



ROBERT R. PETERSON  
STATE AUDITOR

LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

# Audit Report

For the Year Ended December 31, 2015

Office of the State Auditor

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

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For the Year Ended December 31, 2015

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

**OFFICIALS**

December 31, 2015

Mike Steffan

Chairman

Neal Rud

Vice Chairman

Myrna Heisler

Secretary/Treasurer

Mike Christenson

Board Member

Elonda Nord

Board Member

Glenda Collier

Board Member

Duane Johnston

Board Member

Dr. Derek Wayman

Board Member

Doris Griffin

Board Member

Allen McKay

Administrator

Sheri Hettwer

Bookkeeper

**STATE AUDITOR**

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

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

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INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, and the major fund of Lake Region District Health Unit, Devils Lake, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Health Unit's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of Lake Region District Health Unit, Devils Lake, North Dakota, as of December 31, 2015, 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.

***Emphasis of a Matter***

As discussed in Note 14 to the financial statements, during the year ended December 31, 2015, the Lake Region District Health Unit adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

***Other Matters***

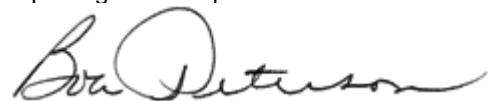
*Required Supplementary Information*

Management has omitted the *management's discussion and analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the *budgetary comparison information, and the schedules of net pension liabilities and pension contributions* on pages 22-24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

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



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 26, 2016

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

STATEMENT OF NET POSITION  
December 31, 2015

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<u>ASSETS:</u>	
Cash	\$ 1,082,268
Accounts Receivable	97,623
Intergovernmental Receivable	61,414
Capital Assets (being depreciated):	
Equipment	35,207
Vehicles	15,133
Total Capital Assets	<u>\$ 50,340</u>
Total Assets	<u>\$ 1,291,645</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Pensions	<u>\$ 79,212</u>
Total Assets & Deferred Outflows of Resources	<u>\$ 1,370,857</u>
<u>LIABILITIES:</u>	
Accounts Payable	\$ 5,132
Salaries Payable	6,641
Long-Term Liabilities:	
Due Within One Year:	
Compensated Absences Payable	8,710
Due After One Year:	
Compensated Absences Payable	78,388
Net Pension Liability	<u>591,388</u>
Total Liabilities	<u>\$ 690,259</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Pensions	<u>\$ 67,377</u>
Total Liabilities & Deferred Inflows of Resources	<u>\$ 757,636</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	\$ 50,340
Restricted for:	
Health and Welfare	<u>562,881</u>
Total Net Position	<u><u>\$ 613,221</u></u>

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



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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

BALANCE SHEET - GOVERNMENTAL FUNDS  
December 31, 2015

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<u>ASSETS</u>	
Cash	\$ 1,082,268
Accounts Receivable	97,623
Intergovernmental Receivable	<u>61,414</u>
Total Assets	<u><u>\$ 1,241,305</u></u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>	
<u>Liabilities:</u>	
Accounts Payable	\$ 5,132
Salaries Payable	<u>6,641</u>
Total Liabilities	<u>\$ 11,773</u>
<u>Fund Balances:</u>	
Unassigned:	
General Fund	<u>\$ 1,229,532</u>
Total Fund Balances	<u>\$ 1,229,532</u>
Total Liabilities and Fund Balances	<u><u>\$ 1,241,305</u></u>

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



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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
December 31, 2015

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Total *Fund Balances* for Governmental Funds \$ 1,229,532

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

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

Cost of Capital Assets	\$ 228,803	
Less Accumulated Depreciation	<u>(178,463)</u>	50,340

Net Pension obligations are not due and payable in the current period, and therefore are not reported in the funds. (591,388)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.

Difference between Expected and Actual Experience	79,212
Change in Projected and Actual Investment Earnings	(67,377)

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities-both current and long-term are reported in the statement of net position. Balance at December 31, 2015 is:

Compensated Absences	<u>(87,098)</u>
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Total Net Position of Governmental Activities	<u><u>\$ 613,221</u></u>
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The notes to the financial statements are an integral part of this statement.

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For the Year Ended December 31, 2015

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	<u>General</u>
<u>Revenues:</u>	
Intergovernmental	\$ 1,551,741
Charges for Services	340,881
Interest Income	2,318
Miscellaneous	<u>42,060</u>
Total Revenues	<u>\$ 1,937,000</u>
<u>Expenditures:</u>	
Current:	
Health and Welfare	<u>\$ 1,644,939</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 292,061</u>
Fund Balance - January 1	<u>\$ 937,471</u>
Fund Balance - December 31	<u><u>\$ 1,229,532</u></u>

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

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2015

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Net Change in *Fund Balances* - Total Governmental Funds \$ 292,061

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

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

Current Year Capital Outlay	\$ 17,655	
Current Year Depreciation Expense	<u>(14,441)</u>	3,214

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

Change in Compensated Absences	(8,700)
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The Net Pension Liability, and related Deferred Outflows of Resources and Deferred Inflows of Resources are reported in the government wide statements; however, activity related to these pension items do not involve current financial resources, and are not reported in the funds.

Net Increase in Net Pension Liability	\$ (61,453)	
Net Increase in Deferred Outflows of Resources	21,969	
Net Decrease in Deferred Inflows of Resources	<u>36,069</u>	<u>(3,415)</u>

Change in Net Position of Governmental Activities	<u><u>\$ 283,160</u></u>
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The notes to the financial statements are an integral part of this statement.

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LAKE REGION DISTRICT HEALTH UNIT  
Fargo, North Dakota

NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2015

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

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

A. Reporting Entity

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

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

B. 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, when applicable, to minimize the double-counting of internal activities. Governmental activities generally are financed through intergovernmental revenues, charges for services, and other non-exchange transactions.

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

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

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

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

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

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

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

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

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

D. Cash and Investments

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

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

E. Capital Assets

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

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

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

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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:

ASSETS	YEARS
Equipment	5 – 10
Vehicles	5 – 10

F. Compensated Absences

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

G. Long-Term Obligations

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

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

H. Pension

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' 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.

I. Fund Balances / Net Position

Prior to GASB Statement No. 54, in the fund financial statements, the governmental funds reported reservations of fund balances for amounts that were not available for appropriation or were legally restricted by outside parties for use for a specific purpose. Designations of fund balances represented tentative management plans that were subject to change. GASB Statement No. 54 established new fund balance classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints (restrictions or limitations) imposed upon the use of the resources reported in governmental funds.

***Fund Balance Spending Policy:***

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

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

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

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

**Unassigned Fund Balances:**

For each year the fund balance was considered unassigned fund balance at December 31, 2015:

**Net Position:**

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

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

**NOTE 2: LEGAL COMPLIANCE - BUDGETS**

BUDGET AMENDMENTS

The health unit board amended the revenues and expenditure budget for 2015 for the general fund as follows:

2015	Revenues		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 1,660,513	\$ 203,836	\$ 1,864,349

2015	Expenditures		
	Original Budget	Amendment	Amended Budget
General Fund	\$ 1,660,513	\$ (23,306)	\$ 1,637,207

**NOTE 3: DEPOSITS**

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

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

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

At year ended December 31, 2015, the Lake Region District Health Unit's carrying amount of deposits was \$1,082,268, and the bank balance was \$1,133,411. Of the bank balances, \$416,144 was covered by Federal Depository Insurance. The remaining bank balances totaling \$717,267 were collateralized with securities held by the pledging financial institution's agent in the government's name.

Credit Risk:

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

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



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

As of December 31, 2015, the Health Unit held certificates of deposit in the amount of \$160,129, which are all considered deposits.

Concentration of Credit Risk:

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

**NOTE 4: ACCOUNTS RECEIVABLE**

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

**NOTE 5: INTERGOVERNMENTAL RECEIVABLES**

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

**NOTE 6: CAPITAL ASSETS**

The following is a summary of changes in capital assets for the year ended December 31, 2015 as follows:

	<b>Balance 1-1-15</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-15</b>
<b>Governmental Activities:</b>				
<i>Capital assets being depreciated:</i>				
Equipment	\$ 211,148	\$ -	\$ -	\$ 211,148
Vehicles	-	17,655	-	17,655
<b>Total Capital Assets, Being Depreciated</b>	<b>\$ 211,148</b>	<b>\$ 17,655</b>	<b>\$ -</b>	<b>\$ 228,803</b>
<i>Less Accumulated Depreciation for:</i>				
Equipment	\$ 164,022	\$ 11,919	\$ -	\$ 175,941
Vehicles	-	2,522	-	2,522
<b>Total Accumulated Depreciation</b>	<b>\$ 164,022</b>	<b>\$ 14,441</b>	<b>\$ -</b>	<b>\$ 178,463</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 47,126</b>	<b>\$ 3,214</b>	<b>\$ -</b>	<b>\$ 50,340</b>

Depreciation expense was charged to Health and Welfare.

**NOTE 7: DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources in the government wide financial statements consist of amounts related to pensions representing the difference in expected and actual experience.

**NOTE 8: ACCOUNTS PAYABLE**

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

**NOTE 9: SALARIES PAYABLE**

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

**NOTE 10: LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities** - During the year ended December 31, 2015 the following changes occurred in liabilities reported in long-term liabilities:

Governmental Activities:

<b>Governmental Activities:</b>	<b>Balance 1-1-15</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance 12-31-15</b>	<b>Due Within One Year</b>
Compensated Absences *	\$ 78,398	\$ 8,700	\$ -	\$ 87,098	\$ 8,710
Net Pension Liability	529,935	61,453		591,388	-
<b>Total Governmental Activities</b>	<b>\$ 608,333</b>	<b>\$ 70,153</b>	<b>\$ -</b>	<b>\$ 678,486</b>	<b>\$ 8,710</b>

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

Operating Leases – Equipment:

The Lake Region District Health Unit is engaged in an operating lease for a copier. Total operating lease payments made during 2015 was \$1,870.

Remaining operating lease payment commitments to Kyocera for the copier are as follows at December 31, 2015:

<b>Year</b>	<b>Copier</b>
2016	\$ 1,870
2017	1,870
2018	1,870
2019	1,403
<b>Totals</b>	<b>\$ 7,013</b>

**NOTE 11: DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the government wide financial statements consist of amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the accrual basis of accounting, such amounts include the amount for pensions.

Deferred inflows of resources in the balance sheet represent the amount of uncollected taxes and uncollected special assessments in the fund financial statements 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, uncollected taxes are measurable but not available.

**NOTE 12: PENSION PLAN**

**General Information about the NDPERS Pension Plan**

***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.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of seven 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.

### **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). The annual 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. 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.

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

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 25 months of service	Greater of two percent of monthly salary or \$25
26 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

**Member and Employer Contributions**

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of covered compensation. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

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

At December 31, 2015, the employer reported a liability of \$591,388 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The district's proportion of the net pension liability was based on the district'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, 2015, the Employer's proportion was .086971 percent, which was an increase of .00348 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Employer recognized pension expense of \$60,226. At December 31, 2015, the Employer 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	\$17,157	\$ -
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	21,389	-
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	-	12,484
Changes of Assumptions	-	52,690
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	2,203
District Contributions Subsequent to the Measurement Date	40,666	-
<b>Total</b>	<b>\$79,212</b>	<b>\$67,377</b>

\$40,666 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2015.

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

2016	\$ (16,012)
2017	(16,012)
2018	(16,012)
2019	9,785
2020	(9,765)

**Actuarial Assumptions**

The total pension liability in the July 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary Increases	3.85% per annum for four years, then 4.50% per annum
Investment Rate of Return	8.00%, net of investment expenses
Cost-of-Living Adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table with ages set back three years. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table with ages set back one year for males (not set back for females).

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2010. They are the same as the assumptions used in the July 1, 2014, funding actuarial valuation for NDPERS.

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	31%	6.90%
International Equity	21%	7.55%
Private Equity	5%	11.30%
Domestic Fixed Income	17%	1.55%
International Fixed Income	5%	.90%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2014, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

**Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount rate**

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's Proportionate Share of Net Pension Liability	\$906,864	\$591,388	\$333,272

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in a separately issued NDPERS financial report.

**NOTE 13: RISK MANAGEMENT**

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

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

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

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

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

**NOTE 14: PRIOR PERIOD ADJUSTMENTS**

**Change in Accounting Principle – GASB 68 & 71 - Pensions:**

Net position as of January 1, 2015, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

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

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The result of implementing GASB 68 reduced beginning net position, which consists of the net pension liability, deferred outflow of resources, and deferred inflows of resources related to the North Dakota Public Employees Retirement System (NDPERS).

<b>Governmental Activities:</b>	<b>Amounts</b>
Beginning Net Position, as previously reported	\$ 906,199
Adjustments to restate the January 1, 2015 Net Position:	
Net Pension Liability	(529,935)
Deferred Outflows of Resources	57,243
Deferred Inflows of Resources	(103,446)
Net Position January 1, as restated	\$ 330,061

LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
For the Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ 1,470,813	\$ 1,674,649	\$ 1,551,741	\$ (122,908)
Charges for Services	164,500	164,500	340,881	176,381
Interest	1,200	1,200	2,318	1,118
Miscellaneous	24,000	24,000	42,060	18,060
<b>Total Revenues</b>	<b>\$ 1,660,513</b>	<b>\$ 1,864,349</b>	<b>\$ 1,937,000</b>	<b>\$ 72,651</b>
<u>Expenditures:</u>				
Current:				
Health & Welfare	\$ 1,660,513	\$ 1,637,207	\$ 1,644,939	\$ (7,732)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ -</b>	<b>\$ 227,142</b>	<b>\$ 292,061</b>	<b>\$ 64,919</b>
Fund Balance - January 1	\$ 937,471	\$ 937,471	937,471	\$ -
Fund Balance - December 31	<b>\$ 937,471</b>	<b>\$ 1,164,613</b>	<b>\$ 1,229,532</b>	<b>\$ 64,919</b>

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



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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

PENSION SCHEDULES  
For the Year Ended December 31, 2015

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

	2014	2015
District's proportion of the net pension liability (asset)	0.083491%	0.086971%
District's proportionate share of the net pension liability (asset)	\$ 529,935	\$ 591,388
District's covered-employee payroll	\$ 703,319	\$ 774,809
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.35%	76.33%
Plan fiduciary net position as a percentage of the total pension liability	77.70%	77.15%

\*Complete data for this schedule is not available prior to 2014.

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

	2014	2015
Statutorily required contribution	\$ 50,076	\$ 55,166
Contributions in relation to the statutorily required contribution	\$ (50,076)	\$ (55,166)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 703,319	\$ 774,809
Contributions as a percentage of covered-employee payroll	7.12%	7.12%

\*Complete data for this schedule is not available prior to 2014.

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
December 31, 2015

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**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information:

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

**NOTE 2: PENSIONS - CHANGES OF ASSUMPTIONS**

Amounts reported in 2015 reflect actuarial assumption changes effective July 1, 2015 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

## STATE AUDITOR

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, and the major fund of Lake Region District Health Unit, Devils Lake, North Dakota, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise Lake Region District Health Unit's basic financial statements, and have issued our report thereon dated May 26, 2016.

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

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* to be a material weakness [2015-001].

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

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

**LAKE REGION DISTRICT HEALTH UNIT**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* - Continued

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

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

**Purpose of this Report**

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



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 26, 2016

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LAKE REGION DISTRICT HEALTH UNIT  
Devils Lake, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2015

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**Section I - Summary of Auditor's Results**

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**Financial Statements**

Type of Auditor's Report Issued?	
Governmental Activities	Unmodified
Major Governmental Fund	Unmodified

**Internal Control Over Financial Reporting:**

Material weaknesses identified?	<u>  X  </u> Yes	<u>    </u> No
Significant deficiencies identified?	<u>    </u> Yes	<u>  X  </u> None reported
Noncompliance material to financial statements noted?	<u>    </u> Yes	<u>  X  </u> None reported

**Section II - Financial Statement Findings**

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**2015-001 – LACK OF SEGREGATION OF DUTIES**

**Condition:**

Lake Region District Health Unit has one employee responsible for the primary accounting functions and general ledger maintenance.

**Effect:**

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

**Cause:**

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

**Criteria:**

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

**Recommendation:**

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

**Views of Responsible Officials:**

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

**STATE AUDITOR**

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

We have audited the financial statements of the governmental activities, and the major fund of Lake Region District Health Unit, Devils Lake, North Dakota, for the year ended December 31, 2015, and have issued our report thereon dated May 26, 2016. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS**

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

In planning and performing our audit, we considered Lake Region District Health Unit's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lake Region District Health Unit's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lake Region District Health Unit's internal control over financial reporting.

As part of obtaining reasonable assurance about whether Lake Region District Health Unit's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Lake Region District Health Unit's compliance with those requirements.

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

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lake Region District Health Unit are described in Note 1 to the financial statements. Application of existing policies was not changed during the year ended December 31, 2015. GASB Statement 68 (Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27), and GASB Statement 71 (Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68) were adopted during the year ended December 31, 2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

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

**DISAGREEMENTS WITH MANAGEMENT**

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

**MANAGEMENT REPRESENTATIONS**

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

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

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

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**OTHER AUDIT FINDINGS OR ISSUES**

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

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

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



Robert R. Peterson  
State Auditor

Fargo, North Dakota  
May 26, 2016



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