

CUSTER HEALTH

AUDIT REPORT

December 31, 2016

CUSTER HEALTH
Mandan, ND

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For the Year Ended December 31, 2016

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CUSTER HEALTH
Mandan, North Dakota

LIST OF OFFICIALS

Dr. John Grunseth	President
Gerald Bauman	Vice-President
Dan Ulmer	Treasurer
Denise Nilsen	Board Member
Charles Steinkuehler	Board Member
Barb Hettich	Board Member
Dr. Tom Kaspari	Board Member
Keith Johnson	Administrator

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Custer Health
Mandan, North Dakota

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise Custer Health'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.

INDEPENDENT AUDITOR'S REPORT

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 Custer Health as of December 31, 2016 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 Matter

As discussed in Notes 1 and 3 to the financial statements, Custer Health adopted the provisions of Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Organization's share of net pension liability and employer contributions – ND Public Employees Retirement System on page 25 and the budgetary comparison information on pages 26 and 27 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.

INDEPENDENT AUDITOR'S REPORT

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, 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.



Mahlum Goodhart, PC
Mandan, North Dakota
August 31, 2017

CUSTER HEALTH
Statement of Net Position
December 31, 2016

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 739,735
Investments	151,877
Prepaid Expenses	24,302
Due from County Treasurer	2,456
Intergovernmental Receivable	70,261
Accounts Receivable	23,710
Taxes Receivable	22,187
Total Current Assets	1,034,528
Capital Assets:	
Furniture and Equipment	667,909
Less: Accumulated Depreciation	(178,633)
Total Capital Assets	489,276
 TOTAL ASSETS	 1,523,804
 DEFERRED OUTFLOWS OF RESOURCES	
Derived from Pensions	236,382
 LIABILITIES	
Current Liabilities:	
Accounts Payable	10,650
Deferred Revenue	11,306
Salaries and Benefits Payable	175,024
Total Current Liabilities	196,980
Long-Term Liabilities:	
Due After One Year:	
Net Pension Liability	935,344
Compensated Absences Payable	86,938
Total Long-Term Liabilities	1,022,282
Total Liabilities	1,219,262
 DEFERRED INFLOWS OF RESOURCES	
Derived from Pensions	259,724
 NET POSITION	
Net Investment in Capital Assets	489,276
Unrestricted	(208,076)
Total Net Position	\$ 281,200

The accompanying notes are an integral part of these financial statements.

CUSTER HEALTH
Statement of Activities
For the Year Ended December 31, 2016

	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	\$ 2,734,924	\$ 543,492	\$ 1,193,403	\$ (998,029)
Total Primary Government	\$ 2,734,924	\$ 543,492	\$ 1,193,403	(998,029)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purpose				943,752
Earnings on Investments				2,076
Miscellaneous Revenue				946
Total General Revenues				946,774
Change in Net Position				(51,255)
Net Position - Beginning of Year				332,455
Net Position - End of Year				\$ 281,200

The accompanying notes are an integral part of these financial statements.

CUSTER HEALTH
Balance Sheet - Governmental Fund
December 31, 2016

	General Fund
ASSETS	
Cash	\$ 739,735
Investments	151,877
Prepaid Expenses	24,302
Due from County Treasurer	2,456
Intergovernmental Receivable	70,261
Accounts Receivable	23,710
Taxes Receivable	22,187
TOTAL ASSETS	\$ 1,034,528
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	
Liabilities:	
Accounts Payable	\$ 10,650
Deferred Revenue	11,306
Salaries and Benefits Payable	175,024
Total Liabilities	196,980
Deferred Inflows of Resources:	
Uncollected Taxes	22,187
Total Deferred Inflows of Resources	22,187
Total Liabilities and Deferred Inflows of Resources	219,167
Fund Balances:	
Nonspendable for Prepaid Expenses	24,302
Unassigned	791,059
Total Fund Balances	815,361
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 1,034,528

The accompanying notes are an integral part of these financial statements.

CUSTER HEALTH
 Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position
 For the Year Ended December 31, 2016

Total Fund Balance for Governmental Funds \$ 815,361

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	\$	667,909	
Less Accumulated Depreciation		<u>(178,633)</u>	
Net Capital Assets			489,276

Deferred outflows of resources are not a financial resource available for the current period and, therefore, are not reported in the governmental funds balance sheet. 236,382

The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet. (935,344)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet. (259,724)

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. 22,187

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, 2016 are:

Compensated Absences		<u>(86,938)</u>	
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Total Net Position of Governmental Activities \$ 281,200

The accompanying notes are an integral part of these financial statements.

CUSTER HEALTH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended December 31, 2016

	General Fund
REVENUES	
Taxes	\$ 937,972
Intergovernmental	1,193,403
Charges for Services	543,492
Interest Income	2,076
Miscellaneous	946
TOTAL REVENUES	2,677,889
EXPENDITURES	
Current:	
Health and Welfare:	
Board of Health	3,931
Contractual	268,969
Insurance	9,121
Medical Supplies	121,206
Office Supplies	90,118
Payroll	2,058,172
Rent	137,259
Telephone	29,625
Travel	64,269
Miscellaneous	29,565
Capital Outlay	100,348
Debt Service	
Principal	25,301
Interest	924
TOTAL EXPENDITURES	2,938,808
NET CHANGE IN FUND BALANCES	(260,919)
Fund Balances - December 31, 2015	1,076,280
FUND BALANCES - DECEMBER 31, 2016	\$ 815,361

The accompanying notes are an integral part of these financial statements.

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, 2016

Net change in fund balances - total governmental funds \$ (260,919)

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	\$ 235,761	
Depreciation	<u>(76,349)</u>	159,412

The proceeds of debt issuances are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, issuing debt increases long-term liabilities and does not affect the statement but the repayment reduces long-term liabilities in the statement of net position. The amount of debt issued and repaid is:

Debt Payments	25,301
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Governmental funds report the pension 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.

17,864

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.

1,307

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 increased by this amount this year.

5,780

Change in net position of governmental activities	<u>\$ (51,255)</u>
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The accompanying notes are an integral part of these financial statements.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

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, 2016

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, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Investments

Investments are recorded at fair value. During the year ended December 31, 2016, the Board implemented GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. This statement provides guidance for determining fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and financial derivative instruments and disclosures related to all fair value measurements. The District's implementation of this statement required no adjustment to prior periods; however, it expanded the disclosure requirements for items carried at fair value.

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, 2016

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.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

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.

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.

At December 31, 2016 Custer Health's carrying amount of deposits was \$891,612 and the bank balance was \$901,363. Of the bank balance for the year ended December 31, 2016, \$351,874 was covered by Federal Depository Insurance and \$549,489 was collateralized with securities held by the pledging financial institutions' agent, but not in Custer Health's name.

As of December 31, 2016, 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.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

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-based 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, 2016.

<u>Assets</u>	<u>Total</u>	<u>Quoted Prices in Active Markets Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
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.

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.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 5 TAXES RECEIVABLE – CONTINUED

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 DUE FROM COUNTY TREASURER

The amount due from county treasurer consists of cash on hand for taxes collected but not remitted to Custer Health at December 31. County treasurers include the counties of Grant, Mercer, Morton, Oliver and Sioux.

NOTE 7 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 8 CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2016:

<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	\$ 439,757	\$ 235,761	\$ 7,609	\$ 667,909
<i>Less accumulated depreciation for:</i>				
Office Equipment and Furniture	109,893	76,349	7,609	178,633
Total Capital Assets Being Depreciated, Net	<u>\$ 329,864</u>	<u>\$ 159,412</u>	<u>\$ -</u>	<u>\$ 489,276</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
Health and Welfare	<u>\$ 76,349</u>

NOTE 9 SALARIES AND BENEFITS PAYABLE

Salaries and benefits payable consist of amounts earned by employees for services rendered prior to December 31, 2016 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.

NOTE 10 ACCOUNTS PAYABLE

Accounts payable consist of amounts on open account for goods and services received prior to December 31, 2016 and chargeable to the appropriations for the year then ended, but paid for subsequent to that date.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 11 OPERATING LEASES

Custer Health rents space for programs in various locations. The most significant of these agreements is the WIC space for \$2,090 per month through September 30, 2017. Custer Health also rents space from Coal Country Community Health Center in Beulah for \$250 per month through December 31, 2016.

During 2015, Custer Health also entered into a lease agreement for office space at Burlington Plaza. This is a ten year lease, commencing on the date the tenant takes occupancy. The minimum monthly payments are \$7,160 for rent and \$1,350 for operating expenses. The first payment for this lease was made in March of 2016 to cover the February and March 2016 rent.

Total rent expenditure was \$137,259 for 2016.

Required future minimum lease payments are as follows:

Year Ending December 31	Amount
2017	\$ 120,930
2018	102,120
2019	102,120
2020	102,120
2021	102,120
2022-2025	416,990
Total	<u>\$ 946,400</u>

NOTE 12 LONG-TERM DEBT

During the year ended December 31, 2016, the following changes occurred in long-term liabilities:

	Balance January 1	Increases	Decreases	Balance December 31	Due Within One Year
Compensated Absences *	\$ 88,245	\$ -	\$ 1,307	\$ 86,938	\$ -
Total	<u>\$ 88,245</u>	<u>\$ -</u>	<u>\$ 1,307</u>	<u>\$ 86,938</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.

NOTE 13 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.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 13 RISK MANAGEMENT – CONTINUED

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 14 DEFERRED OUTFLOWS AND INFLOWS OF REOURCES (PENSIONS)

Details of the Deferred Outflows of Resources and Deferred Inflows of Resources on the face of the financial statements as of December 31, 2016 are as follows:

Deferred Outflows of Resources	
Derived from pension - NDPERS	\$ 236,382
Deferred Inflows of Resources	
Derived from pension - NDPERS	\$ 259,724

Note 15 of the financial statements contains detail of the pension plan.

NOTE 15 PENSION PLAN

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. Effective July 1, 2015, the board was expanded to include 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. The plan permits early retirement at ages 55-64 with three or more years of service.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 15 PENSION PLAN – CONTINUED

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.

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.

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

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 15 PENSION PLAN – CONTINUED

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

At December 31, 2016, the Organization reported a liability of \$935,344 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015 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 July 1, 2015, the Organization's proportion was 0.137554 percent, which was a decrease of .007902 from its proportion measured as of July 1, 2014.

For the year ended December 31, 2016, the Organization recognized pension expense of \$80,303. At December 31, 2016, 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	\$ 27,136	\$ -
Changes of assumptions		83,335
Net difference between projected and actual earnings on pension plan investments	108,077	127,822
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,449	48,567
Employer contributions subsequent to the measurement date (see below)	96,720	-
Total	\$ 236,382	\$ 259,724

\$96,720 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, 2016.

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

	For the year ended December 31,
2017	\$ (34,184)
2018	(34,184)
2019	(34,184)
2020	6,617
2021	(24,110)
Thereafter	-

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 15 PENSION PLAN – CONTINUED

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	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 set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Retiree Mortality Table set back one year for males (not set back for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2015, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

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%	1.52%
International Fixed Income	5%	0.45%
Global Real Assets	20%	5.38%
Cash Equivalents	1%	0.00%

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 15 PENSION PLAN – CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2015. 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, 2015, 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, 2015. 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, 2015.

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 8 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 (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employer's proportionate share of the net pension liability	\$ 1,434,303	\$ 935,344	\$ 527,105

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; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

CUSTER HEALTH
Notes to the Basic Financial Statements
December 31, 2016

NOTE 16 BUDGET AMENDMENTS

The board of health approved the following amendments to the budget for the year ended December 31, 2016:

Fund	Revenues		
	Original Budget	Amendment	Amended Budget
General	<u>\$ 2,538,538</u>	<u>\$ 100,559</u>	<u>\$ 2,639,097</u>

NOTE 17 EXPENDITURES IN EXCESS OF BUDGET

For the year ending December 31, 2016, some individual line items were in excess of budget and in total expenditures were in excess of the total budget. No remedial action is anticipated.

***REQUIRED
SUPPLEMENTARY
INFORMATION***

CUSTER HEALTH
 Required Supplementary Information
 For the Year Ended December 31, 2016

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

	2016	2015
Employer's proportion of the net pension liability (asset)	0.137554%	0.145456%
Employer's proportionate share of the net pension liability (asset)	\$ 935,344	\$ 923,240
Employer's covered-employee payroll	\$ 1,225,438	\$ 1,225,296
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	76.33%	75.35%
Plan fiduciary net position as a percentage of the total pension liability	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 *

	2016	2015
Statutorily required contribution	\$ 93,082	\$ 87,241
Contributions in relation to the statutorily required contribution	\$ (98,424)	\$ (87,241)
Contribution deficiency (excess)	\$ (5,342)	\$ -
Employer's covered-employee payroll	\$ 1,225,438	\$ 1,225,296
Contributions as a percentage of covered-employee payroll	7.60%	7.12%

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

See independent auditor's report and notes to financial statements.

CUSTER HEALTH
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2016

	Budget			Variance to Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 925,373	\$ 925,373	\$ 937,972	\$ 12,599
Intergovernmental	1,205,579	1,296,303	1,193,403	(102,900)
Charges for Services	403,046	412,881	543,492	130,611
Interest Income	3,100	3,100	2,076	(1,024)
Miscellaneous	1,440	1,440	946	(494)
TOTAL REVENUES	2,538,538	2,639,097	2,677,889	38,792
EXPENDITURES				
Current:				
Health and Welfare:				
Board of Health	7,500	7,500	3,931	3,569
Contractual	112,200	112,200	268,969	(156,769)
Insurance	7,000	7,000	9,121	(2,121)
Medical Supplies	80,000	80,000	121,206	(41,206)
Office Supplies	100,000	100,000	90,118	9,882
Payroll	2,028,151	2,028,151	2,058,172	(30,021)
Rent	133,365	133,365	137,259	(3,894)
Telephone	7,200	7,200	29,625	(22,425)
Travel	120,000	120,000	64,269	55,731
Miscellaneous	10,000	10,000	29,565	(19,565)
Capital Outlay	60,000	60,000	100,348	(40,348)
Debt Service				
Principal	-	-	25,301	(25,301)
Interest	-	-	924	(924)
TOTAL EXPENDITURES	2,665,416	2,665,416	2,938,808	(273,392)
NET CHANGE IN FUND BALANCES	(126,878)	(26,319)	(260,919)	(234,600)
Fund Balances - December 31, 2015	1,076,280	1,076,280	1,076,280	-
FUND BALANCES - DECEMBER 31, 2016	\$ 949,402	\$ 1,049,961	\$ 815,361	\$ (234,600)

The accompanying required supplementary information notes are an integral part of these financial statements.

CUSTER HEALTH
Notes to Required Supplementary Information
For the Year Ending December 31, 2016

NOTE 1 BUDGET

The governing board adopts a budget on the modified accrual basis for its general fund. Custer Health is required to present the adopted and final amended budgeted revenues and expenditures for this fund.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Custer Health presents and approves a budget on or before October 7th. The budget includes proposed expenditures and a means of financing them.
- The final budget must be filed with the county auditor within 10 days of approval.
- No disbursements shall be made or liability incurred in excess of the total appropriation. However, the governing board may amend the budget during the year for any receipts and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

NOTE 2 CHANGES OF ASSUMPTIONS

Amounts reported in 2016 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.

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, 2016, and the related notes to the financial statements, which collectively comprise Custer Health's basic financial statements and have issued our report thereon dated August 31, 2017.

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) 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 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 as items 2016-001 to 2016-003 that we consider to be significant deficiencies.

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*

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 matter that is 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.



Mahlum Goodhart, PC
Mandan, North Dakota
August 31, 2017

CUSTER HEALTH
Schedule of Findings
For the Year Ended December 31, 2016

Financial Statement Findings

Finding 2016-001: Segregation of Duties

Condition - The organization has one employee who is responsible for all accounting functions. Considering the size of the entity, it is not feasible to obtain proper segregation of duties and the degree of internal control is severely limited.

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

Cause – There are a limited number of staff members available for these duties.

Effect – Inadequate segregation of duties could affect the organization’s ability to timely detect misstatements in amounts that would be material to the financial statements.

Recommendation – This is not unusual in organizations of your size, but the board should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the board's knowledge of matters relating to the organization's operations.

Management Response – We are aware of the limited segregation of duties and have implemented controls when possible.

Finding 2016-002: Journal Entries

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.

Management Response – We are aware of the year-end accrual and pension adjustments and have decided to accept the degree of risk associated having these entries made during the audit. Management will review the financial statements before the audit is issued.

CUSTER HEALTH
Schedule of Findings
For the Year Ended December 31, 2016

Finding 2016-003: Preparation of Financial Statements

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

Criteria – Complete and accurate presentation of the financial statements in conformity with generally accepted accounting principles is required.

Cause – Ongoing changes in the reporting and disclosure requirements make it difficult to maintain knowledge of current accounting standards with limited time available to the accounting staff.

Effect – Custer Health has elected to have the auditors complete the full disclosure government-wide and fund financial statements.

Recommendation – The preparation of financial statements by the auditors for small government entities is not unusual. Custer Health staff should continue to provide the accrual adjustments required to the auditors or implement accrual accounting on the internal accounting system. Custer Health staff should also review the financial statements and related disclosures.

Management Response – The accrual adjustments will continue to be accumulated and the staff and board will review the accrual basis accounting request.

Section IV – Prior Audit Findings

Findings 2016-001 through 2016-003 are repeat findings.