

Lake Health District
d/b/a Lake District Hospital
Lakeview, Oregon

Financial Statements and Supplementary Information

Years Ended June 30, 2018 and 2017

WIPFLi^{LLP}
CPAs and Consultants

Lake Health District, d/b/a Lake District Hospital

Directory of Officials

June 30, 2018

Board of Directors

Don Liddycoat 700 South J Street Lakeview, OR 97630	Chair
Jane O'Keeffe 700 South J Street Lakeview, OR 97630	Treasurer
Jerald Steward 700 South J Street Lakeview, OR 97630	Secretary
Chuck Kelley 700 South J Street Lakeview, OR 97630	Member
Judy Graham 700 South J Street Lakeview, OR 97630	Member

Administrator

Charles Tveit
700 South J Street
Lakeview, OR 97630

Mailing Address

Lake District Hospital
700 South J Street
Lakeview, OR 97630

Lake Health District, d/b/a Lake District Hospital

Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

Board of Directors
Lake Health District d/b/a Lake District Hospital
Lakeview, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Health District d/b/a Lake District Hospital (the "District"), and its discretely presented component unit, as of for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District'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; 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and its discretely presented component unit, as of June 30, 2018 and 2017, and the respective changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Emphasis of Matters

As discussed in Note 2 of the financial statements, the District changed its method of accounting for its blended component unit in 2017. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on page 4 through 11 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, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2019, on our consideration of the District'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 solely 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 the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 21, 2019, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Wipfli LLP

Wipfli LLP

By:

Jeffrey M. Johnson

Jeffrey M. Johnson, CPA, Oregon Municipal Auditor, Lic#1552

January 21, 2019
Spokane, Washington

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis Years Ended June 30, 2018 and 2017

Our discussion and analysis of Lake Health District d/b/a Lake District Hospital is (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements that follow this analysis.

The District is a governmental entity, a political subdivision of the State of Oregon. The State of Oregon has provided counties authority to create independent health districts rendering hospital and other health care services for the residents of the District. The District was created by public vote on July 18, 1967, and the current District facility opened its doors in 1971. The District operates a 24-bed acute care hospital, obstetrical services, surgery, emergency department, and related ancillary services (lab, x-ray, etc.). Outpatient clinic services are provided both through leased physician clinic facilities where the District provides buildings to support those operations and through the District owned Rural Health Clinic (RHC).

A five-member Board of Directors governs the District. The members of the Board are elected for a term of four years and elections are staggered so elections are held every two years. The Board is required to elect a chairman, secretary, and treasurer. One of their duties is to hire an Administrator/Chief Executive Officer (CEO). The Board delegates the day-to-day operations of the District to the CEO.

As a municipal government entity, the District levies and the county collects property taxes from property owners within the District. This tax revenue is used to support the purposes of the District, which is to provide health care to its members. Tax support has increased due to the construction of the replacement hospital as well recently due to a gas pipe line development. Tax receipts represented approximately 6.7% and 7.1% of District receipts for the years ended June 30, 2018 and 2017, respectively.

The Government Accounting Standards Board (GASB) prescribes the financial reporting of the District. This is the format followed by the District. The audit reports of the District are reviewed by the Oregon Secretary of State, Division of Audits.

Issues Facing the District

There are issues facing the District that could result in material changes in its financial position in the long term. Among those issues are:

- Risks related to Medicare and Medicaid reimbursement due to state and national health care reform and budget shortfalls.
- Labor shortages for health care professionals including physicians, registered nurses, and other health care related fields. Increasing employee and employee benefit costs.
- Increasing numbers of underinsured patients.
- High liability and malpractice insurance premiums for the hospital and physician practices.
- Concern about retaining and recruiting primary care physicians.
- Difficulty recruiting and maintaining specialty physician services in the community.

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued) Years Ended June 30, 2018 and 2017

The District's hospital is certified as a provider under both the Medicare program, which provides certain health care benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. Approximately 36% of the gross patient revenue for fiscal year ending June 30, 2018, was derived from Medicare, 24% was derived from Medicaid, 36% from other insurance, and 4% from private pay or uninsured.

Designated as a Critical Access Hospital (CAH) since December 2001, the District's hospital services for Medicare and Medicaid beneficiaries are paid on a cost basis. Interim payments are computed on a percentage of charges, derived from the most recently filed Medicare Statement of Reimbursable Cost.

Medicare compensates the District on fixed rates for different classifications of skilled nursing, home health services, hospice services, and physician services. When the reimbursement is fixed, the District is at risk to lose money on any service where expenses exceed the reimbursement.

Under Medicaid, the federal government provides grants to states that have programs meeting certain federal guidelines. These funds or programs continue to be reduced as Oregon's state government has attempted to balance its budget.

In recent years, both the state and federal governments have increased enforcement of laws designed to combat health care fraud and additional anti-fraud legislation has been adopted at both the federal and state levels. There are high penalties for organizations caught breaking these laws. There are a number of examples in the west, where hospitals have been audited and the justice department is looking to recover millions of dollars in what they allege to be improper payments. The fees and fines for a hospital caught in violation of these laws can be substantial. Failure of the District to be in compliance with these laws can result in the exclusion of Medicare and Medicaid funds along with fines and criminal penalties.

Risks Related to HIPAA

Under the Health Insurance Portability and Accountability Act (HIPAA), health plans, health care clearinghouses, and health care providers, including hospitals and their business partners, must maintain reasonable and appropriate administrative, technical, and physical safeguards to ensure the integrity and confidentiality of electronic health care information.

The District must also protect against reasonable foreseeable threats to the security or integrity of the information and protect against unauthorized use or disclosure.

Penalties are high and may include the loss of Medicare and Medicaid funds, fines, and criminal sanctions. The implementation of an electronic medical records system and upgrades to the District's information system in 2011 helped to strengthen security related to HIPAA. The expanding use of smart phones and other portable computers is adding additional risk to potential security breaches.

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued)
Years Ended June 30, 2018 and 2017

General Risks Affecting Health Care Facilities

Technology and Service

Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety programs, and outpatient health care delivery may reduce utilization and revenues for the District in the future. Technological advances continue to accelerate the trend toward the use of sophisticated equipment and services for diagnosis and treatment of health care illnesses and diseases.

Employment and Labor Issues

The District is a major employer within the community and has a complex mix of professional, technical, clerical, maintenance, dietary, housekeeping, union, and nonunion workers. Potential risks include contract disputes, discrimination claims, personal tort actions, and claims for work-related injuries and exposures to hazardous materials. A shortage of nursing staff and other medical professional/technical employees is contributing to higher salaries and increased utilization of agency staff at a premium wage rate.

Competition

Even in a rather isolated geographic location, competition from other hospitals and health care providers is a risk to the District's revenue. Tertiary care facilities and others offering specialty care often promote competitive profitable services to those provided locally. All too frequently, others try to carve out profitable segments of the District's business leaving the hospital with product lines or services that are losing money.

Insurance

Malpractice costs for hospitals and physicians have increased significantly over the last six years. These increases have caused providers to leave certain geographic areas and certain specialties. In Oregon, with no cap on malpractice damages, the exposure is high for health care providers, resulting in substantially higher premiums.

Cost Based Reimbursement

CAH's are paid on cost based reimbursement from Medicare and Medicaid. Gains and losses are limited on services performed for those hospital patients. The larger gains and losses come from private insurance and self-pay. Home health and hospice is not paid on cost based reimbursement.

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued) Years Ended June 30, 2018 and 2017

Financial Discussion

Overall, the District held steady in terms of volumes and census and continued to see increases in volumes as a result of additional services provided. Enhanced details on financial highlights are explained below:

- Data System:** The District's new data system went live on January 1, 2011, and has been upgraded several times since. The system is a fully integrated tool designed to provide better information in a digital format also called an Electronic Health Record (EHR). In September 2011, the District met the clinical quality measures designated by the Center's for Medicare & Medicaid Systems. By meeting these measures, the District qualified for financial incentive reimbursements. In 2015, the District met the requirements of Meaningful Use stage 2, there were no financial gains, but this will ensure there will not be any financial penalties from Medicare in 2018. The District has replaced Evident with electronic System for EHR in the Emergency Room and is in the process of replacing Evident with eClinicalWorks in the Clinics. Both systems will help ensure we meet future Centers for Medicare and Medicaid Services EHR requirements.
- Surgery Service:** The District had been seeking to expand its surgical services for a number of years. In May 2012, a general surgeon was hired as a permanent solution to allow for more local surgical procedures, thus reducing travel for many patients living in or near the District. This practice increased in 2017 and 2018 and is expected to be strong through 2019.
- Lakeview Gardens, LLC:** The license for long-term care was separated from Lake Health on December 1, 2014 to Lakeview Gardens, LLC, a not-for-profit Lakeview Gardens will operate and be responsible for the long-term care operations previously managed and owned by Lake Health. The District is leasing the skilled nursing facility space to Lakeview Gardens. The District also has a shared services agreement with Lakeview Gardens for support services. Long-term care will continue operating under the name Lakeview Gardens.
- Provider-Based Rural Health Clinic:** The District retrospectively transitioned some of the clinical operations from Goose Lake Medical Services, Inc (a discretely presented component unit), to the District as a department of the hospital. The District has spent countless hours over the course of two and half years pursuing provider-based status for this clinic, which will increase both Medicare and Medi-Cal reimbursement substantially.

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued) Years Ended June 30, 2018 and 2017

2018 Financial Highlights

The District's overall business increased in 2018 with net patient service revenue at \$27.5 million, an increase of \$2.6 million, or 10% from 2017.

Adjustment including revenue deductions, allowances, charity, and bad debts reduced gross patient revenue in 2018 by \$8.3 million, or 23.2% of gross patient revenue. Revenue deductions increased 16% from 2017 primarily due to increased contractual adjustments and bad debt.

In total, the District's operating expenses increased by \$2 million in 2018, or 7% from 2017. Salary and benefits increased approximately \$1.5 million in 2018, or 9%. Full time equivalents (FTE) increased from 236 in 2017 to 252 in 2018, or 7%.

Nonoperating revenue netted \$0.6 million in 2018, a decrease of \$933,328, or 61% from 2017.

The District had a net decrease in net position of \$(894,080) in 2018 compared to net decrease in net position of \$(721,140) in 2017.

Net accounts receivable increased from \$5.2 million in 2017 to \$5.3 million in 2018, or 2%.

Capital Assets

Lake District spent \$5,408,077 and \$8,834,028 in capital expenditures in 2018 and 2017, respectively. The majority of the expenditures in 2018 were related to on campus clinical remodel and additions as well as the purchase of equipment. Expenditures in 2017 were primarily related to the purchase of equipment.

Long-term Debt

In 2011, the remodel and previously completed 37,000 square foot expansion, completed a \$22 million project. These amounts are financed by a combination of community support in the passing of an \$8 million general obligation bond, bank loans in the amount of \$10.5 million, and State loans in the amount of \$2.95 million. The USDA purchased the \$8 million bond and a \$550,000 revenue bond issued by the District.

The new and remodeled facilities alleviated problems related to space, quality of care, and privacy. In 2016, the District refinanced existing debt through a bond with Washington Federal for \$13.25 million and paid off \$2.5 million to the State of Oregon, \$9.9 million in existing loans with Washington Federal, and a USDA note for \$530 thousand. The savings in interest annually is calculated to be close to \$100 thousand.

In fiscal year 2017, the District issued draw down revenue bonds totaling \$14,000,000 to finance construction for the long-term care and assisted living facility, clinic facility, and ambulance facility. At fiscal year-end, these bonds had a drawn down balance of \$7,150,678. The bonds have a maturity date of November 1, 2043, with interest payments beginning December 1, 2016, and first principal and interest payments beginning December 1, 2018.

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2018 and 2017

Condensed financial information as of and for the years ended June 30, 2018, 2017, and 2016, are as follows:

Condensed Statements of Net Position (In Thousands)

	2018	2017	2016	Change	
				2018-2017	2017-2016
Assets and deferred outflows of resources:					
Current assets	\$ 15,342	\$ 16,307	\$ 17,054	\$ (965)	\$ (747)
Noncurrent assets	31,343	28,156	21,409	3,187	6,747
Deferred outflows of resources	51	77	102	(26)	(25)
Total assets and deferred outflows of resources	\$ 46,736	\$ 44,540	\$ 38,565	\$ 2,196	\$ 5,975
Liabilities:					
Current liabilities	\$ 3,669	\$ 3,744	\$ 3,676	\$ (75)	\$ 68
Noncurrent liabilities	30,404	27,239	20,611	3,165	6,628
Total liabilities	34,073	30,983	24,287	3,090	6,696
Net position:					
Net investment in capital assets	(243)	49	25	(292)	24
Restricted - Expendable	228	228	999	-	(771)
Restricted - Nonexpendable	420	420	486	-	(66)
Unrestricted	12,258	12,860	12,768	(602)	92
Total net position	12,663	13,557	14,278	(894)	(721)
Total liabilities and net position	\$ 46,736	\$ 44,540	\$ 38,565	\$ 2,196	\$ 5,975

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2018 and 2017

Condensed Statements of Revenue, Expenses, and Changes in Net Position (In Thousands)

	2018	2017	2016	Change	
				2018-2017	2017-2016
Operating revenue:					
Net patient service revenue	\$ 27,501	\$ 24,924	\$ 22,537	\$ 2,577	\$ 2,387
Other operating revenue	690	652	408	38	244
Total operating revenue	28,191	25,576	22,945	2,615	2,631
Operating expenses:					
Salaries and benefits	18,081	16,607	13,812	1,474	2,795
Supplies	2,884	2,436	2,584	448	(148)
Other	6,466	6,667	5,924	(201)	743
Depreciation and amortization	2,247	2,112	2,211	135	(99)
Total operating expenses	29,678	27,822	24,531	1,856	3,291
Operating income (loss)	(1,487)	(2,246)	(1,586)	759	(660)
Nonoperating revenue (expenses)					
Property tax revenue	1,978	1,989	2,274	(11)	(285)
Interest expense	(940)	(1,004)	(601)	64	(403)
Noncapital grants and donations - Net	691	1,605	220	(914)	1,385
Miscellaneous	(1,337)	(1,086)	(198)	(251)	(888)
Lease income	201	21	21	180	-
Net nonoperating revenue	593	1,525	1,716	(932)	(191)
Increase (decrease) in net position	(894)	(721)	130	(173)	(851)
Net position - Beginning of year	13,557	14,278	14,148	(721)	130
Net position - End of year	\$ 12,663	\$ 13,557	\$ 14,278	\$ (894)	\$ (721)

Lake Health District, d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2018 and 2017

Contacting the District's Financial Management

This financial report is designed to provide readers with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration office at Lake Health District, 700 South J Street, Lakeview, OR 97630 or call 541.947.2114.

Lake Health District, d/b/a Lake District Hospital

Statements of Net Position Years Ended June 30, 2018 and 2017

<i>Assets and Deferred Outflows of Resources</i>	2018	2017
Current assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 6,164,324	\$ 7,179,909
Board-designated cash	733,959	365,528
Restricted cash and cash equivalents	647,782	647,782
Receivables:		
Patient accounts - Net	5,251,569	5,157,042
Taxes	226,141	217,271
Other	1,057,003	756,342
Due from component units	428,765	1,031,894
Third-party settlements	371,488	517,318
Inventories	291,265	277,976
Prepaid expenses	169,662	155,966
Total current assets	15,341,958	16,307,028
Noncurrent assets:		
Nondepreciable capital assets	4,200,726	8,979,325
Depreciable capital assets - Net of accumulated depreciation	27,142,764	19,177,118
Total noncurrent assets - Net	31,343,490	28,156,443
Deferred outflows of resources:		
Excess consideration provided for acquisition - Net	51,000	76,500
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 46,736,448	\$ 44,539,971

Lake Health District, d/b/a Lake District Hospital

Statements of Net Position (Continued) Years Ended June 30, 2018 and 2017

<i>Liabilities and Net Position</i>	2018	2017
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 1,182,794	\$ 869,207
Account payable	632,871	1,121,798
Accrued compensation and related liabilities	819,493	806,772
Accrued vacation	909,128	819,129
Accrued interest payable	125,198	127,205
Total current liabilities	3,669,484	3,744,111
Noncurrent liabilities:		
Long-term debt and capital lease obligation - Less current maturities	30,403,796	27,238,612
Total liabilities	34,073,280	30,982,723
Net position:		
Net investment in capital assets	(243,100)	48,624
Restricted - Expendable -		
For debt service and specific operating activities	227,888	227,888
Restricted - Nonexpendable -		
Nonexpendable permanent endowments	419,894	419,894
Unrestricted	12,258,486	12,860,842
Total net position	12,663,168	13,557,248
TOTAL LIABILITIES AND NET POSITION	\$ 46,736,448	\$ 44,539,971

Goose Lake Medical Services, Inc.

Discretely Presented Component Unit - Statements of Net Position

Years Ended June 30, 2018 and 2017

	2018	2017
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 154,285	\$ 315,178
Patient accounts - Net	247,350	368,710
Inventories	539,936	154,253
Total current assets	941,571	838,141
TOTAL ASSETS	\$ 941,571	\$ 838,141
<i>Liabilities and Net Position</i>		
Liabilities:		
Current liabilities	\$ 47,936	\$ 35,396
Due to Lake Health District	428,766	583,516
Total current liabilities	476,702	618,912
Net position - Unrestricted	464,869	219,229
TOTAL LIABILITIES AND NET POSITION	\$ 941,571	\$ 838,141

Lake Health District, d/b/a Lake District Hospital

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2018 and 2017

	2018	2017
Revenue:		
Net patient service revenue	\$ 27,501,349	\$ 24,923,568
Other operating revenue	689,997	651,899
Total operating revenue	28,191,346	25,575,467
Operating expenses:		
Salaries and wages	13,546,778	12,662,712
Employee benefits	4,534,350	3,944,422
Professional fees	3,989,345	3,966,506
Supplies	2,884,379	2,436,451
Purchased services - Utilities	599,730	538,683
Purchased services - Other	350,893	344,484
Insurance	194,453	171,961
Other	1,331,742	1,645,500
Depreciation and amortization	2,246,530	2,111,990
Total operating expenses	29,678,200	27,822,709
Loss from operations	(1,486,854)	(2,247,242)
Nonoperating revenue (expense):		
Property tax revenue	1,977,228	1,989,796
Investment income	78,178	61,892
Interest expense	(940,294)	(1,004,116)
Transfer to component unit	(1,418,539)	(1,575,121)
Noncapital grants and donations - Net	691,316	1,604,749
Other nonoperating income	3,603	427,620
Lease income	201,282	21,282
Nonoperating revenue - Net	592,774	1,526,102
Decrease in net position	(894,080)	(721,140)
Net position - Beginning of year, as previously reported	13,557,248	14,082,158
Prior period adjustment	-	196,230
Net position - End of year	\$ 12,663,168	\$ 13,557,248

Goose Lake Medical Services, Inc.

Discretely Presented Component Unit - Statements of Revenue, Expenses, and Changes in Net Position Years Ended June 30, 2018 and 2017

	2018	2017
Patient service revenue - Net	\$ 2,772,460	\$ 2,313,016
Operating expenses:		
Salaries and wages	1,710,447	1,333,734
Employee benefits	459,561	297,322
Professional fees	753,880	427,371
Supplies	322,181	325,483
Purchased services - Utilities	77,303	67,609
Other	386,454	238,912
Total operating expenses	3,709,826	2,690,431
Loss from operations	(937,366)	(377,415)
Nonoperating revenue:		
Transfer from Lake Health District	1,183,006	973,426
Total nonoperating revenue	1,183,006	973,426
Increase in net position	245,640	596,011
Net position - Beginning of year, as previously reported	219,229	(180,552)
Prior period adjustment	-	(196,230)
Net position - End of year	\$ 464,869	\$ 219,229

Lake Health District, d/b/a Lake District Hospital

Statements of Cash Flows Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 27,552,652	\$ 24,798,539
Receipts from other operating revenue	389,336	76,020
Payments to employees	(17,978,408)	(16,355,930)
Payments to supplies, contractors and others	(9,866,454)	(9,670,523)
Net cash provided by (used in) operating activities	97,126	(1,151,894)
Cash flows from noncapital financing activities:		
Taxation for operations	1,968,358	2,000,786
Cash received from grants and donations	691,316	1,604,464
Net cash provided by noncapital financing activities	2,659,674	3,605,250
Cash flows from capital and related financing activities:		
Proceeds from debt issuance	4,401,316	7,525,710
Principal payments on long-term debt and capital leases	(922,545)	(801,557)
Interest paid on long-term debt and capital leases	(942,301)	(948,567)
Purchase of capital assets	(5,408,077)	(8,834,028)
Proceeds from sale of equipment	3,603	-
Net cash used in capital and related financing activities	(2,868,004)	(3,058,442)
Cash flows from investing activities:		
Interest received	78,178	61,892
Transfer to component unit	(1,418,539)	(1,575,121)
Cash received from lease income	201,282	21,282
Due from component units	603,129	708,400
Net cash used in investing activities	(535,950)	(783,547)
Net decrease in cash and cash equivalents	(647,154)	(1,388,633)
Cash and cash equivalents - Beginning of year	8,193,219	9,581,852
Cash and cash equivalents- End of year	\$ 7,546,065	\$ 8,193,219
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents	\$ 6,164,324	\$ 7,179,909
Board-designated cash	733,959	365,528
Restricted cash and cash equivalents	647,782	647,782
Total cash and cash equivalents	\$ 7,546,065	\$ 8,193,219

See accompanying notes to financial statements.

Lake Health District, d/b/a Lake District Hospital

Statements of Cash Flows (Continued) Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Loss from operations	\$ (1,486,854)	\$ (2,247,242)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,246,530	2,111,990
Provision for bad debts	1,051,556	764,228
Changes in operating assets and liabilities:		
Receivable:		
Patient accounts - Net	(1,146,083)	(683,856)
Other	(300,661)	(575,879)
Third-party settlements	145,830	(205,401)
Inventory	(13,289)	(189,672)
Prepaid expenses	(13,696)	(42,511)
Accounts payable	(488,927)	(334,755)
Accrued compensation and related liabilities	12,721	168,606
Accrued vacation	89,999	82,598
Total adjustments	1,583,980	1,095,348
Net cash cash provided by (used in) operating activities	\$ 97,126	\$ (1,151,894)

Goose Lake Medical Services, Inc.

Discretely Presented Component Unit - Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 2,893,820	\$ 2,218,404
Payments to employees	(2,170,008)	(1,631,056)
Payments to supplies, contractors and others	(1,912,961)	(1,178,232)
Net cash used in operating activities	(1,189,149)	(590,884)
Cash flows from noncapital financing activities:		
Due to Lake Health District	(154,750)	973,426
Transfer from Lake Health District	1,183,006	(415,339)
Net cash provided by noncapital financing activities	1,028,256	558,087
Net decrease in cash and cash equivalent	(160,893)	(32,797)
Cash and cash equivalents - Beginning of year	315,178	347,975
Cash and cash equivalents - End of year	\$ 154,285	\$ 315,178
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (937,366)	\$ (377,415)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Receivable:		
Patient accounts - Net	121,360	(94,614)
Inventories	(385,683)	(154,253)
Accounts payable	12,540	35,398
Total adjustments	(251,783)	(213,469)
Net cash used in operating activities	\$ (1,189,149)	\$ (590,884)

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Lake Health District d/b/a Lake District Hospital (the "District"), a municipal corporation, owns and operates a 24-bed acute care hospital and a home health and hospice service in Lakeview, Oregon. The District provides health services to patients in the south central Oregon market. The services provided include acute care hospital, emergency room, home health and hospice, and the related ancillary procedures (lab, x-ray, etc.) associated with those services.

The District operates under the laws of the State of Oregon for Oregon municipal corporations. The District is also a 501(c)(3) and is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in these financial statements.

Discretely Presented Component Unit

Goose Lake Medical Services, Inc. (GLMS) is a legally separate, tax-exempt corporation. GLMS provides health care services to patients in the southern Oregon and northern California areas. The District and GLMS have shared board members and officers. These services and supplies are charged to GLMS and any remaining balances are included in other receivables at June 30. Outstanding receivables from GLMS are \$428,765 and \$1,031,894 at June 30, 2018 and 2017, respectively, and are included in other receivables on the statement of net position. GLMS is reported in the accompanying financial statements to emphasize that it is legally separate from the District. Separate financial statements for the component unit are not available.

Blended Component Unit

GLMS is the sole member of Lakeview Gardens, LLC (LVG). The license for long-term care was transferred from the District on December 1, 2014, to LVG. LVG assumed the license and entered into a lease of the skilled nursing facility building, as well as staff from the District effective December 1, 2014.

Basis of Accounting

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States (GAAP) as prescribed by the GASB.

Budgetary information

Oregon Revised Statutes (ORS) 440.403 establishes standard procedures relating to the preparation, adoption, and execution of the annual budget. Budgetary comparisons for enterprise funds are not required by GAAP. Accordingly, such comparisons of approved budgeted amounts with actual results of operations for individual funds prepared on a basis other than GAAP are set forth as supplementary information as listed in the table of contents. Expenditure levels of control are personal services, materials and services, capital outlay, debt services, and contingencies.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Budgetary information (Continued)

After a public hearing on the budget, it is adopted and appropriations are made by June 30, which is prior to the start of the fiscal year. Expenditures cannot legally exceed appropriations and lapse at fiscal year-end. Action of the Board of Directors may transfer appropriations between control or amend the budget with notice. The Board may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budget. A supplemental budget requires hearings before public, publications in newspapers and approval by the Board. Expenditure appropriations may not be legally over-expended except in the case of grant receipts that could not be reasonably estimated at the time the budget was adopted and for debt service on new debt issued during the budget year. Management may transfer budget amounts between individual line items within the function group, but cannot make changes to the function groups themselves, which is the legal level of control.

Financial position, results of operations, and change in net position are reported on the basis of GAAP. The budgetary basis of accounting differs from GAAP. The budgetary basis statements provided as part of supplementary information elsewhere in this report are presented on the budgetary basis to provide a meaningful comparison to actual result with the budget.

The budgetary basis of accounting is substantially the same as GAAP, with the exceptions that capital outlay expenditures are expensed when purchased, depreciation is not calculated, compensated absences are expensed when paid rather than when incurred and principle payment and proceeds on long-term debt are recorded in revenue when received and expenditures when paid.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturity dates of three months or less. Cash and cash equivalents are carried at costs, which approximates fair value.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The District charges interest on past due accounts on a monthly basis. Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and allowances for doubtful accounts, which reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable.

In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

In evaluating the collectability of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Property Taxes

The District received approximately 6% and 7% of its financial support from property taxes in the years ended June 30, 2018 and 2017, respectively.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes (Continued)

Property taxes are levied by the District and collected by the Lake County Treasurer for operations. These funds were used to support general operations. Property taxes are levied by the County on the District's behalf once per year and intended to finance the District's activities of the same calendar year. Taxes are billed and collected by Lake County and remittance to the District is made at periodic intervals. Any property tax balances due to the County after May 15th are considered delinquent. Property tax revenues are recognized when levied. No allowance for doubtful taxes receivable is considered necessary.

For the fiscal year June 30, 2018, the District levied their property taxes at the rate of \$2.0311 per \$1,000 of assessed property value. The funds used to support operations were \$1,977,228 and \$1,989,796 for the years ended June 30, 2018 and 2017, respectively.

Inventories

Inventories are valued at the lower of cost, determined on the first-in, first-out method, or market. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Restricted and Board-Designated Cash

Such assets include certain cash and cash equivalents whose use is restricted under debt indentures, trust agreements, and by the Board of Directors for future bond principal and interest payments, future acquisition and replacement of property, buildings, equipment, and other purposes, plus unrestricted earnings on those funds.

The District has donor-restricted investments. The investments represent temporarily and permanently restricted endowment funds restricted for the purchase of hospital and nursing home equipment, the support of hospital and nursing home operations and nursing education.

Capital Assets

Capital asset acquisitions exceeding \$5,000 are capitalized and recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Contributed capital assets are reported at their acquisition value at the time of their donation. Generally, assets with a useful life of less than one year are expensed in the year of purchase.

When capitalized assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is classified in nonoperating revenue and expenses.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

All capital assets other than land are depreciated using the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment, computers, and furniture	3 to 7 years

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or estimated useful life of the equipment.

The District capitalizes interest costs on restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings, from the date of the borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. For major capital additions that require a period of time to get them ready for their intended use, but are not acquired with a specific tax-exempt borrowing, the District capitalizes an allocation of interest cost incurred during the period required to complete the asset.

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue, expenses, and changes in net position. No impairment loss was recorded for the years ended June 30, 2018 and 2017.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources

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. The District reports deferred outflows of resources related to the consideration in excess of acquisition value of \$127,500 for a clinic acquired on June 30, 2015. This amount is deferred and amortized over five years, the estimated life of the underlying intangibles. The net carrying value of consideration in excess of acquisition value is \$51,000 and \$76,500, at June 30, 2018 and 2017, respectfully.

Accrued Vacation

The District's employees accumulate paid time-off (PTO) days comprised of vacation, holiday, personal days, and sick days at varying rates depending on years of service. PTO starts to accumulate from an employee's most recent date of hire. New employees are eligible to take PTO only after 500 hours of employment. Should a newly hired employee terminate employment before his or her 500 hours are completed, the employee will not be eligible to receive payment for any accumulated PTO. Employees may carry over a maximum of two years accumulated PTO from one year to the next year. Employees with PTO in excess of the combined two-year accrual may, with the approval of management, receive cash payment for excess hours of PTO. On termination of employment, employee shall be paid all accrued, but unused vacation hours provided they have given the notice required by personnel policies and the employee has not been terminated for cause.

Net Position

For government-wide and proprietary fund reporting, net position is reported in four categories:

Net investment in capital assets: This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build, acquire, or improve those assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category. Unspent portions of capital-related debt proceeds are not included in this category.

Restricted expendable: This category consists of noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the facility.

Restricted nonexpendable: This category consists of nonexpandable net position is a noncapital net position that has been restricted by donors to be maintained in perpetuity.

Unrestricted: This category consist of the remaining net position that does not meet the definition of the three preceding categories.

When both restricted and unrestricted resources are available for use, it is the District's policy to use externally restricted resources first.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services - the District's principal activity. Nonexchange revenue, including grants, property taxes, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patients Service Revenue

Net patient care revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated uncollectible revenue is reported as provision for bad debts in the financial statements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Some healthcare is provided with the knowledge it will not be reimbursed. This is reported under charity care.

For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a provision for bad debts related to uninsured patients in the period the services are provided.

Charity Care

The District provides care to patients who meet certain criteria under its charity care (discounted services) policy without charge or at amounts less than established rates. The District maintains records to identify and monitor the level of charity care (discounted services) provided.

Grants and Contributions

From time to time, the District receives grants from the Federal Government and the State of Oregon as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue in the year received.

Gifts, grants, and bequests restricted by donors for specific purposes are recorded in the restricted fund and transferred to the unrestricted fund when amounts are expended for their restricted purpose. When restricted funds are used for operations, these amounts are reflected in the statements of revenue, expenses, and changes in net position as other operating revenue.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

The District is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 509(a)(2) of the Code. It is also exempt from state income taxes on related income.

Advertising

Advertising costs are expensed as incurred.

Reclassifications

Certain reclassifications of 2017 amounts have been made in the accompanying financial statements to conform to the 2018 presentation.

Subsequent Events

Subsequent events have been evaluated through January 21, 2019, which is the date the financial statements were available to be issued.

Note 2: Prior Period Adjustment

Both The District and GLMS restated their previously reported beginning net positions as of July 1, 2016 to reflect the partial transfer of the GLMS net position to the District. The restatement is necessary due to the retroactive change in Medicare designation from Free-Standing Rural Health Clinic (FS-RHC) to Provider-Based Rural Health Clinic (PB-RHC). The net position of the District increased as previously reported by \$196,230 while the net position of GLMS decreased by \$196,230 as of July 1, 2016.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 3: Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. At June 30, 2018, the District exceeded the insured limits. However, this excess is collateralized with securities held by the pledging financial institution's trust department or agent not in the depositor's name.

Oregon Revised Statute Chapter 295 requires all Oregon bank depositories holding public fund deposits to maintain securities totaling a value not less than 110 percent of the greater of:

- (a) All public funds held by the bank depository; or
- (b) The average of the balances of public funds held by the bank depository, as shown on the last four immediately preceding treasurer reports.

The District is a participant in the State of Oregon Local Government Investment Pool (LGIP), which is included in the Oregon Short-term Fund. The Short-term Fund is not registered with the U.S. Securities and Exchange Commission as an investment company. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board. The LGIP pool shares are bought and redeemed at \$1 based on the amortized cost of the underlying investments. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. The investment in the LGIP is not subject to the fair value hierarchy disclosures.

The District considers all investments to be cash and cash equivalents. All final decisions regarding the purchase and sale of investment securities remain with the District Board. The District maintains an investment policy in compliance with ORS 293, which is designed to preserve principle and limit the following types of risk:

Credit risk - The risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The LGIP is not rated by any national rating service.

Concentration of credit risk - The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer).

Interest rate risk - The possibility that an interest rate change could adversely affect an investment's fair value.

Custodial credit risk - The risk that in an event of a bank failure, the District's deposits may not be returned to it. ORS 295.0002 provides for funds deposited in excess of \$250,000 to be held only in a depository qualified by the Oregon Public Funds Collateralization Program (PFCP). The District's deposits are held by a depository qualified under PFCP for the years ending June 30, 2018 and 2017.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 3: Cash and Cash Equivalents (Continued)

The District had the following cash and cash equivalents at June 30:

	2018	2017
Demand deposits	\$ 3,596,759	\$ 2,952,809
Petty cash	3,773	2,803
Certificates of deposit	76,737	76,206
Local government investment pool	3,868,796	5,161,401
Total cash and cash equivalents	\$ 7,546,065	\$ 8,193,219

The carrying amounts of cash and cash equivalents are included in the District's statement of net position as follows at June 30 as follows:

	2018	2017
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 6,164,324	\$ 7,179,909
Board-designated cash:		
Board-designated cash - Capital acquisitions	1,252	1,250
Board-designated cash - Pharmacy inventory replacement	76,737	76,206
Board-designated cash - Operational reserves	655,970	288,072
Total Board-designated cash	733,959	365,528
Restricted cash and cash equivalents:		
Restricted by debt instruments - USDA reserve funds	227,888	227,888
Restricted by endowment provisions	419,894	419,894
Total restricted cash and cash equivalents	647,782	647,782
Totals	\$ 7,546,065	\$ 8,193,219

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 4: Reimbursement Arrangement With Third-Party Payors

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenue charged and reimbursement under each of the various programs are included in revenue deductions and allowances. Gross revenue billed under the Medicare and Medicaid programs totaled approximately \$21,491,415 and \$19,248,768 for the years ended June 30, 2018 and 2017, respectively.

Medicare

The District's hospital is designated as a CAH. As a CAH, the District's inpatient and outpatient services provided to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District's clinics are certified as RHCs. As RHCs, services provided to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare intermediary.

Medicaid

As a CAH, inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. Medicaid reimburses RHCs on a prospective rate that is based on historical cost without any cost report settlement at year-end.

Other

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Accounting for Contractual Arrangements

The District is reimbursed for certain cost-reimbursable items at an interim rate, with final settlements determined after an audit of the District's related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The cost reports for the District have been audited by Medicare and Medicaid through June 30, 2017 and 2017, respectively.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 4: Reimbursement Arrangement With Third-Party Payors (Continued)

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased.

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed.

While no significant regulatory inquiries have been made of the District, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

CMS uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to health care providers and were not detected through existing CMS program-integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District may either accept or appeal the RACs findings. A RAC review of the District's Medicare claims is anticipated; however, the outcome of such a review is unknown and any financial impact cannot be reasonably estimated at this time.

Note 5: Property Taxes Receivable

Schedule of property tax transactions and outstanding balances for the year ended June 30, 2018:

Fiscal Year	Receivable July 1, 2017	2017-2018 Net Levy	Discounts	Adjustments	Interest	Cash Collections	Receivable June 30, 2018
2017-2018	\$ -	\$ 2,048,648	\$ (53,037)	\$ (46,102)	\$ 1,148	\$(1,870,875)	\$ 79,782
2016-2017	85,054	-	10	(3,453)	2,736	(33,393)	50,954
2015-2016	53,303	-	11	(3,206)	2,751	(14,905)	37,954
2014-2015	35,223	-	16	(4,791)	4,366	(15,073)	19,741
2013-2014	16,967	-	16	(1,997)	1,567	(4,411)	12,142
2012-2013	7,894	-	-	(441)	122	(266)	7,309
Prior	18,830	-	-	(464)	259	(366)	18,259
Totals	\$ 217,271	\$ 2,048,648	\$ (52,984)	\$ (60,454)	\$ 12,949	\$(1,939,289)	\$ 226,141

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 5: Property Taxes Receivable (Continued)

Schedule of property tax transactions and outstanding balances for the year ended June 30, 2017:

Fiscal Year	Receivable July 1, 2016	2016-2017 Net Levy	Discounts	Adjustments	Interest	Cash Collections	Receivable June 30, 2017
2016-2017	\$ -	\$ 2,000,166	\$ (52,462)	\$ (12,766)	\$ 1,177	\$(1,851,061)	\$ 85,054
2015-2016	85,405	-	(98)	334	2,432	(34,770)	53,303
2014-2015	58,678	-	(115)	(5,859)	3,143	(20,624)	35,223
2013-2014	37,058	-	(113)	(6,320)	4,236	(17,894)	16,967
2012-2013	18,174	-	(117)	(3,051)	1,953	(9,065)	7,894
2011-2012	12,249	-	(117)	(1,020)	168	(4,080)	7,200
Prior	16,697	-	(112)	(1,262)	212	(3,905)	11,630
Totals	\$ 228,261	\$ 2,000,166	\$ (53,134)	\$ (29,944)	\$ 13,321	\$(1,941,399)	\$ 217,271

Note 6: Other Receivables and Due from Component units

Other receivables are composed of the following at June 30:

	2018	2017
Other receivable:		
Other accounts receivable	\$ 842,589	\$ 493,669
Education/Recruiting loans	214,414	262,673
Total other receivable	1,057,003	756,342
Due from component units:		
Lakeview Gardens	302,195	347,521
Lake Health Medical Supply	126,570	235,996
Total due from component units	428,765	583,517
Totals	\$ 1,485,768	\$ 1,339,859

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 7: Patient Accounts - Net

Patient accounts receivable is considered of the following at June 30:

	2018	2017
Receivable from patient and their insurance carriers	\$ 3,482,433	\$ 3,989,230
Receivable from Medicare	2,447,849	2,105,376
Receivable from Medicaid	1,577,287	1,115,562
Total patient accounts receivable	7,507,569	7,210,168
Less:		
Allowance for contractual adjustments	1,583,000	1,051,126
Allowance for uncollectible amounts	673,000	1,002,000
Patient accounts - Net	\$ 5,251,569	\$ 5,157,042

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 8: Capital Assets - Net

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Transfer/ Additions	Retirements	Balance June 30, 2018
Nondepreciable assets:				
Land	\$ 183,735	\$ -	\$ -	\$ 183,735
Construction in progress	8,795,590	(4,778,599)	-	4,016,991
Total nondepreciable assets	8,979,325	(4,778,599)	-	4,200,726
Depreciable assets:				
Land improvements	948,088	-	-	948,088
Buildings and improvements	29,168,268	9,352,103	-	38,520,371
Software	1,725,708	32,490	-	1,758,198
Equipment	4,950,474	802,083	-	5,752,557
Total depreciable capital assets	36,792,538	10,186,676	-	46,979,214
Total capital assets before depreciation	45,771,863	5,408,077	-	51,179,940
Less - Accumulated depreciation for:				
Land improvements	720,189	81,946	-	802,135
Buildings and improvements	12,410,500	1,433,780	-	13,844,280
Software	1,477,407	96,322	-	1,573,729
Equipment	3,007,324	608,982	-	3,616,306
Total accumulated depreciation	17,615,420	2,221,030	-	19,836,450
Total capital assets - Net	\$ 28,156,443	\$ 3,187,047	\$ -	\$ 31,343,490

At June 30, 2018, construction in progress consisted of the Clinic remodel and is expected to be completed during fiscal year 2019 for minimal additional cost. The District plans on utilizing current bond funds for the projects as well as operating funds.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 8: Capital Assets - Net (Continued)

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Transfer/ Additions	Retirements	Balance June 30, 2017
Nondepreciable assets:				
Land	\$ 183,735	\$ -	\$ -	\$ 183,735
Construction in progress	1,009,678	7,785,912	-	8,795,590
Total nondepreciable assets	1,193,413	7,785,912	-	8,979,325
Depreciable assets:				
Land improvements	1,082,153	-	(134,065)	948,088
Buildings and improvements	30,178,244	111,341	(1,121,317)	29,168,268
Software	1,728,097	12,230	(14,619)	1,725,708
Equipment	6,564,812	924,545	(2,538,883)	4,950,474
Total depreciable capital assets	39,553,306	1,048,116	(3,808,884)	36,792,538
Total capital assets before depreciation	40,746,719	8,834,028	(3,808,884)	45,771,863
Less - Accumulated depreciation for:				
Land improvements	772,044	82,210	(134,065)	720,189
Buildings and improvements	12,245,243	1,312,359	(1,147,102)	12,410,500
Software	1,248,940	243,086	(14,619)	1,477,407
Equipment	5,071,872	474,335	(2,538,883)	3,007,324
Total accumulated depreciation	19,338,099	2,111,990	(3,834,669)	17,615,420
Total capital assets - Net	\$ 21,408,620	\$ 6,722,038	\$ 25,785	\$ 28,156,443

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 9: Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligation consisted of the following at June 30 2018:

	Balance July 1, 2017	Transfer/ Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Bonds and notes payable:					
USDA General Obligation Bonds	\$ 7,198,498	\$ -	\$ (178,776)	\$ 7,019,722	\$ 185,481
Washington Federal 2015 Bonds	12,792,267	738	(286,456)	12,506,549	295,464
Washington Federal 2016 Bonds	7,150,678	4,028,867	-	11,179,545	272,355
Total long-term debt	27,141,443	4,029,605	(465,232)	30,705,816	753,300
Capital leases obligations:					
GE MRI	620,218	-	(335,277)	284,941	284,941
CT Lease	346,158	-	(70,990)	275,168	73,449
GE DePuySynthes	-	371,711	(51,046)	320,665	71,104
Total capital leases obligations	966,376	371,711	(457,313)	880,774	429,494
Total long-term debt and capital leases payable	\$ 28,107,819	\$ 4,401,316	\$ (922,545)	\$ 31,586,590	\$ 1,182,794

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 9: Long-Term Debt and Capital Lease Obligations (Continued)

Long-term debt and capital lease obligation consisted of the following at June 30 2017:

	Balance July 1, 2016	Transfer/ Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Bonds and notes payable:					
USDA General Obligation Bonds	\$ 7,370,812	\$ -	\$ (172,314)	\$ 7,198,498	\$ 178,776
Washington Federal 2015 Bonds	13,069,570	-	(277,303)	12,792,267	285,719
Washington Federal 2016 Bonds	-	7,150,678	-	7,150,678	-
Total long-term debt	20,440,382	7,150,678	(449,617)	27,141,443	464,495
Capital leases obligations:					
GE MRI	943,284	-	(323,066)	620,218	333,722
CT Lease	-	375,032	(28,874)	346,158	70,990
Total capital leases obligations	943,284	375,032	(351,940)	966,376	404,712
Total long-term debt, capital leases payable, and other noncurrent liabilities	\$ 21,383,666	\$ 7,525,710	\$ (801,557)	\$ 28,107,819	\$ 869,207

Long-Term Debt

The terms and due dates of the District's long-term debt, including capital lease obligations, at June 30, 2018 and 2017, follow:

USDA General Obligation Bonds - Note dated March 13, 2012, in the amount of \$8,000,000 and \$550,000 for the purpose of providing permanent financing for the funds initially borrowed through the US Bank Bond Anticipation Note (BAN). The bonds have a 30-year term and are due in annual installments of \$448,720, including principal and interest at 3.75%. The bonds are collateralized by the full faith and credit of the District and have a reserve account requirement of \$44,872 and \$2,677 per year until \$448,720 and \$26,763 has been accumulated. The District has accumulated \$227,888 and \$227,888 in the reserve account as of June 30, 2018 and 2017, respectively. Fiscal year 2016, USDA Bond of \$550,000 was paid off early using the proceeds from Revenue Bonds 2015A.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 9: Long-Term Debt and Capital Lease Obligations (Continued)

Washington Federal 2015 Bonds - Note dated October 22, 2015, in the amount of \$13,250,000, due in monthly installments of \$56,580, including variable interest at 3.10% through November 2025. Series A Bond issued totaling \$13,250,000 to pay off Washington Federal 2012 Loan A, Washington Federal 2012 Loan B, State of Oregon ED Project Loan and USDA Revenue Bonds. The note also issued Revenue bonds 2015B, Series B Bonds, totaling \$5,500,000, but has not drawn on these funds as of the issuance date. The bonds shall not be unlimited tax general obligations of the District, but shall be payable solely from the revenues (including limited tax revenues) which the District pledges to payment of the bonds.

Washington Federal 2016 Bonds - The District issued Draw Down Revenue Bonds Series 2016, draws at year end totaled \$11,179,545 to finance construction for the long term care and assisted living facility, clinic facility, and ambulance facility. The Bonds have a maturity date of November 1, 2043, with interest payments beginning December 1, 2016, and first principal and interest payments beginning December 1, 2018. Interest is paid on the drawn down balance at a rate of 2.91%. The bonds shall not be unlimited tax general obligations of the District, but shall be payable solely from the revenues (including limited tax revenues), which the District pledges to payment of the bonds.

Capital Leases Payable

GE Government Finance, Inc. - Capitalized lease due April 2019 in monthly installments of \$29,078 plus interest of 3.25%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately \$1,085,000 as of June 30, 2018.

Siemens CT Lease - Capitalized lease due January 2022 in monthly installments of \$6,808, including interest of 0.28%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately \$269,000 as of June 30, 2018.

GE DuPuySynthes Lease - Capitalized lease due October 2022 in monthly installments of \$6,790, including interest of 3.6%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately \$316,000 as of June 30, 2018.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 9: Long-Term Debt and Capital Lease Obligations (Continued)

Scheduled principal and interest repayments on long-term debt and capital lease obligation are as follows at June 30, 2018:

Year Ending June 30	Bonds and Notes Payable			Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 753,300	\$ 834,530	\$ 1,587,830	\$ 429,494	\$ 22,906	\$ 452,400
2020	974,964	941,546	1,916,510	149,700	13,474	163,174
2021	1,005,853	910,657	1,916,510	155,030	8,144	163,174
2022	1,037,729	878,781	1,916,510	126,300	2,819	129,119
2023	1,070,626	845,884	1,916,510	20,250	122	20,372
2024-2028	5,884,612	3,697,938	9,582,550	-	-	-
2029-2033	6,880,168	3,317,608	10,197,776	-	-	-
2034-2038	7,011,359	3,165,972	10,177,331	-	-	-
2039-2043	4,559,660	2,515,041	7,074,701	-	-	-
2044-2048	1,527,545	67,651	1,595,196	-	-	-
Totals	\$ 30,705,816	\$ 17,175,608	\$ 47,881,424	\$ 880,774	\$ 47,465	\$ 928,239

Note 10: Net Patient Service Revenue

Net patient service revenue for the years ended June 30 consisted of the following:

	2018	2017
Gross patient service revenue:		
Inpatient services	\$ 9,450,889	\$ 8,320,078
Outpatient services	26,368,135	23,761,202
Subtotals	35,819,024	32,081,280
Less:		
Contractual adjustments	7,266,119	6,393,484
Provision for bad debts	1,051,556	764,228
Net patient service revenue	\$ 27,501,349	\$ 24,923,568

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 10: Net Patient Service Revenue (Continued)

The following table reflects the percentage of gross patient service revenue by payor source for the years ended June 30:

	2018	2017
Medicare	36 %	36 %
Medicaid	24 %	24 %
Other third-party payors	36 %	36 %
Self Pay	4 %	4 %
Totals	100 %	100 %

Discrete component unit net patient service revenue consisted of the following for the years ended June 30:

	2018	2017
Gross patient service revenue- Outpatient services	\$ 2,778,880	\$ 2,422,330
Less - Contractual adjustments	6,420	109,314
Net patient service revenue	\$ 2,772,460	\$ 2,313,016

Note 11: Charity Care

The District provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community including the health of low-income patients. Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides.

Gross charges related to patients under the District's charity care policy were \$576,167 in 2018 and \$482,041 2017.

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 12: Retirement Plans

Defined Contribution Retirement Plan

The District established a defined contribution retirement plan, Lake Health District Pension Plan and Trust Agreement, on July 1, 2000, which provides retirement benefits to employees of the District. The Plan is a profit-sharing plan established under Section 401(a) of the Internal Revenue Code (IRC). The plan covers full-time employees and part-time employees who have worked at least one year.

Some employees are eligible to participate only if they agree to contribute to the deferred compensation plan. Each pay period, the District contributes six percent of the employee's compensation. The contributions are vested at 20% after two years of service with graduated increases until vesting reaches 100% after six years of service. Unvested portions of District contributions and interest forfeited by employees who leave employment before six years of service are used to reduce the District's current period contribution requirement. The District made the required contributions of \$695,670 and \$495,081 for the years ended June 30, 2018 and 2017, respectively. The Plan had \$53,371 and \$25,870 in forfeitures during 2018 and 2017, respectively. No employee contributions were made to this plan.

The District provides a deferred compensation plan to substantially all employees under Section 403(b) of the IRC under Section 457. The deferred compensation plan is funded solely from employee contributions, which are deposited with an insurance company. These assets may only be used for the payment of plan liabilities. Funds deposited with the insurance company by the individual employees were \$399,042 and \$334,759, for the years ended June 30, 2018 and 2017, respectively.

Note 13: Operating Leases

The District is committed under various leases for equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the years ended June 30, 2018 and 2017, amounted to \$117,722 and \$121,793, respectively. Future minimum payments under noncancelable operating leases with initial or remaining terms in excess of one year are as follows:

2019	\$	37,940
2020		37,940
2021		33,560
2022		33,560
2023		33,560
2024 and beyond		33,560
<hr/>		
Total	\$	210,120

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 14: Risk Management

Liability Insurance

The District has its professional liability insurance coverage with Washington Casualty Insurance Company. The policy provides protection on a "claims-made" basis whereby malpractice claims related to services provided in the current year are covered by the current policy.

The District maintains primary and umbrella general and professional liability insurance coverage "claims-made" type policies. Current coverage is for \$1,000,000 per claim with a \$5,000,000 annual aggregate limit, plus \$1,000,000 annual excess coverage per claim with a \$1,000,000 annual aggregate. There are no significant deductibles or coinsurance clauses.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the District. The District does not believe potential claims are significant and, accordingly, has not provided a reserve for potential claims from services provided to patients through June 30, 2018, which have not yet been asserted.

The District is also exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three years.

Note 15: Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist principally of patient accounts receivable. Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to the patients.

The mix of receivables from patients and third-party payers consisted of the following at June 30:

	2018	2017
Medicare	33 %	29 %
Medicaid	21 %	15 %
Other third-party payors	26 %	27 %
Self pay	20 %	29 %
Totals	100 %	100 %

Lake Health District, d/b/a Lake District Hospital

Notes to Financial Statements

Note 16: Subsequent Events

Subsequent events have been evaluated through January 21, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

Lake Health District, d/b/a Lake District Hospital

Combining Statement of Net Position of GLMS and LVG Year Ended June 30, 2018

<i>Assets</i>	GLMS	LVG	Adjustments and Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 64,128	\$ 90,157	\$ -	\$ 154,285
Patient accounts - Net	41,932	205,418	-	247,350
Inventories	539,936	-	-	539,936
TOTAL ASSETS	\$ 645,996	\$ 295,575	\$ -	\$ 941,571
<i>Liabilities and Net Position</i>				
Liabilities:				
Current liabilities	\$ 1,819	\$ 46,117	\$ -	\$ 47,936
Due to Lake Health District	126,571	302,195	-	428,766
Total current liabilities	128,390	348,312	-	476,702
Net position - Unrestricted	517,606	(52,737)	-	464,869
TOTAL LIABILITIES AND NET POSITION	\$ 645,996	\$ 295,575	\$ -	\$ 941,571

Lake Health District, d/b/a Lake District Hospital

Combining Statement of Net Position of GLMS and LVG (Continued) Year Ended June 30, 2017

<i>Assets</i>	GLMS	LVG	Adjustments and Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 13,902	\$ 301,276	\$ -	\$ 315,178
Patient accounts - Net	50,273	318,437	-	368,710
Inventories	154,253	-	-	154,253
TOTAL ASSETS	\$ 218,428	\$ 619,713	\$ -	\$ 838,141
<i>Liabilities and Net Position</i>				
Liabilities:				
Current liabilities	\$ 12,146	\$ 23,250	\$ -	\$ 35,396
Due to Lake Health District	235,995	347,521	-	583,516
Total current liabilities	248,141	370,771	-	618,912
Net position - Unrestricted	(29,713)	248,942	-	219,229
TOTAL LIABILITIES AND NET POSITION	\$ 218,428	\$ 619,713	\$ -	\$ 838,141

Lake Health District, d/b/a Lake District Hospital

Combining Statement of Revenue, Expenses, and Changes in Net Position of GLMS and LVG Year Ended June 30, 2018

	GLMS	LVG	Adjustments and Eliminations	Total
Revenue:				
Patient service revenue - Net	\$ 309,086	\$ 2,463,374	\$ -	\$ 2,772,460
Operating expenses:				
Salaries and wages	108,084	1,602,363	-	1,710,447
Employee and benefits	31,051	428,510	-	459,561
Professional fees	-	753,880	-	753,880
Supplies	134,586	187,595	-	322,181
Purchased services - Utilities	-	77,303	-	77,303
Other	-	386,454	-	386,454
Total operating expenses	273,721	3,436,105	-	3,709,826
Income (loss) from operations	35,365	(972,731)	-	(937,366)
Forgiveness on debt from Lake Health District	511,954	671,052	-	1,183,006
Total nonoperating revenue (expense)	511,954	671,052	-	1,183,006
Increase (decrease) in net position	547,319	(301,679)	-	245,640
Net position - Beginning of year, as previously reported	(29,713)	248,942	-	219,229
Net position - End of Year	\$ 517,606	\$ (52,737)	\$ -	\$ 464,869

Lake Health District, d/b/a Lake District Hospital

Combining Statement of Revenue, Expenses, and Changes in Net Position of GLMS and LVG (Continued) Year Ended June 30, 2017

	GLMS	LVG	Adjustments and Eliminations	Total
Revenue:				
Patient service revenue - Net	\$ 109,710	\$ 2,203,306	\$ -	\$ 2,313,016
Operating expenses:				
Salaries and wages	92,928	1,240,806	-	1,333,734
Employee and benefits	25,737	271,585	-	297,322
Professional fees	-	427,371	-	427,371
Supplies	99,424	226,059	-	325,483
Purchased services - Utilities	-	67,609	-	67,609
Other	-	238,912	-	238,912
Total operating expenses	218,089	2,472,342	-	2,690,431
Loss from operations	(108,379)	(269,036)	-	(377,415)
Forgiveness on debt from Lake Health District	78,666	894,760	-	973,426
Increase (decrease) in net position	(29,713)	625,724	-	596,011
Net position - Beginning of year, as previously reported	196,230	(376,782)	-	(180,552)
Prior period adjustment	(196,230)	-	-	(196,230)
Net position - End of year	\$ (29,713)	\$ 248,942	\$ -	\$ 219,229

Lake Health District, d/b/a Lake District Hospital

Schedule of Adopted Appropriations and Expenditures Original and Final Budget and Actual Year Ended June 30, 2018

	Original Budget	Budget Amendments	Final Budget	Actual	Variance
Revenue:					
Revenue except property taxes	\$ 31,286,013	\$ -	\$ 31,286,013	\$ 29,165,725	\$ 2,120,288
Property taxes	1,957,247	-	1,957,247	1,977,228	(19,981)
Total revenue	\$ 33,243,260	\$ -	\$ 33,243,260	\$ 31,142,953	\$ 2,100,307
Expenditures:					
Personal services	\$ 20,050,381	\$ -	\$ 20,050,381	\$ 18,081,128	\$ 1,969,253
Materials and services	9,363,328	-	9,363,328	7,308,059	2,055,269
Capital outlay	2,570,381	-	2,570,381	5,408,077	(2,837,696)
Debt service	1,035,693	-	1,035,693	922,545	113,148
Total expenditures	\$ 33,019,783	\$ -	\$ 33,019,783	\$ 31,719,809	\$ 1,299,974

Income from operations - Budgetary \$ (576,856)

Reconciliation of statutory operating expenditures to GAAP basis operating expenses:

Add: Capital Outlay	5,408,077
Add: Long-term debt and capital leases principal reductions	922,545
Less: Debt service	4,401,316
Less: Depreciation and amortization	<u>2,246,530</u>

Total effects of reconciliation (317,224)

Loss from operations - GAAP (894,080)

Net position - Beginning of year 13,557,248

Net position - End of year \$ 12,663,168



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Directors
Lake Health District d/b/a Lake District Hospital
Lakeview, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States 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 Lake Health District d/b/a Lake District Hospital (the "District"), the aggregate discretely presented component units as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 21, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

We did identify certain deficiencies in internal control that we consider to be significant deficiencies involving financial accounting and reporting and material audit adjustments:

- **Financial Accounting and Reporting:** The District relies upon the auditors to compile the financial statements and notes. As part of our professional services for the year ended June 30, 2018, we assisted in drafting the basic financial statements and related notes, including its discretely presented component unit. The District does not have sufficient expertise to prepare its own combined financial statements and notes disclosures. This circumstance is not unusual in an organization of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
- **Significant Audit Adjustments:** Audit adjustments were identified and recorded during the course of our audit procedures related to the patient accounts receivable, estimate for allowance for doubtful accounts and contractual adjustments, adjustment to the due to/from receivable (Goose Lake Medical Services and Lakeview Gardens forgiveness of debt), accumulated depreciation and depreciation expense, and property tax receivable. External auditors assume that the books and records of the District are properly adjusted before the start of the audit. In some cases, however, adjustments are made in the normal course of the audit process that become imbedded within the financial statements, and therefore, become less apparent. We believe that the Board should gain a full and complete understanding of the scope and the extent of the audit process by disclosing significant audit adjustments when they are material. The District should strengthen controls that provide reasonable assurance that the estimate for estimate for doubtful accounts and contractual adjustments, patient accounts receivable, and the due to/from receivable (Goose Lake Medical Services and Lakeview Gardens forgiveness of debt), accumulated depreciation and depreciation expense, and property tax receivable by reviewing those accounts, at a minimum, on a semi-annual, quarterly basis, and in some cases, monthly.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

January 21, 2019
Spokane, Washington

Independent Auditor's Comments and Disclosures on Compliance in Accordance with the Minimum Standards for Audits of Oregon Municipal Corporations

Board of Directors
Lake Health District d/b/a Lake District Hospital
Lakeview, Oregon

We have audited the accompanying financial statements of Lake Health District d/b/a Lake District Hospital (the "District") as of and for the year ended June 30, 2018, and have issued our report thereon dated January 21, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules (OAR) 162-10-000 to 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure (OAR 162-010-0230)
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds (OAR 162-010-0240)
- The requirements relating to debt, including the limitation of debt, liquidation of debt in the prescribed period of time, and compliance with provisions of bond indentures or other requirements, including restrictions placed on funds available to retire indebtedness (OAR 162-010-0250)
- The requirements relating to the preparation, adoption, and execution of the annual budgets for the current fiscal year and the preparation and adoption of the budget for the next succeeding fiscal year (OAR 162-010-0260)
- The requirements relating to insurance and fidelity bond coverage (OAR 162-010-0270)
- The appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies (OAR 162-010-0280)
- The statutory requirements pertaining to the investment of public funds (OAR 162-010-0300)
- The requirements pertaining to the awarding of public contracts and the construction of public improvements (OAR 162-010-0310)

Compliance with the requirements laws, regulations, contracts, and grants is the responsibility of the District's management. Providing an opinion on compliance with those provisions was not an objective of our audit. Accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

In planning and performing our audit, we considered the District'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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Additional commentary regarding our test results are listed on the following page.

This report is intended solely for the information of the Board of Directors, management, and the Secretary of State, Division of Audits of the State of Oregon and is not intended to be and should not be used by anyone other than those specified parties.

Wipfli LLP

Wipfli LLP

By:

Jeffrey M. Johnson

Jeffrey M. Johnson, CPA, Oregon Municipal Auditor, Lic#1552

January 21, 2019
Spokane, Washington

Lake Health District, d/b/a Lake District Hospital

Audit Comments and Disclosures Required by State Regulations Year Ended June 30, 2018 and 2017

Accounting Records (OAR 162-010-0230)

We noted the following instances related to accounting records and internal controls:

1. Financial accounting and reporting is not compiled by management.
2. Significant audit adjustments were identified and made related to the allowance for doubtful accounts and contractual adjustments, component unit due to/from, patient accounts receivable, and Goose Lake Medical Services and Lakeview Gardens forgiveness of debt, patient accounts receivable, estimate for allowance for doubtful accounts and contractual adjustments, and the adjustment to the due to/from receivable (Goose Lake Medical Services and Lakeview Gardens forgiveness of debt), accumulated depreciation and depreciation expense, and property tax receivable.