. These assets are not available for future spending.

**NOTE 2: LEGAL COMPLIANCE - BUDGETS**

BUDGET AMENDMENTS

The health unit board amended the revenues and expenditure budget for 2014 and 2013 for the general fund as follows:

2014	Revenues		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 1,435,710	\$ 319,747	\$ 1,755,457

2014	Expenditures		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 1,435,710	\$ 33,912	\$ 1,469,622

2013	Revenues		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 1,401,327	\$ 164,214	\$ 1,565,541

2013	Expenditures		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 1,401,327	\$ (12,940)	\$ 1,388,387

**NOTE 3: DEPOSITS**

In accordance with North Dakota Statutes, the Lake Region District Health Unit maintains deposits at the depository banks designated by the governing board. All depositories are members of the Federal Reserve System.

Deposits must either be deposited with the Bank of North Dakota or in other financial institutions situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or bonded. In lieu of a bond, a financial institution may provide a pledge of securities equal to 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes bills, notes, or bonds issued by the United States government, its agencies or instrumentalities, all bonds and notes guaranteed by the United States government, Federal land bank bonds, bonds, notes, warrants, certificates of indebtedness, insured certificates of deposit, shares of investment companies registered under the Investment Companies Act of 1940, and all other forms of securities issued by the State of North Dakota, its boards, agencies or instrumentalities or by any park, city, township, school district, Lake Region District Health Unit, or other political subdivision of the state of North Dakota. Whether payable from special revenues or supported by the full faith and credit of the issuing body and bonds issued by another state of the United States or such other securities approved by the banking board.

At year ended December 31, 2014, the Lake Region District Health Unit's carrying amount of deposits was \$855,136, and the bank balance was \$901,632. Of the bank balances, \$415,667 was covered by Federal Depository Insurance. The remaining bank balances totaling \$485,965 were collateralized with securities held by the pledging financial institution's agent in the government's name.

**LAKE REGION DISTRICT HEALTH UNIT**  
Notes to the Financial Statements – Continued

At year ended December 31, 2013, the Lake Region District Health Unit's carrying amount of deposits was \$569,437, and the bank balance was \$617,085. Of the bank balances, \$415,007 was covered by Federal Depository Insurance. The remaining bank balances totaling \$202,078 were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

The Lake Region District Health Unit may invest idle funds as authorized in North Dakota Statutes, as follows:

- (a) Bonds, treasury bills and notes, or other securities that are a direct obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of congress.
- (b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are the type listed above.
- (c) Certificates of Deposit fully insured by the federal deposit insurance corporation.
- (d) Obligations of the state.

As of December 31, 2014, the Health Unit held certificates of deposit in the amount of \$159,658, which are all considered deposits.

As of December 31, 2013, the Health Unit held certificates of deposit in the amount of \$106,079, which are all considered deposits.

Concentration of Credit Risk:

The Lake Region District Health Unit does not have a limit on the amount the Lake Region District Health Unit may invest in any one issuer.

**NOTE 4: ACCOUNTS RECEIVABLE**

Accounts receivable consists of amounts due from individuals for services performed by the Lake Region District Health Unit. No allowance has been established for estimated uncollectible accounts receivable.

**NOTE 5: INTERGOVERNMENTAL RECEIVABLES**

Intergovernmental receivables consist of reimbursements due for expenses in the operation various programs. These amounts consist of a mix of state and federal dollars.

**NOTE 6: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the years ended December 31, 2014 and 2013 as follows:

	<b>Balance 1-1-14</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-14</b>
<b>Governmental Activities:</b>				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 211,148	\$ -	\$ -	\$ 211,148
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 211,148</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 211,148</b>
<i>Less Accumulated Depreciation for:</i>				
Equipment	\$ 149,023	\$ 14,999	\$ -	\$ 164,022
<b>Total Accumulated Depreciation</b>	<b>\$ 149,023</b>	<b>\$ 14,999</b>	<b>\$ -</b>	<b>\$ 164,022</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 62,125</b>	<b>\$ (14,999)</b>	<b>\$ -</b>	<b>\$ 47,126</b>

**LAKE REGION DISTRICT HEALTH UNIT**  
Notes to the Financial Statements – Continued

	<b>Balance 1-1-13</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-13</b>
<b>Governmental Activities:</b>				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 211,148	\$ -	\$ -	\$ 211,148
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 211,148</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 211,148</b>
<i>Less Accumulated Depreciation for:</i>				
Equipment	\$ 132,268	\$ 16,755	\$ -	\$ 149,023
<b>Total Accumulated Depreciation</b>	<b>\$ 132,268</b>	<b>\$ 16,755</b>	<b>\$ -</b>	<b>\$ 149,023</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 78,880</b>	<b>\$ (16,755)</b>	<b>\$ -</b>	<b>\$ 62,125</b>

Depreciation expense was charged to Health and Welfare.

Note: See Note 11 for prior period adjustment to beginning balance.

**NOTE 7: ACCOUNTS PAYABLE**

Accounts payable consists of amounts on open account for goods and services received prior to year-end and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

**NOTE 8: SALARIES PAYABLE**

Salaries payable consists of amounts earned by employees prior to year-end, but paid subsequent to year-end.

**NOTE 9: LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities** - During the years ended December 31, 2014 and 2013 the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

<b>Governmental Activities:</b>	<b>Balance 1-1-14</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-14</b>	<b>Due Within One Year</b>
Compensated Absences *	\$ 79,936	\$ -	\$ 1,538	\$ 78,398	\$ 7,839

<b>Governmental Activities:</b>	<b>Balance 1-1-13</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-13</b>	<b>Due Within One Year</b>
Compensated Absences *	\$ 79,330	\$ 606	\$ -	\$ 79,936	\$ 7,994

\* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions.

Note: See Note 11 for prior period adjustment to beginning balance.

Operating Leases – Equipment:

The Lake Region District Health Unit is engaged in an operating lease for a copier. Total operating lease payments made during 2014-2013 were \$468.

**LAKE REGION DISTRICT HEALTH UNIT**  
Notes to the Financial Statements – Continued

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Remaining operating lease payment commitments to Kyocera for the copier are as follows at December 31, 2014-2013:

Year	Copier
2015	\$ 1,870
2016	1,870
2017	1,870
2018	1,870
2019	1,403
Totals	\$ 8,883

**NOTE 10: RISK MANAGEMENT**

The Lake Region District Health Unit is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the state of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRIF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Lake Region District Health Unit pays an annual premium to NDRIF for its general liability and automobile. The coverage by NDRIF for automobile is limited to losses of one million dollars per occurrence and for general liability is limited to losses of two million dollars per occurrence.

Lake Region District Health Unit pays an annual premium to the State Auto Property & Casualty Insurance Company to cover damage to Lake Region District Health Units equipment and personal property. The State Bonding Fund also currently provides Lake Region District Health Unit with blanket fidelity bond coverage in the amount of \$391,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

Lake Region District Health Unit has worker's compensation with the North Dakota Workforce, Safety and Insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

**NOTE 11: PENSION PLAN**

Lake Region District Health Unit contributes to the North Dakota Public Employee's Retirement System (NDPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. NDPERS provides for retirement, disability and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. NDPERS issues a publicly available financial report that includes financial statements and required supplementary information for NDPERS. That report may be obtained by writing to NDPERS, 400 E Broadway, Suite 505, P.O. Box 1214, Bismarck, North Dakota, 58502-1214.

2014:

Plan members are required to contribute 5% of their annual covered salary. The Health Unit is required to contribute 10.26% of the employee's salary, which consists of 9.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the Health Unit are established and may be amended by the State legislature. The Health Unit's contributions to NDPERS for the years ending December 31, 2014, 2013, and 2012 were \$79,745, \$67,364, and \$61,018, respectively.

2013:

Plan members are required to contribute 4% of their annual covered salary. The Health Unit is required to contribute 9.26% of the employee's salary, which consists of 8.12% for employee retirement and 1.14% for the retiree health benefits fund. The contribution requirements of plan members and the Health Unit are established and may be amended by the State legislature. The Health Unit's contributions to NDPERS for the years ending December 31, 2013 and 2012 were \$64,364 and \$61,018, respectively.

**NOTE 12: PRIOR PERIOD ADJUSTMENT**

Prior period adjustments for the period ending December 31, 2013 were necessary for governmental activities and the government fund of the health unit involving adjustments to beginning net capital assets, miscellaneous fund balance, miscellaneous government wide, and net compensated absences.

	<b>Amounts</b>
Beginning Net Position as previously reported	\$514,756
<b>Adjustments to restate the January 1, 2013 net Position equity for the following:</b>	
Adjustment to Net Capital Assets	(43,065)
Adjustment to compensated absences	(18,241)
Misc. Government Wide Adjustment	171
Misc. Fund Balance Adjustment	1,476
Net Position January 1, 2013 as restated	<u>\$455,097</u>

	<b>Amounts</b>
Total Governmental Fund Balances as previously reported	\$450,731
<b>Adjustments to restate the January 1, 2013 Total Governmental Fund Balance for the following:</b>	
Misc. Fund Balance Adjustment	(589)
Total Governmental Fund Balance, January 1, 2013 as restated	<u>\$450,142</u>

LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 1,225,102	\$ 1,544,849	\$ 1,399,826	\$ (145,023)
Charges for Services	179,608	179,608	304,069	124,461
Interest	1,200	1,200	1,897	697
Miscellaneous	29,800	29,800	30,591	791
<b>Total Revenues</b>	<b>\$ 1,435,710</b>	<b>\$ 1,755,457</b>	<b>\$ 1,736,383</b>	<b>\$ (19,074)</b>
<u>Expenditures:</u>				
<u>Current:</u>				
Health & Welfare	\$ 1,435,710	\$ 1,469,622	\$ 1,462,475	\$ 7,147
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ -</b>	<b>\$ 285,835</b>	<b>\$ 273,908</b>	<b>\$ (11,927)</b>
<b>Fund Balance - January 1</b>	<b>\$ 663,563</b>	<b>\$ 663,563</b>	<b>663,563</b>	<b>\$ -</b>
<b>Fund Balance - December 31</b>	<b>\$ 663,563</b>	<b>\$ 949,398</b>	<b>\$ 937,471</b>	<b>\$ (11,927)</b>

The accompanying required supplementary information notes are an integral part of this schedule.

LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 979,422	\$ 1,143,636	\$ 1,243,707	\$ 100,071
Charges for Services	350,105	350,105	341,748	(8,357)
Interest	2,000	2,000	1,656	(344)
Miscellaneous	69,800	69,800	22,675	(47,125)
<b>Total Revenues</b>	<b>\$ 1,401,327</b>	<b>\$ 1,565,541</b>	<b>\$ 1,609,786</b>	<b>\$ 44,245</b>
<u>Expenditures:</u>				
Current:				
Health & Welfare	\$ 1,401,327	\$ 1,388,387	\$ 1,396,365	\$ (7,978)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ -</b>	<b>\$ 177,154</b>	<b>\$ 213,421</b>	<b>\$ 36,267</b>
Fund Balance - January 1	\$ 450,731	\$ 450,731	\$ 450,731	\$ -
Prior Period Adjustment	-	-	(589)	(589)
<b>Fund Balance - Jan. 1 Restated</b>	<b>\$ 450,731</b>	<b>\$ 450,731</b>	<b>\$ 450,142</b>	<b>\$ (589)</b>
<b>Fund Balance - December 31</b>	<b>\$ 450,731</b>	<b>\$ 627,885</b>	<b>\$ 663,563</b>	<b>\$ 35,678</b>

The accompanying required supplementary information notes are an integral part of this schedule.

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LAKE REGION DISTRICT HEALTH UNIT  
Fargo, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2014 and 2013

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NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

- The health unit board adopts an “appropriated budget” on a basis consistent with accounting principles generally accepted in the United States (GAAP) for the general fund.
- The budget includes proposed expenditures and means of financing them.
- Each budget is controlled by the operations coordinator at the revenue and expenditure function/object level.
- The current budget, except for property taxes, may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared.
- All appropriations lapse at year-end.

LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Years Ended December 31, 2014 and 2013

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	2014 Expenditures	2013 Expenditures	Total Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE:</u></b>				
<b><u>Passed Through State Department of Health:</u></b>				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 240,720	\$ 175,737	\$ 416,457
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY:</u></b>				
<b><u>Passed Through State Department of Health:</u></b>				
Performance Partnership Grants	66.605	\$ 3,885	\$ 3,905	\$ 7,790
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u></b>				
<b><u>Passed Through State Department of Health:</u></b>				
Public Health Emergency Preparedness and Response	93.069	\$ 179,003	\$ 228,270	\$ 407,273
Family Planning Services	93.217	34,386	71,279	105,665
Immunization Cooperative Agreements	93.268	10,873	18,972	29,845
Building Epidemiology, Laboratory, and Health Information Systems Capacity	93.521	-	3,250	3,250
Preventive Health Services-Sexually Transmitted Diseases Control Grants	93.977	297	366	663
Maternal and Child Health Services Block Grant to the States	93.994	20,447	13,178	33,625
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	3,793	15,845	19,638
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	93.539	6,012	40,440	46,452
Women's Way Screening PPHF	93.744	-	1,592	1,592
HIV Care Formula Grants	93.917	1,927	1,932	3,859
Cooperative Agreements for State Based Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	18,206	9,800	28,006
HIV Prevention Activities-Health Department Based	93.940	300	-	300
Total U.S. Department of Health and Human Services		\$ 275,244	\$ 404,924	\$ 680,168
Total Expenditures of Federal Awards		\$ 519,849	\$ 584,566	\$ 1,104,415

**NOTE 1: BASIS OF PRESENTATION:**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lake Region District Health Unit under programs of the federal government for the years ended December 31, 2014 and 2013. The information in the schedule is presented in accordance with the requirements of the 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 the Lake Region District Health Unit, it is not intended to and does not present the financial position of changes in net assets for the Lake Region District Health Unit.

**NOTE 2: 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 Tribe Governments*, wherein certain types of expenditures are allowable or are limited as to reimbursement.

## STATE AUDITOR

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
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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*

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Health Unit Board  
Lake Region District Health Unit  
Devils Lake, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of Lake Region District Health Unit, Devils Lake, North Dakota, as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise Lake Region District Health Unit's basic financial statements, and have issued our report thereon dated May 26, 2016.

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

In planning and performing our audit of the financial statements, we considered Lake Region District Health Unit's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Region District Health Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Region District Health Unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified a certain deficiency in internal control that we considered to be a material weakness.

A *deficiency in internal control* 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2014-01].

#### **Compliance and Other Matters**

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

## **LAKE REGION DISTRICT HEALTH UNIT**

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* - Continued

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### **Lake Region District Health Unit's Response to Findings**

Lake Region District Health Unit's response to the findings identified in our audit is described in the accompanying *schedule of findings and questioned costs*. Lake Region District Health Unit's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 26, 2016

**STATE AUDITOR**

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**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

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Independent Auditor's Report

Health Unit Board  
Lake Region District Health Unit  
Devils Lake, North Dakota

**Report on Compliance for Each Major Federal Programs**

We have audited Lake Region District Health Unit's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Lake Region District Health Unit's major federal programs for the years ended December 31, 2014 and 2013. Lake Region District Health Unit's major federal programs is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for Lake Region District Health Unit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake Region District Health Unit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of Lake Region District Health Unit's compliance.

**Opinion on Each Major Federal Programs**

In our opinion, Lake Region District Health Unit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the years ended December 31, 2014 and 2013.

## **LAKE REGION DISTRICT HEALTH UNIT**

Report on Compliance for Each Major Federal Programs; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 - Continued

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

Management of Lake Region District Health Unit 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 Lake Region District Health Unit's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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 Lake Region District Health Unit's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness 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 the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of Lake Region District Health Unit as of and for the years ended December 31, 2014 and 2013, and have issued our report thereon dated May 26, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 26, 2016



**LAKE REGION DISTRICT HEALTH UNIT**  
Schedule of Findings and Questioned Costs - Continued

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**Effect:**

A lack of segregation of duties exists as one employee is responsible to collect monies, deposit monies, issue checks, send checks to vendors, record receipts and disbursements in journals, maintain the general ledger, and perform bank reconciliations.

**Cause:**

The Lake Region District Health Unit is not in the financial condition to hire the amount of staff to adequately segregate duties.

**Criteria:**

The guidance relating to internal control is contained in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework includes discussions about the importance of adequate risk assessment, code of conduct, and background investigations. Proper internal accounting control dictates that sufficient accounting personnel should exist so that incompatible duties of employees are properly segregated. The segregation of duties would provide better control over the assets of the Lake Region District Health Unit.

**Recommendation:**

Due to the size and funding limitations of the Lake Region District Health Unit, we understand that it may not be feasible to obtain proper separation of duties. However, if at any time, it becomes economically feasible and appropriate to add sufficient staff to segregate duties, we recommend that the Lake Region District Health Unit do so. We further recommend that the Lake Region District Health Unit implement any controls possible to separate the functions of approval, posting of transactions, reconciliation, and custody of assets.

**Views of Responsible Officials:**

Yes, I agree with that finding. Lake Region District Health has instituted some measures that help mitigate that, such as two signatures on all checks and both a board member and myself sign off on all bills and payroll. When funds come available we will look at adding more staffing in the bookkeeping area.

**Section III - Federal Award Findings and Questioned Costs**

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No matters reported.

**STATE AUDITOR**

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Health Unit Board  
Lake Region District Health Unit  
Devils Lake, North Dakota

We have audited the financial statements of the governmental activities, and the major fund of Lake Region District Health Unit, Devils Lake, North Dakota, for the years ended December 31, 2014 and 2013 and have issued our report thereon dated May 26, 2016. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133**

As stated in our engagement letter dated January 12, 2016, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered Lake Region District Health Unit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance, and for reporting on the schedule of expenditures of federal awards required by OMB Circular A-133.

As part of obtaining reasonable assurance about whether Lake Region District Health Unit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Lake Region District Health Unit's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on Lake Region District Health Unit's compliance with those requirements over each major federal program. While our audit provides a reasonable basis for our opinion over compliance for each major federal program, it does not provide a legal determination on Lake Region District Health Unit's compliance with those requirements.

**SIGNIFICANT ACCOUNTING POLICIES/QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lake Region District Health Unit are described in Note 1 to the financial statements. Application of existing policies was not changed during the years ended December 31, 2014 and 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements presented by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is useful lives of capital assets.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and report them to the appropriate level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated May 26, 2016.

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Lake Region District Health Unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Health Unit's board and management of Lake Region District Health Unit, is not intended to be, and should not be used for any other purpose. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of Lake Region District Health Unit for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve Lake Region District Health Unit.



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 26, 2016

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