

CUSTER HEALTH

AUDIT REPORT

December 31, 2021

CUSTER HEALTH
Mandan, ND

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For the Year Ended December 31, 2021

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CUSTER HEALTH
Mandan, ND

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CUSTER HEALTH
Mandan, North Dakota

LIST OF OFFICIALS

Dr. John Grunseth	President
Charles Steinkuehler	Vice-President
Dan Ulmer	Treasurer
Jackie Buckley	Board Member
Dr. Thomas Kaspari	Board Member
Barb Hettich	Board Member
Marvin Schwehr	Board Member
Erin Ourada	Administrator

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Custer Health
Mandan, North Dakota

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of Custer Health, Mandan, North Dakota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Custer Health's basic financial statements as listed in the table of contents.

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 major fund of Custer Health as of December 31, 2021 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Custer Health, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Custer Health's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Custer Health's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Custer Health's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Organization's share of net pension and OPEB liability and employer contributions – ND Public Employees Retirement System on pages 29 through 30, the budgetary comparison information on page 31, and the notes to the required supplementary information on page 32 through 33 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.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 and notes to the schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are also presented for purposes of additional analysis and are 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2022, on our consideration of Custer Health’s internal control over financial reporting and 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 Custer Health’s internal control over financial reporting and compliance.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
September 29, 2022

CUSTER HEALTH
Statement of Net Position
December 31, 2021

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,598,020
Investments	151,877
Prepaid Expenses	21,134
Intergovernmental Receivable	182,306
Accounts Receivable	37,977
Taxes Receivable	13,626
Total Current Assets	2,004,940
Capital Assets:	
Furniture and Equipment	808,736
Less: Accumulated Depreciation	(543,370)
Total Capital Assets	265,366
TOTAL ASSETS	2,270,306
DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions and OPEB	2,552,581
LIABILITIES	
Current Liabilities:	
Accounts Payable	19,849
Salaries and Benefits Payable	198,139
Total Current Liabilities	217,988
Long-Term Liabilities:	
Due After One Year:	
Net Pension and OPEB Liability	4,293,910
Compensated Absences Payable	100,327
Total Long-Term Liabilities	4,394,237
Total Liabilities	4,612,225
DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions and OPEB	620,374
Grants Received in Advance	58,390
TOTAL DEFERRED INFLOWS OF RESOURCES	678,764
NET POSITION	
Net Investment in Capital Assets	265,366
Unrestricted	(733,468)
Total Net Position	\$ (468,102)

CUSTER HEALTH
Statement of Activities
For the Year Ended December 31, 2021

	Program Revenues			Net (Expense) Revenue & Changes in Net Position
Expenses	Charges for Services	Operating Grants & Contributions	Governmental Activities	
<u>Functions/Programs</u>				
Governmental Activities				
Health and Welfare	\$ 4,157,260	\$ 629,355	\$ 2,728,088	\$ (799,817)
Total Primary Government	\$ 4,157,260	\$ 629,355	\$ 2,728,088	(799,817)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purpose				978,448
Earnings on Investments				1,166
Total General Revenues				979,614
Change in Net Position				179,797
Net Position - Beginning of Year				(647,899)
Net Position - End of Year				\$ (468,102)

CUSTER HEALTH
Balance Sheet - Governmental Fund
December 31, 2021

	General Fund
ASSETS	
Cash	\$ 1,598,020
Investments	151,877
Prepaid Expenses	21,134
Intergovernmental Receivable	182,306
Accounts Receivable	37,977
Taxes Receivable	13,627
TOTAL ASSETS	\$ 2,004,941
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 19,849
Salaries and Benefits Payable	198,139
Total Liabilities	217,988
 Deferred Inflows of Resources:	
Uncollected Taxes	13,627
Grants Received in Advance	58,390
Total Deferred Inflows of Resources	72,017
 Total Liabilities and Deferred Inflows of Resources	 290,005
 Fund Balances:	
Nonspendable for Prepaid Expenses	21,134
Unassigned	1,693,802
Total Fund Balances	1,714,936
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	 \$ 2,004,941

CUSTER HEALTH
 Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
 For the Year Ended December 31, 2021

Total Fund Balance for Governmental Funds \$ 1,714,936

Total net position reported for governmental 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	\$	808,736	
Less Accumulated Depreciation		<u>(543,370)</u>	
Net Capital Assets			265,366

Deferred outflows of resources derived from pensions and OPEB are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet. 2,552,581

The net pension and OPEB liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet. (4,293,910)

Deferred inflows of resources derived from pensions and OPEB are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet. (620,374)

Property taxes receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred inflows in the funds. 13,626

Long-term liabilities applicable to Custer Health'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. The balances at December 31, 2021 are:

Compensated Absences		<u>(100,327)</u>	
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Total Net Position of Governmental Activities \$ (468,102)

CUSTER HEALTH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended December 31, 2021

	General Fund
REVENUES	
Taxes	\$ 985,151
Intergovernmental	2,603,173
Charges for Services	629,355
Interest Income	1,166
Grants	124,915
TOTAL REVENUES	4,343,760
EXPENDITURES	
Current:	
Health and Welfare:	
Advertising	348,947
Board of Health	2,655
Contractual	195,864
Insurance	9,306
Medical Supplies	145,315
Office Supplies	175,332
Payroll	2,317,564
Rent	214,033
Telephone	28,710
Travel	25,933
Miscellaneous	39,643
Capital Outlay	19,878
TOTAL EXPENDITURES	3,523,180
NET CHANGE IN FUND BALANCES	820,580
Fund Balances - December 31, 2020	894,356
FUND BALANCES - DECEMBER 31, 2021	\$ 1,714,936

CUSTER HEALTH
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2021

Net change in fund balances - total governmental funds \$ 820,580

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.

Capital Outlays	\$	33,979	
Depreciation		<u>(57,325)</u>	(23,346)

Governmental funds report the pension and OPEB expense as accrued for actual salaries paid in the expenditures. However in the statement of activities, the pension expense is an actuarial calculation of the cost of the plan accounting for projected future benefits, plan earnings, and contributions. This is the difference between the actual amount paid and the actuarial expense. (621,503)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Accrued compensated absences decreased by this amount this year. 10,769

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Taxes receivable decreased by this amount this year. (6,703)

Change in net position of governmental activities \$ 179,797

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Custer Health, Mandan, North Dakota, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. 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 government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of Custer Health. Custer Health has considered all potential component units for which the entity is financially accountable and other organizations for which the nature and significance of their relationships with the entity are such that exclusion would cause Custer Health's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of Custer Health 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 Custer Health.

Based on these criteria, there are no component units to be included within Custer Health as a reporting entity.

B. Basis of Presentation

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 to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, charges for services, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of Custer Health'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 all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about Custer Health's only fund. A separate statement for the fund category-*governmental* is presented. The emphasis of fund financial statements is on major governmental funds.

Custer Health reports the following major governmental fund:

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

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus and Basis of Accounting

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. Nonexchange transactions, in which the entity gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are 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 entity 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 general 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, Custer Health funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is Custer Health's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

Private-sector standards of accounting and financial reporting issued generally are followed in government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits and money market accounts.

Credit Risk:

The District 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.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Investments

Investments are recorded at fair value as required by GASB Statement No. 72, *Fair Value Measurement and Application*.

F. Capital Assets

Capital assets include equipment. Assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the entity as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at 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:

Office Equipment and Furniture 5 to 10 years

G. Compensated Absences

Full time employees are granted vacation benefits from one to two days per month depending on tenure with the entity. No more than 240 hours of accumulated leave may be carried over to a new calendar year. Sick leave accrues at the rate of one day per month up to a maximum of 130 days. Upon retirement an employee who is eligible to collect PERS benefits, will be paid 10% of sick leave accrual at the present rate of pay of the retiring employee. Vested or accumulated leave is reported as a liability in the government-wide financial statements.

H. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisitions, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I. Encumbrance Accounting

Encumbrances are commitments related to unperformed contracts for goods and services that may be recorded for budgetary control purposes. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. No reservation of fund balances is provided at year-end.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

J. Fund Balance Classifications

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – inventories or prepaid expenses; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the board of health – the entity’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of health removed the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification reflects the amounts constrained by Custer Health’s “intent” to be used for special purposes, but are neither restricted nor committed. The board and administrator have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, the entity’s preference is to first use restricted resources, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

K. Deferred Inflows/Outflows of Resources

Deferred inflows of resources in the fund financial statements consists of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available and include uncollected taxes and grants received in advance.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 13 for additional information.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS's fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Other Post Employment Benefit (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 DEPOSITS – CASH AND INVESTMENTS

In accordance with North Dakota statutes, Custer Health maintains deposits at 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 county, city, township, school district, park district, 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 entity, and bonds issued by another state of the United States or such other securities approved by the banking board.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 2 DEPOSITS – CASH AND INVESTMENTS – CONTINUED

At December 31, 2021, Custer Health’s carrying amount of deposits was \$1,749,897 and the bank balance was \$1,805,550. Of the bank balance for the year ended December 31, 2021, \$250,000 was covered by Federal Depository Insurance and \$1,555,550 was collateralized with securities held by the pledging financial institutions’ agent, but not in Custer Health’s name. Pledges are required to cover 110% of the deposits not covered by insurance. Pledge coverage was not adequate and short \$11,105 of the required 110% coverage as of December 31, 2021.

As of December 31, 2021, the deposits included investments in certificates of deposits of \$151,877.

Concentration of Credit Risk: Custer Health does not have a limit on the amount that may be invested with any one issuer.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with GASB Statement No. 72, assets, deferred outflows of resources, liabilities and deferred inflows of resources are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-base valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The following table below presents the balances of assets, deferred outflow of resources, and deferred inflow of resources measured at fair value on a recurring basis at December 31, 2021.

Assets	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Long-term CD's	\$ 151,877	\$ 151,877	\$ -	\$ -
	<u>\$ 151,877</u>	<u>\$ 151,877</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consist of amounts billed to individuals or other entities for services provided. No allowance has been established for estimated uncollectible accounts receivable as management believes substantially all amounts will be collected.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 5 TAXES RECEIVABLE

Under state law, the entity is limited in its ability to levy property taxes. All of Custer Health's tax levies are in compliance with state laws. Property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments, and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent, and penalties are assessed. Taxes are collected and remitted monthly to the entity.

In its fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within 60 days of year-end. Taxes receivable represents the past three years of uncollected current and delinquent taxes. No allowance has been established for uncollectible taxes receivable.

In the government-wide financial statements, property taxes are recorded as receivable and revenue when assessed.

NOTE 6 INTERGOVERNMENTAL RECEIVABLES

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

NOTE 7 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2021:

<u>Governmental Activities:</u>	<u>Balance January 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31</u>
<i>Capital assets, being depreciated:</i>				
Office Equipment and Furniture	\$ 805,449	\$ 33,979	\$ 30,692	\$ 808,736
<i>Less accumulated depreciation for:</i>				
Office Equipment and Furniture	516,737	57,325	30,692	543,370
Total Capital Assets Being Depreciated, Net	<u>\$ 288,712</u>	<u>\$ (23,346)</u>	<u>\$ -</u>	<u>\$ 265,366</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
Health and Welfare	<u>\$ 57,325</u>

NOTE 8 SALARIES AND BENEFITS PAYABLE

Salaries and benefits payable consist of amounts earned by employees for services rendered prior to December 31, 2021 but paid subsequent to that date. It also consists of benefits owed to federal, state, and private agencies for amounts withheld from employees' wages as of December 31.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 9 ACCOUNTS PAYABLE

Accounts payable consist of amounts on open account for goods and services received prior to December 31, 2021 and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

NOTE 10 OPERATING LEASES

Custer Health rents space for programs in various locations. The first rental agreement is the WIC space for \$2,287 per month through December 31, 2025. Custer Health also rents from Coal Country Community Health Center in Beulah for \$250 per month through April 30, 2023 and a COVID-19 space for \$3,800 through September 30, 2022. The last agreement is the office space at the Burlington Plaza. The minimum monthly payments are \$7,622 for rent and \$1,700 for operating expenses through January 2026.

Total rent expense was \$214,033 for 2021.

Custer Health is also in agreement with Patagonia Health to use their software subscription service. The monthly payments are \$2,671 through January 2022.

Required future minimum lease payments are as follows:

Year Ending December 31	Amount
2022	\$ 114,151
2023	140,308
2024	139,308
2025	139,308
2026	9,322
Total	<u>\$ 542,397</u>

NOTE 11 LONG-TERM DEBT

During the year ended December 31, 2021, the following changes occurred in long-term liabilities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	\$ 111,096	\$ -	\$ 10,769	\$ 100,327	\$ -
Total	<u>\$ 111,096</u>	<u>\$ -</u>	<u>\$ 10,769</u>	<u>\$ 100,327</u>	<u>\$ -</u>

The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

The current portion of compensated absences is not determinable at a reasonable cost. The entire portion of the liability is reported as long-term due after one year on the statement of net position.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 12 RISK MANAGEMENT

Custer Health is exposed to various risks of loss related 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 (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. Custer Health pays an annual premium to NDIRF for its general liability and automobile insurance. The coverage by NDIRF is limited to losses of two million dollars per occurrence.

The State Bonding Fund provides Custer Health with blanket fidelity bond coverage in the amount of \$620,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage. Custer Health continues to carry commercial insurance for all other risks of loss, including workers' compensation, employee health and accident insurance and employee professional liability insurance.

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

NOTE 13 DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of December 31, 2021 are as follows:

Deferred Outflows of Resources	
Derived from pension - NDPERS	\$ 2,516,377
Derived from pension - OPEB	<u>36,204</u>
Total Deferred Inflows of Resources	<u>\$ 2,552,581</u>
Deferred Inflows of Resources	
Derived from pension - NDPERS	\$ 615,616
Derived from pension - OPEB	4,758
Deferred Grant Revenue	<u>58,390</u>
Total Deferred Inflows of Resources	<u>\$ 678,764</u>

Note 14 of the financial statements contains detail of the pension plan.

NOTE 14 PENSION PLAN

1. North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. For members hired on or after January 1, 2020 member contribution rates are 7% and employer contribution rates are 8.26% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2021, the Organization reported a liability of \$4,189,022 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Organization's proportion of the net pension liability was based on the Organization's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2020, the Organization's proportion was 0.133153 percent, which was a decrease of 0.002037 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2021, the Organization recognized pension expense of \$728,888. At December 31, 2021, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,303	\$ 212,262
Changes of assumptions	2,245,580	371,250
Net difference between projected and actual earnings on pension plan investments	135,200	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,420	32,104
Employer contributions subsequent to the measurement date (see below)	108,874	-
Total	\$ 2,516,377	\$ 615,616

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

\$108,874 reported as deferred outflows of resources related to pensions resulting from Organization contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>For the year ended December 31,</u>	
2022	\$ 532,800
2023	463,471
2024	373,072
2025	422,544
2026	-
Thereafter	-

Actuarial Assumptions

The total pension liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	3.5% to 17.75% including inflation
Investment rate of return	7.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund’s target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	30%	6.30%
International Equity	21%	6.85%
Private Equity	7%	9.75%
Domestic Fixed Income	23%	1.25%
International Fixed Income	0%	0.00%
Global Real Assets	19%	5.01%
Cash Equivalents	0%	0.00%

Discount Rate

For PERS, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

The Single Discount Rate (SDR) is equivalent to applying these two rates to the benefits that are projected to be paid during the different time periods. The SDR reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of this valuation, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 2.45%; and the resulting Single Discount Rate is 4.64%.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

Sensitivity of the Employer’s proportionate share of the net pension liability to changes in the discount rate

The following presents the Organization’s proportionate share of the net pension liability calculated using the discount rate of 4.64 percent, as well as what the Organization’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.64 percent) or 1-percentage-point higher (5.64percent) than the current rate:

	1% Decrease (3.64%)	Current Discount Rate (4.64%)	1% Increase (5.64%)
Employer's proportionate share of the net pension liability	\$ 5,434,941	\$ 4,189,022	\$ 3,169,556

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued NDPERS financial report. That report may be obtained by writing to NDPERS; 1600 E Century Avenue, Suite 2, Bismarck, ND 58503.

2. North Dakota Public Employees Retirement System (OPEB)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2021 the Organization reported a liability of \$104,888 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Organization's proportion of the net OPEB liability was based on the Organization's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At June 30, 2020, the Organization's proportion was 0.124689 percent, which was a decrease of 0.001332 percent from its proportion measured as of June 30, 2019.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

For the year ended December 31, 2021 the Organization recognized OPEB expense of \$14,863. At December 31, 2021, the Organization reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,330	\$ 2,515
Changes of assumptions	14,063	-
Net difference between projected and actual earnings on OPEB plan investments	3,607	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	2,243
Employer contributions subsequent to the measurement date (see below)	16,204	-
Total	\$ 36,204	\$ 4,758

\$16,204 reported as deferred outflows of resources related to OPEB resulting from Organization contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 2022.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

For the year ended December 31,		
2022	\$	4,076
2023		3,905
2024		2,879
2025		1,132
2026		106
Thereafter		-

Actuarial assumptions.

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%	
Salary increases	Not applicable	
Investment rate of return	6.50%, net of investment expenses	
Cost-of-living adjustments	None	

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 14 PENSION PLAN – CONTINUED

For active members, inactive members and healthy retirees, mortality rates were based on the Mortality Pub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale.

The long-term expected investment rate of return assumption for the RHIC fund was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of RHIC investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Estimates of arithmetic real rates of return, for each major asset class included in the RHIC's target asset allocation as of July 1, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Domestic Equities	33%	6.10%
Small Cap Domestic Equities	6%	7.00%
Domestic Fixed Income	40%	1.15%
International Equities	21%	6.45%

Discount rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2018, and July 1, 2017, HPRS actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current RHIC members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the RHIC fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on RHIC investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Employer's proportionate share of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Plans as of June 30, 2020, calculated using the discount rate of 6.50 percent, as well as what the RHIC net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.50 percent) or 1-percentage-point higher (7.50 percent) than the current rate:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Employer's proportionate share of the net pension liability	\$ 137,563	\$ 104,888	\$ 77,257

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2021

NOTE 15 EXPENDITURES IN EXCESS OF BUDGET

For the year ending December 31, 2021, some individual line items were in excess of budget and in total were over budget by \$347,809. No remedial action is anticipated.

NOTE 16 TAX ABATEMENTS

The Counties and political subdivisions within the counties served by Custer Health can negotiate property tax abatement agreements with individuals and various entities/businesses. Custer Health receives tax dollars from Morton, Oliver, Sioux, Grant and Mercer counties.

The District will state individually the parties who received a benefit of the reduction in taxes of 20% or greater when compared to the total reduction of taxes for all tax abatement programs. No such abatements existed as of December 31, 2021, for Custer Health.

NOTE 17 SUBSEQUENT EVENTS

The organization evaluated its December 31, 2021 financial statements for subsequent events through September 29, 2022.

NOTE 18 FUTURE PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.

With the exception of the new standards discussed above, we have not identified any new accounting pronouncements that have potential significance to the District's financial statements.

***REQUIRED
SUPPLEMENTARY
INFORMATION***

CUSTER HEALTH
Required Supplementary Information
For the Year Ended December 31, 2021

Schedule of Employer's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015
Employer's proportion of the net pension liability (asset)	0.133153%	0.135190%	0.135455%	0.135621%	0.130608%	0.137554%	0.145456%
Employer's proportionate share of the net pension liability (asset)	\$4,189,022	\$1,584,525	\$2,285,951	\$ 2,179,875	\$ 1,272,902	\$ 935,344	\$ 923,240
Employer's covered-employee payroll	\$1,468,842	\$1,406,211	\$1,391,550	\$ 1,384,473	\$ 1,316,216	\$ 1,225,438	\$ 1,225,296
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	285.19%	112.68%	164.27%	157.45%	96.71%	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	48.91%	71.66%	62.80%	61.98%	70.46%	77.15%	77.70%

* Complete data for this schedule is not available prior to 2015.

Schedule of Employer Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years *

	2021	2020	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 104,007	\$ 102,380	\$ 102,494	\$ 100,391	\$ 95,292	\$ 93,082	\$ 87,241
Contributions in relation to the statutorily required contribution	\$ (105,772)	\$ (100,256)	\$ (100,330)	\$ (98,718)	\$ (95,098)	\$ (98,424)	\$ (87,241)
Contribution deficiency (excess)	\$ (1,765)	\$ 2,124	\$ 2,164	\$ 1,673	\$ 194	\$ (5,342)	\$ -
Employer's covered-employee payroll	\$1,468,842	\$1,406,211	\$1,391,550	\$ 1,384,473	\$ 1,316,216	\$ 1,225,438	\$ 1,225,296
Contributions as a percentage of covered-employee payroll	7.20%	7.13%	7.21%	7.13%	7.23%	7.60%	7.12%

* Complete data for this schedule is not available prior to 2015.

Data reported is measured as of 7/1/20, 7/1/19, 7/1/18, 7/1/17, 7/1/16, 7/1/15, and 7/1/14.

CUSTER HEALTH
 Required Supplementary Information
 For the Year Ended December 31, 2021

Schedule of Employer's Share of Net OPEB Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years *

	2021	2020	2019	2018
Employer's proportion of the net OPEB liability (asset)	0.124689%	0.126021%	0.127173%	0.127974%
Employer's proportionate share of the net OPEB liability (asset)	\$ 104,888	\$ 101,218	\$ 100,157	\$ 101,229
Employer's covered-employee payroll	\$ 1,421,420	\$ 1,406,211	\$ 1,391,550	\$ 1,384,473
Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	7.38%	7.20%	7.20%	7.31%
Plan fiduciary net position as a percentage of the total OPEB liability	63.38%	63.13%	61.89%	59.78%

* Complete data for this schedule is not available prior to 2017.

Schedule of Employer Contributions
 ND Public Employees Retirement System
 Last 10 Fiscal Years *

	2021	2020	2019	2018
Statutorily required contribution	\$ 16,699	\$ 16,354	\$ 16,322	\$ 16,094
Contributions in relation to the statutorily required contribution	\$ (16,712)	\$ (16,052)	\$ (16,064)	\$ (15,806)
Contribution deficiency (excess)	\$ (13)	\$ 302	\$ 258	\$ 288
Employer's covered-employee payroll	\$ 1,421,420	\$ 1,406,211	\$ 1,391,550	\$ 1,384,473
Contributions as a percentage of covered-employee payroll	1.18%	1.14%	1.15%	1.14%

* Complete data for this schedule is not available prior to 2017.

Data reported is measured as of 7/1/20, 7/1/19, 7/1/18, 7/1/17.

CUSTER HEALTH
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2021

	<u>Budget</u>		
	Original and Final	Actual	Variance to Final Budget
REVENUES			
Taxes	\$ 967,537	\$ 985,151	\$ 17,614
Intergovernmental	1,746,317	2,603,173	856,856
Charges for Services	377,200	629,355	252,155
Interest Income	4,000	1,166	(2,834)
Grants	-	124,915	124,915
Miscellaneous	1,440	-	(1,440)
TOTAL REVENUES	<u>3,096,494</u>	<u>4,343,760</u>	<u>1,247,266</u>
EXPENDITURES			
Current:			
Health and Welfare:			
Advertising	10,000	348,947	(338,947)
Board of Health	7,500	2,655	4,845
Contractual	227,112	195,864	31,248
Insurance	9,700	9,306	394
Medical Supplies	120,000	145,315	(25,315)
Office Supplies	70,000	175,332	(105,332)
Payroll	2,401,659	2,317,564	84,095
Rent	169,000	214,033	(45,033)
Telephone	26,900	28,710	(1,810)
Travel	65,000	25,933	39,067
Miscellaneous	53,500	39,643	13,857
Capital Outlay	15,000	19,878	(4,878)
TOTAL EXPENDITURES	<u>3,175,371</u>	<u>3,523,180</u>	<u>(347,809)</u>
NET CHANGE IN FUND BALANCES	(78,877)	820,580	899,457
Fund Balances - December 31, 2020	<u>894,356</u>	<u>894,356</u>	<u>-</u>
FUND BALANCES - DECEMBER 31, 2021	<u>\$ 815,479</u>	<u>\$ 1,714,936</u>	<u>\$ 899,457</u>

CUSTER HEALTH
Notes to Required Supplementary Information
For the Year Ending December 31, 2021

NOTE 1 BUDGET

The governing board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year. The governing board reviews the preliminary budget at the hearing and may make revisions that do not increase the total budget and prepares the final budget. The governing board adopts an ordinance approving the tax levy requested in the final budget. The final budget must be filed with the county auditor by October 10.

The budget may be amended during the year for any revenues and appropriations not anticipated at the time the budget was prepared, except no amendment changing the taxes levied can be made after October 10. The budget was not amended in fiscal year 2021.

Except as provided by North Dakota Century Code, the balance of each appropriation becomes a part of the unappropriated fund balance at year-end

The governing board prepares its budget and reports its governmental funds on the same basis of accounting.

NOTE 2 SCHEDULE OF PENSION AND OPEB LIABILITY AND CONTRIBUTIONS

GASB Statements No. 68 and 75 require ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, Custer Health will present information for those years for which information is available.

NOTE 3 ND PUBLIC EMPLOYEES RETIREMENT SYSTEM MAIN

Changes of benefit terms.

The interest rate earned on member contributions will decrease from 7.00 percent to 6.50 percent effective January 1, 2021 (based on the adopted decrease in the investment return assumption). New Main System members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

CUSTER HEALTH
Notes to Required Supplementary Information
For the Year Ending December 31, 2021

NOTE 3 ND PUBLIC EMPLOYEES RETIREMENT SYSTEM MAIN – CONTINUED

Changes of assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.5% to 7.0%
- The assumed rate of price inflation was lowered from 2.5 to 2.25 percent for the July 1, 2020 valuation
- The assumed rate of total payroll growth was updated for the July 1, 2020 valuation
- Mortality table updates were made for the July 1, 2020 valuation

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

NOTE 4 ND PUBLIC EMPLOYEES RETIREMENT SYSTEM OPEB

Changes of benefit terms.

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2019.

Changes of assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2020 valuation:

- The investment return assumption was lowered from 7.25% to 6.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2019.

CUSTER HEALTH
Schedule of Expenditures of Federal Awards
December 31, 2021

<u>Funding Source/Grant Name</u>	<u>Federal AL Number</u>	<u>Pass-through/ Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture			
Passed through the ND Department of Health:			
Nutrition Program for Women, Infant, and Children (WIC)	10.557		\$ 465,217
U.S. Department of Health and Human Services			
Passed through the ND Department of Health:			
Preventive Block	93.991		20,201
Public Health ER	93.069		19,934
Immunizations	93.268		72,954
Health Disparities	93.391		99,707
Ryan White HIV Care Grant	93.917		15,516
TB Control/Elimination	93.116		1,067
Women's Way	93.898		193,876
Aids Prevention	93.940		<u>6,606</u>
Total U.S. Department of Health and Human Services			429,861
U.S. Department of the Treasury			
Passed through the ND Department of Health:			
COVID-19 Cares Act	21.019		304,403
U.S. Department of Transportation			
Passed through the ND Department of Health:			
Child Traffic Safety	20.616		<u>9,823</u>
Total Federal Expenditures			<u><u>\$ 1,209,304</u></u>

Custer Health
Notes to Schedule of Expenditures of Federal Awards
December 31, 2021

NOTE 1 PURPOSE OF SCHEDULE

The Schedule of Expenditures of Federal Awards (schedule) is a supplementary schedule to the financial statements and is presented for purposes of additional analysis. The schedule is required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Federal Financial Assistance – Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property (including donated surplus property), interest subsidies, insurance, food commodities, direct appropriations and other assistance, but does not include amounts received as reimbursements for services rendered to individuals. Accordingly, nonmonetary federal assistance may be included in federal financial assistance and therefore, may be reported on the schedule. Custer Health received no nonmonetary federal assistance during the year ended December 31, 2021. Federal financial assistance does not include direct federal cash assistance to individuals.

Assistance Listing Number – Uniform Guidance requires the schedule to show the total expenditures for each of the federal financial assistance programs as identified in the Assistance Listing Number (ALN). The ALN is a government wide compendium of individual federal programs. Pass-through entity identifying numbers are presented where available.

Major Programs

The Uniform Guidance established the levels of expenditures to be used in defining major federal financial assistance programs. The dollar threshold to distinguish Type A and Type B programs was \$750,000.

Reporting Entity

The schedule includes all federal financial assistance programs administered by the organization.

Basis of Accounting

Federal financial assistance expenditures included in the schedule are reported using the accrual basis of accounting.

Elections

The organization has not elected to use the 10 percent de minimis indirect cost rate.

INDEPENDENT AUDITOR'S 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

Board of Directors
Custer Health
Mandan, 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 Custer Health, Mandan, North Dakota, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Custer Health's basic financial statements and have issued our report thereon dated September 29, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered Custer Health's internal control over financial reporting (internal control) as a basis for designing 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 Custer Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Custer Health's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 to 2021-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Custer Health'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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Custer Health's Response to Findings

Custer Health's responses to the findings identified in our audit are described in the accompanying schedule of findings. Custer Health's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Haga Kommer, Ltd.

Haga Kommer, Ltd
Mandan, North Dakota
September 29, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Custer Health
Mandan, North Dakota

Report on Compliance for Each Major Federal Program

We have audited Custer Health's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Custer Health's major federal programs for the year ended December 31, 2021. Custer Health's major federal programs 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Custer Health'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Custer Health'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 Custer Health's compliance.

Opinion on Each Major Federal Program

In our opinion, Custer Health 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 year ended December 31, 2021.

Report on Internal Control over Compliance

Management of Custer Health 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 Custer Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Custer Health'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 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 the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Haga Kommer, Ltd.

Haga Kommer, Ltd.
Mandan, North Dakota
September 29, 2022

CUSTER HEALTH
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified? No

Significant deficiencies identified? None Reported

Type of auditor's report issued on compliance for major federal programs? Unmodified

Any audit findings that are required to be reported
in accordance with 2 CFR 200.516 (a)? No

Identification of major programs:

21.019 Coronavirus Relief Fund

93.898 Women's Way

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? No

CUSTER HEALTH
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

Section II - Financial Statement Findings – Significant Deficiency

Finding 2021-001: Segregation of Duties

Criteria – A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles or has access to a transaction from its inception to its completion.

Condition - The organization has lack of segregation of duties in certain areas due to a limited staff.

Cause – There are limited individuals to perform tasks due to the small size of the organization and it is not economically feasible to further segregate duties.

Effect – Inadequate segregation of duties could adversely affect the organization’s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation – The most effective controls lie in the board’s knowledge of matters relating to the organization’s operations. Board members should periodically review documentation supporting individual transactions.

Views of Management Response – The Board is aware of the condition and will add controls where feasible.

Indication of Repeat Finding – This is a repeat finding of 2020-001.

Finding 2021-002: Preparation of Financial Statements – Significant Deficiency

Criteria – Management is responsible for the preparation and fair presentation of the financial statements in conformity with generally accepted accounting principles.

Condition – The financial statements and related notes were prepared by the organization’s auditors.

Cause – Limited time and resources of the Board to prepare the financial statements in the format required by generally accepted accounting principles including compliance with GASB 34.

Effect – An increased risk of material misstatement in the Board’s financial statements.

Recommendation – The Board should review the audited financial statements for accuracy and accept responsibility for the preparation and fair presentation of the GAAP financial statements even if the auditor assisted in drafting the financial statements and notes.

Views of Management Response – The Board is aware that someone needs to review the audit report each year to make sure the financial statements and note disclosures are a fair presentation for the Board.

Indication of Repeat Finding – This is a repeat finding of 2020-003.

Section III - Federal Award Findings and Questioned Costs

None

CUSTER HEALTH
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

Section IV- Prior Year Findings

Finding 2020-001: Segregation of Duties – Significant Deficiency

Criteria – A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles or has access to a transaction from its inception to its completion.

Condition - The organization has lack of segregation of duties in certain areas due to a limited staff.

Cause – There are limited individuals to perform tasks due to the small size of the organization and it is not economically feasible to further segregate duties.

Effect – Inadequate segregation of duties could adversely affect the organization’s ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely manner by employees in the normal course of performing their assigned functions.

Recommendation – The most effective controls lie in the board’s knowledge of matters relating to the organization’s operations. Board members should periodically review documentation supporting individual transactions.

Views of Management Response – The Board is aware of the condition and will add controls where feasible.

Current Status – The finding is repeated in the current year. See 2021-001.

Finding 2020-002: Journal Entries – Significant Deficiency

Condition – Several journal entries were required to be made during the audit for accounts receivable, accounts payable, and pension adjustments in order to present accurate accrual basis financial statements.

Criteria – The Organization is required to establish internal controls and procedures which allow it to determine that the general ledger accounts are properly reflected according to generally accepted accounting policies.

Cause – The accounting system is maintained on a cash basis and the statements are converted to accrual basis. The pension liability adjustments are unusual year-end entries.

Effect – The amount of journal entries made has a material effect on the financial statements.

Recommendation – The entity should maintain their QuickBooks on the accrual basis of accounting according to generally accepted accounting principles.

Views of Management Response – The Board is aware of the year-end accrual and pension adjustments. Management will review the financial statements before the audit is issued.

Current Status – The organization implemented receivable and payable features in QuickBooks in 2021 eliminating the year-end adjustments previously required.

CUSTER HEALTH
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2021

Finding 2020-003: Preparation of Financial Statements – Significant Deficiency

Criteria – Management is responsible for the preparation and fair presentation of the financial statements in conformity with generally accepted accounting principles.

Condition – The financial statements and related notes were prepared by the organization’s auditors.

Cause – Limited time and resources of the Board to prepare the financial statements in the format required by generally accepted accounting principles including compliance with GASB 34.

Effect – An increased risk of material misstatement in the Board’s financial statements.

Recommendation – This is not unusual in organizations of your size due to limited resources. The Board should review the audited financial statements for accuracy and accept responsibility for the preparation and fair presentation of the GAAP financial statements even if the auditor assisted in drafting the financial statements and notes.

Views of Management Response – The Board is aware that someone needs to review the audit report each year to make sure the financial statements and note disclosures are a fair presentation for the Board.

Current Status – The finding is repeated in the current year. See 2021-002.



Custer Health
For a healthier way of life.

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Management's Response to Auditor's Finding
Summary Schedule of Prior Audit Finding and Corrective Action Plan
December 31, 2021

Prepared by Custer
Health

Custer Health
Corrective Action Plan
For The Year Ended December 31, 2021

Corrective Action Plan – December 31, 2021

2021-001: Segregation of Duties

Contact Person – Erin Ourada, Administrator

Corrective Action Plan – This finding is noted together with the Board, the unit will make every effort to ensure adequate internal controls. This condition is a repeat from prior years. Because of the limited number of staff available to the unit, all of the accounting duties cannot be totally segregated in such a way as to eliminate this reportable condition. The only alternative would be the hiring of additional staff, and current cash flows do not justify it. The unit has reviewed its internal controls and procedures in place and believe the procedures in place provide adequate controls under these circumstances.

Completion Date – The unit will implement when it becomes cost effective.

2021-002: Preparation of Financial Statements

Contact Person – Erin Ourada, Administrator

Corrective Action Plan – This finding is noted together with the Board. Due to the financial, efficiency and time constraints, it has been determined by the Unit's management that it is in the best interest of Custer Health and all interested parties to have the auditors prepare the financial statements. Management is aware of the risk associated with not preparing our own financial statements. Management will continue to review the financial statements and note disclosure each year to ensure fair presentation for the Unit.

Completion Date – The District will implement additional review procedures in the future.