



Report of Independent Auditors  
and Financial Statements  
(with supplementary information) for

**Lake Health District  
dba Lake District Hospital**

June 30, 2014 and 2013

**MOSS-ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

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**DISTRICT OFFICIALS**  
**June 30, 2014**

**BOARD OF DIRECTORS**

Chuck Kelley, Chair  
PO Box 711  
Lakeview, OR 97630

Don Liddycoat, CPA, Secretary  
220 Noth G Street  
Lakeview, OR 97630

Judy Graham, Treasurer  
PO Box 464  
Lakeview, OR 97630

Bob Swart, Member  
18122 Westside Road  
Lakeview, OR 97630

Jerald Steward, Member  
700 South J Street  
Lakeview, OR 97630

**ADMINISTRATOR**

Charles Tveit  
700 South J Street  
Lakeview, OR 97630

**DISTRICT OFFICE**

Lake District Hospital  
700 South J Street  
Lakeview, OR 97630

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Lake Health District dba Lake District Hospital

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Lake Health District dba Lake District Hospital (the District), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Health District dba Lake Health Hospital as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## REPORT OF INDEPENDENT AUDITORS (continued)

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of adopted appropriations and expenditures, original and final budget and actual is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 December 31, 2014 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering 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 December 31, 2014, 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.



for Moss Adams LLP  
Portland, Oregon  
December 31, 2014

## **LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Our discussion and analysis of Lake Health District, dba Lake District Hospital (the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the District's 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, an attached 47-bed skilled long term care facility, outpatient medical services, and home health and hospice services. The District's services include the acute care hospital, obstetrical services, surgery, emergency department and related ancillary services (lab, x-ray, etc.). Outpatient clinic services are provided through leased physician clinic facilities, where the District provides buildings to support those operations.

A five-member board of directors governs the District. The members of the board are elected for a term of four years. Elections are staggered so no more than one third of the board is up for election at one time. The board is required to elect a chairman, secretary, and treasurer. One of their duties is to appoint 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. These tax revenues are used to support the purpose 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 11% of District receipts for each of the calendar years ended December 31, 2014 and 2013.

The Government Accounting Standards Board prescribes the financial reporting of the District. This is the format followed by the District. The State of Oregon's Auditors Office maintains copies of audited financial statements.

### **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 uninsured and 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 dba LAKE DISTRICT HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Issues Facing the District (continued)**

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 45% of the gross patient revenue for fiscal year ending June 30, 2014 was derived from Medicare, 22% was derived from Medicaid, 27% from other insurance, and 6% from private pay or uninsured.

Designated as a Critical Access Hospital 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.

### **Health Care Reform Bill - HR 3962 (Affordable Care Act)**

Health Care Reform Bill 3962, signed into law March 23, 2010, is a sweeping overhaul of the nation's health care system. Part of the plan's mandate is to reduce health care costs. Implementation of this law will take place over a number of years and is in process. Currently, Oregon Medicaid is moving toward replacing cost based and fee for service reimbursement to a capitation payment methodology. How this change and how the mandates will affect reimbursement and operating expenditures is still unknown.

### **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.

# **LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **Risks Related to HIPAA (continued)**

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.

## **General Risks Affecting Health Care Facilities**

### Technology and Services

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 non-union 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

Critical access hospitals 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, consisting of 36% of the District's hospital patient revenue. Long term care and home health and hospice are not paid on cost based reimbursement.

# LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Financial Discussion

In 2014, average daily census increased 5.3% following several years of decrease while ER patient counts declined marginally. Enhanced details on financial highlights are explained below:

1. **Data System:** The District's new data system went live on January 1, 2011. The system is a fully integrated tool designed to provide better information in a digital format also called an Electronic Health Record. 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. A Medicare financial incentive reimbursement of \$268,411 was received in the current fiscal year end for meeting meaningful use of electronic health records.
2. **Building Remodel:** During the fiscal year ended June 30, 2012 the District completed a remodel on the existing facility. The remodel and previously completed 37,000 square foot expansion completed a \$22 million project to address limitations in space, service, and expansion which have limited patient service and have been a hindrance to economic growth.
3. **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 continued to be strong through 2014.
4. **Long Term Care:** The District's long term care census decreased by 3% in 2014 over 2013, which follows a similar trend the last few years. The trend of decreasing census has been due in large part to the State of Oregon's focus on keeping residents in foster care or staying at home rather than entering long term care facilities. While other critical access hospitals across the State have closed or disposed of their Long Term Care facilities, the Board has seen fit to subsidize the District facility because of community needs. Long term care continues to be an economic challenge. Management believes that an increased aging population, continuing demand for long term care, and added focus on high quality care will contribute to future increases in census. The license for long term care was separated from Lake Health on December 1, 2014 with the expectation that reimbursement from Medicare will be increased without costs allocated to long term care. Long term care will continue operating under the name Lakeview Gardens.
5. **Recessionary Issues:** The past four years of the national economic downturn has affected hospitals across the country and the District has also been impacted. During the new fiscal year beginning July 2014, recessionary factors in Lake County continue to be a challenge.

## 2014 Financial Highlights

The District's overall business increased with gross patient revenue at \$23.8 million, or a 7% increase from the prior year. Net patient revenues increased \$0.9 million, or 5% due to increased Medicare reimbursements.

## **LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **2014 Financial Highlights (continued)**

Adjustments including revenue deductions, allowances, charity, and bad debts reduced gross patient revenue by \$5 million, or 21% of gross patient revenue primarily due to increased contractual adjustments and bad debt.

In total, including non-patient activities, the District's expenses increased by \$0.9 million, or 5%. Salary and benefits increased approximately \$865,000, or 8%. Full time equivalents (FTE) increased by 12 to 173. These positions related to a combination of the expanded facility and implementation of the new data system.

Nonoperating revenues totaled \$1.79 million, an increase of approximately \$202,000, or 13% from 2013.

The District had net income of \$1,285,518 in 2014 compared to net income of \$1,903,065 in 2013.

Net accounts receivable increased from \$2.9 million in 2013 to \$3.1 million in 2014 proportional to the increased in net patient revenue from 2013 to 2014.

### **Capital Assets**

Lake District spent \$984,547 and \$381,659 in capital expenditures in 2014 and 2013, respectively. The majority of the expenditures in 2013 related to the purchase of a building and an ultrasound machine. Current year expenditures were primarily related to meaningful use software and medical 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.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**2014 Financial Highlights (continued)**

Condensed financial information as of and for the years ended June 30, 2014, 2013, and 2012 are as follows:

	June 30,		
	2014	2013	2012
<b>ASSETS</b>			
Current assets	\$ 4,221,097	\$ 4,127,425	\$ 7,284,740
Capital assets, net	21,825,543	22,755,935	24,030,732
Noncurrent assets	9,614,302	7,641,417	2,475,492
	<u>\$ 35,660,942</u>	<u>\$ 34,524,777</u>	<u>\$ 33,790,964</u>
<b>LIABILITIES</b>			
Long-term debt outstanding	\$ 20,821,052	\$ 21,310,723	\$ 21,934,261
Other current and noncurrent liabilities	2,511,883	2,171,565	2,144,797
Deferred revenue	-	-	572,482
	<u>23,332,935</u>	<u>23,482,288</u>	<u>24,651,540</u>
<b>NET POSITION</b>			
Unrestricted	11,205,354	9,645,016	7,149,931
Net investment in capital assets	15,172	837,945	1,430,219
Construction	-	-	-
Restricted - expendable	622,873	273,358	273,104
Restricted - nonexpendable	484,608	286,170	286,170
	<u>12,328,007</u>	<u>11,042,489</u>	<u>9,139,424</u>
	<u>\$ 35,660,942</u>	<u>\$ 34,524,777</u>	<u>\$ 33,790,964</u>

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**2014 Financial Highlights (continued)**

	Years Ended June 30,		
	2014	2013	2012
<b>OPERATING REVENUES</b>			
Net patient service revenues	\$ 18,827,010	\$ 17,970,176	\$ 17,365,872
Other operating revenues	400,549	1,171,855	116,995
Total operating revenues	<u>19,227,559</u>	<u>19,142,031</u>	<u>17,482,867</u>
<b>OPERATING EXPENSES</b>			
Salaries and benefits	11,743,213	10,878,107	10,975,122
Depreciation and amortization	1,916,942	1,946,456	1,838,323
Supplies	1,719,801	1,655,998	1,424,058
Other operating expenses	4,349,602	4,343,739	3,772,198
Total operating expenses	<u>19,729,558</u>	<u>18,824,300</u>	<u>18,009,701</u>
<b>OPERATING (LOSS) INCOME</b>	(501,999)	317,731	(526,834)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Property taxes	2,006,598	2,107,290	1,291,506
Lease income	54,609	52,209	48,789
Noncapital grants and donations, net	645,822	364,590	141,445
Interest expense	(961,784)	(962,287)	(1,121,452)
Other nonoperating income	32,767	23,532	7,059
Gain on disposal of equipment	9,505	-	-
Net nonoperating revenue	<u>1,787,517</u>	<u>1,585,334</u>	<u>367,347</u>
<b>CHANGE IN NET POSITION</b>	1,285,518	1,903,065	(159,487)
<b>NET POSITION, beginning of year</b>	<u>11,042,489</u>	<u>9,139,424</u>	<u>9,298,911</u>
<b>NET POSITION, end of year</b>	<u><u>\$ 12,328,007</u></u>	<u><u>\$ 11,042,489</u></u>	<u><u>\$ 9,139,424</u></u>

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**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**BALANCE SHEETS**

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**ASSETS**

	June 30,	
	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 332,354	\$ 305,938
Receivables		
Patient accounts, less allowance for uncollectible accounts and contractual adjustments	3,052,966	2,857,030
Taxes	214,577	165,339
Other	148,042	160,075
Third-party settlements	312,513	497,706
Inventories	82,148	78,489
Prepaid expenses	78,497	62,848
Total current assets	<u>4,221,097</u>	<u>4,127,425</u>
<b>ASSETS LIMITED AS TO USE</b>	<u>9,614,302</u>	<u>7,641,417</u>
<b>CAPITAL ASSETS</b>		
Land	183,735	183,735
Depreciable capital assets, net of accumulated depreciation	<u>21,641,808</u>	<u>22,572,200</u>
Total capital assets, net	<u>21,825,543</u>	<u>22,755,935</u>
Total assets	<u><u>\$ 35,660,942</u></u>	<u><u>\$ 34,524,777</u></u>

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL  
BALANCE SHEETS (CONTINUED)**

**LIABILITIES AND NET POSITION**

	June 30,	
	2014	2013
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 487,539	\$ 576,582
Accrued compensation and related liabilities	384,158	330,948
Accrued vacation	558,242	471,802
Accrued interest	187,979	184,966
Current maturities of long-term debt and capital leases payable	893,965	607,267
Total current liabilities	2,511,883	2,171,565
<b>LONG-TERM DEBT AND CAPITAL LEASES PAYABLE, LESS CURRENT MATURITIES</b>	20,821,052	21,310,723
Total liabilities	23,332,935	23,482,288
<b>NET POSITION</b>		
Net investment in capital assets	15,172	837,945
Restricted - expendable		
For debt service	99,491	51,538
For specific operating activities	523,382	221,820
Restricted nonexpendable		
Nonexpendable permanent endowments	484,608	286,170
Unrestricted	11,205,354	9,645,016
Total net position	12,328,007	11,042,489
Total liabilities and net position	\$ 35,660,942	\$ 34,524,777

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Years Ended June 30,	
	2014	2013
<b>OPERATING REVENUES</b>		
Net patient and resident service revenues (net of provisions for bad debts of \$710,231 and \$619,645 in 2014 and 2013, respectively)	\$ 18,827,010	\$ 17,970,176
Other operating revenues	400,549	1,171,855
Total operating revenues	<u>19,227,559</u>	<u>19,142,031</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	8,842,795	8,149,070
Employee benefits	2,900,418	2,729,037
Professional fees	2,290,131	2,154,990
Depreciation and amortization	1,916,942	1,946,456
Supplies	1,719,801	1,655,998
Purchased services - utilities	563,675	540,780
Maintenance	411,399	379,583
Other operating expenses	557,142	786,035
Rents and leases	229,934	264,372
Purchased services - other	176,826	123,523
Insurance	120,495	94,456
Total operating expenses	<u>19,729,558</u>	<u>18,824,300</u>
<b>OPERATING (LOSS) INCOME</b>	(501,999)	317,731
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	2,006,598	2,107,290
Investment income	32,767	23,532
Interest expense	(961,784)	(962,287)
Noncapital grants and donations, net	645,822	364,590
Lease income	54,609	52,209
Gain on disposal of equipment	9,505	-
Net nonoperating revenue	<u>1,787,517</u>	<u>1,585,334</u>
<b>CHANGE IN NET POSITION</b>	1,285,518	1,903,065
<b>NET POSITION, beginning of year</b>	<u>11,042,489</u>	<u>9,139,424</u>
<b>NET POSITION, end of year</b>	<u><u>\$ 12,328,007</u></u>	<u><u>\$ 11,042,489</u></u>

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL  
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients services	\$ 18,816,267	\$ 17,949,302
Cash received from other operating revenue	400,549	1,171,855
Cash paid for salaries and benefits	(11,603,563)	(10,945,490)
Cash paid for supplies, professional fees, and other operating expenses	(6,165,721)	(5,768,746)
Net cash from operating activities	<u>1,447,532</u>	<u>2,406,921</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Property taxes	1,957,360	2,070,584
Cash received from donations	645,822	74,590
Net cash from noncapital financing activities	<u>2,603,182</u>	<u>2,145,174</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal payments on long-term debt and capital leases	(625,706)	(682,523)
Interest paid on long-term debt	(958,771)	(961,958)
Purchase of capital assets	(562,913)	(381,659)
Net cash used in capital and related financing activities	<u>(2,147,390)</u>	<u>(2,026,140)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	32,767	23,532
Cash received from lease income	54,609	52,209
Proceeds from sale of capital assets	8,601	-
Net cash from investing activities	<u>95,977</u>	<u>75,741</u>
Net change in cash and cash equivalents	1,999,301	2,601,696
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,947,355</u>	<u>5,345,659</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 9,946,656</u>	<u>\$ 7,947,355</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	\$ 332,354	\$ 305,938
Assets whose use is limited	9,614,302	7,641,417
Total cash and cash equivalents	<u>\$ 9,946,656</u>	<u>\$ 7,947,355</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION</b>		
Capital assets acquired through donations	<u>\$ -</u>	<u>\$ 290,000</u>
Acquisition of equipment through capital lease financing	<u>\$ 422,733</u>	<u>\$ -</u>

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**

	Years Ended June 30,	
	2014	2013
Reconciliation of operating (loss) income to net cash from operating activities:		
Operating (loss) income	\$ (501,999)	\$ 317,731
Adjustments to reconcile (loss) income from operations to net cash from operating activities:		
Depreciation and amortization	1,916,942	1,946,456
Provision for bad debts	710,231	619,645
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(906,167)	(698,388)
Other receivables	12,033	118,114
Third-party settlements receivables	185,193	630,351
Inventories	(3,659)	(16,583)
Prepaid expenses	(15,649)	(23,347)
Accounts payable	(89,043)	152,807
Accrued compensation and related liabilities	53,210	(68,560)
Accrued vacation	86,440	1,177
Deferred revenue	-	(572,482)
Total adjustments	1,949,531	2,089,190
Net cash from operating activities	\$ 1,447,532	\$ 2,406,921

# LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies

**Reporting entity** – Lake Health District dba Lake District Hospital (the District), a municipal corporation, owns and operates a 24-bed acute care hospital, a 47-bed skilled nursing facility, and home health and hospice services in Lakeview, Oregon. The District provides health care services to patients in the south central Oregon market. The services provided include acute care hospital, long term nursing care, emergency room, home health and hospice, and the related ancillary procedures (lab, x-ray, etc.) associated with those services.

Lake Health 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.

**Basis of accounting and financial statement presentation** – The District uses enterprise fund accounting. Revenues and expenses are recognized on an accrual basis using the economic resources measurement focus. The District has adopted Government Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting* guidance contained in pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Professional Accountants (AICPA) Pronouncements, which identifies and codifies most pre-November 30, 1989 FASB and AICPA pronouncements that are relevant to governments and do not conflict with or contradict GASB pronouncements.

GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies.

**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 accounting principles generally accepted in the United States of America (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 service, and contingencies. 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 may transfer appropriations between control categories 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 budgets as authorized by ORS. Unexpected additional resources may be added to the budget through the use of a 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.

## **LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL NOTES TO THE FINANCIAL STATEMENTS**

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### **Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

Financial position, results of operations, and change in net position are reported on the basis of accounting principles generally accepted in the United States of America. The budgetary basis of accounting differs from generally accepted accounting principles. 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 generally accepted accounting principles in the United States of America, 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 revenues when received and expenditures when paid.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Cash and cash equivalents** – Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates fair value.

**Patient accounts receivable and credit policy** – Accounts receivable are uncollateralized patient obligations, most of whom are local residents insured under third party payor agreements, and are stated at the amount management expects to collect from outstanding balances. 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 insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that 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 receivables. In addition, management provides for probable uncollectible amounts, primarily uninsured patients, and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

## **LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

Accounts receivable are recorded in the accompanying balance sheets net of contractual adjustments and allowance for doubtful accounts.

**Property taxes** – The District received approximately 9% and 10% for the years ended June 30, 2014 and 2013, respectively, of its financial support from property taxes. 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.

**Inventories** – Inventories are stated at lower of cost (first in, first out) or market, and consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

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

**Donor-restricted investments** – 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. These investments are recorded at cost which approximates market value.

**Capital assets** – The District's capital assets are reported at historical cost. Donated capital assets are reported at their estimated fair value at the time of their donation. Expenditures for maintenance and repairs are charged to operations as incurred. Betterments and major renewals with an estimated useful life of one year or greater and with a cost of over \$5,000 are capitalized. Generally, assets with useful lives 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 revenues and expenses.

The District evaluates prominent events or changes in circumstances affecting the capital assets to determine whether impairment of a capital asset has occurred. Impairment losses on capital assets are measured using the method that best reflects the diminished

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following asset lives:

Land improvements	15-20 years
Buildings and building improvements	5-40 years
Equipment, computers, and furniture	3-15 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.

**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** – Net position of the District is classified in four components. *Net position, net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets*. *Restricted nonexpendable net position* equals the principal portion of permanent endowments of the District.

**Operating revenues and expenses** – The District’s statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District’s principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

**Net patient and resident service revenues** – Revenues from patient and resident services are reported on the accrual basis in the period in which services are provided at established rates whether or not collection in full is anticipated. Contractual adjustments, the results of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual allowances include differences between established rates and amounts estimated by management as reimbursable under various reimbursement programs in effect. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's contractual allowances.

The following are the components of net patient and resident service revenue at June 30:

	<u>2014</u>	<u>2013</u>
Gross patient and resident service revenue:		
Daily hospital care	\$ 7,774,983	\$ 7,221,408
Nursing home	1,936,973	2,117,181
Ancillary services	<u>14,047,630</u>	<u>12,881,659</u>
Total gross patient and resident service revenue	<u>23,759,586</u>	<u>22,220,248</u>
Less:		
Charity care	340,794	418,564
Contractual adjustments	3,881,551	3,211,863
Provision for bad debts	<u>710,231</u>	<u>619,645</u>
Total adjustments	<u>4,932,576</u>	<u>4,250,072</u>
Net patient and resident service revenue	<u>\$ 18,827,010</u>	<u>\$ 17,970,176</u>

**Charity care** – The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. The District maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges associated with charity care were \$340,794 and \$418,564 for the years ended June 30, 2014 and 2013, respectively.

**Other operating revenues** – Other operating revenues is substantially comprised of funds received from Centers for Medicare & Medicaid (CMS), pursuant to the Health Information Technology for Economic and Clinical Health Act (HITECH Act), for reimbursement of Electronic Health Records (EHR) capital expenditures made by the District through June 30, 2014, also known as Meaningful Use funds. The District recognizes income associated with these funds when its requirements for reimbursement have been met and application for reimbursement has been submitted to CMS. During the years ended June 30, 2014 and 2013, the District recognized income of \$268,411 and \$907,996 associated with Meaningful Use funds, respectively.

## LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL NOTES TO THE FINANCIAL STATEMENTS

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### **Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

**Gifts, contributions, grants, and bequests** – Gifts, contributions, grants, and bequests that are not restricted by the donor are included in nonoperating revenues in the statement of revenues, expenses and changes in net position. Gifts, contributions, grants, and bequests restricted by donors for specific purposes are recorded in the donor-restricted fund and transferred to the general fund when restricted amounts are expended for their restricted purpose. When restricted funds are used for operations, these amounts are reflected in the statement of revenues, expenses, and changes in net position as other operating revenues. When restricted funds are used for the acquisition of property, buildings, and equipment these funds are reflected in the general fund as a fund balance transfer.

**Income taxes** – The District is a municipal corporation under Oregon state law and is not subject to Federal income taxes.

**Reclassifications** – Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These reclassifications had no impact on total net position or the change in net position.

**Recent accounting pronouncements** – The GASB issued GASB Statement No. 61, The Financial Reporting Entity: Omnibus (GASB No. 61), which is effective for financial statements for periods beginning after June 15, 2012. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. It also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The District adopted this accounting pronouncement during fiscal year ending June 30, 2013. There was no significant impact to the District's financial statements.

The GASB issued GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB No. 63), which is effective for financial statements for periods beginning after December 15, 2011. The requirements of GASB No. 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the difference between all other elements in a statement of financial position and should be displayed in three components – net investment in capital assets; restricted (distinguishing between major categories of restrictions); and unrestricted. The District adopted this accounting pronouncement for the fiscal year ending June 30, 2014. There was no significant impact to the District's financial statements.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (continued)**

The GASB also issued GASB Statement No. 65, Items Previously Reported as Assets and Liabilities (“GASB No. 65”), which is effective for financial statements for periods beginning after December 15, 2012. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. It also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The District adopted this accounting pronouncement for the fiscal year ending June 30, 2014. There was no significant impact to the District’s financial statements.

**Note 2 – Cash and Assets Limited as to Use**

Oregon Revised Statutes, Chapter 294, authorizes the District to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers’ acceptances guaranteed by a qualified financial institution, commercial paper, corporate bonds, repurchase agreements, State of Oregon Local Government Investment Pool, and various interest-bearing bonds of Oregon and other municipalities. The District had the following cash and equivalents at June 30:

	<u>2014</u>	<u>2013</u>
Demand deposits	\$ 3,601,241	\$ 2,154,204
Petty cash	420	340
Certificates of deposit	76,107	76,099
Local Government Investment Pool	<u>6,268,888</u>	<u>5,716,712</u>
Total cash and cash equivalents	<u>\$ 9,946,656</u>	<u>\$ 7,947,355</u>

The District maintains their investments in the State of Oregon Local Government Investment Pool (LGIP), which is an alternate investment vehicle offered to participants that by law are made the custodian of, or have control of, any public funds. The investments are booked at fair value and are the same as the value of the pool shares. The LGIP investments are governed by a written investment policy that is reviewed annually by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund Board is comprised of members of local government and private investment professionals, who are appointed by the Governor of the State of Oregon. The LGIP is not rated by any national rating service. The District considers all investments to be cash and cash equivalents.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS**

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**Note 2 – Cash and Investments (continued)**

All final decisions regarding the purchase and sale of investment securities remain with the District Board. The District maintains an investment policy designed to maximize return and limit the following types of risks:

*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.

*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.

The carrying amounts of cash and cash equivalents are included in the District’s balance sheets as follows at June:

	2014	2013
Cash and cash equivalents		
Current assets	\$ 332,354	\$ 305,938
Noncurrent assets (Note 4)	9,614,302	7,641,417
Total cash and cash equivalents	\$ 9,946,656	\$ 7,947,355

**Note 3 – Reimbursement Arrangements with Third-Party Payors**

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

**Medicare** – As a certified critical access hospital (CAH), the District is reimbursed for Medicare inpatient and outpatient services at the cost of providing the service plus 1% rather than on a fee schedule or the inpatient diagnose related group (DRG) and outpatient ambulatory payment classification (APC) prospective payment system. Medicare swing-bed services are also reimbursed at cost for a CAH. The District is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

The District’s Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 3 – Reimbursement Arrangements with Third-Party Payors (continued)**

Net revenue billed under the Medicare program totaled approximately \$8,700,000 and \$5,800,000 for the years ended June 30, 2014 and 2013, respectively.

**Medicaid** – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under 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. The District’s Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2012. Net revenue billed under the Medicaid program totaled approximately \$5,300,000 and \$2,800,000 for the years ended June 30, 2014 and 2013, respectively.

The District has also 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, discounts from established charges, and prospectively determined daily rates.

Bad debt expense included in revenue deductions and allowances totaled \$710,231 and \$619,645 for 2014 and 2013, respectively.

**Note 4 – Assets Limited as to Use**

Noncurrent cash and cash equivalents were held for the following purposes as of June 30 (Note 2):

	<u>2014</u>	<u>2013</u>
Assets limited as to use		
Internally designated for:		
Capital acquisitions	\$ 1,244	\$ 1,248
Pharmacy inventory replacement	76,107	76,099
Operational reserves	8,429,470	7,004,542
Restricted by debt instruments, USDA reserve funds	99,491	51,538
Restricted by endowment provisions	<u>1,007,990</u>	<u>507,990</u>
Total assets limited as to use	<u>\$ 9,614,302</u>	<u>\$ 7,641,417</u>

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS**

**Note 5 – Property Taxes Receivable**

For the fiscal year June 30, 2014, the District levied their property taxes at the rate of \$2.0311 per \$1,000 of assessed property value. This levy was expected to raise \$1,998,094 in property tax revenues. Property tax revenues are recognized when levied, and are used to support general operations.

Fiscal Year	Receivable June 30, 2013	2013-2014 Net Levy	Collections	Interest Received	Discounts Allowed	Adjustments Applied	Receivable June 30, 2014
2013-2014	\$ -	\$ 1,998,094	\$ (1,861,341)	\$ 1,124	\$ (51,325)	\$ 763	\$ 87,315
2012-2013	94,798	-	(38,709)	3,026	-	10,077	69,192
2011-2012	34,161	-	(20,190)	3,851	-	10,284	28,106
2010-2011	19,548	-	(13,443)	4,088	-	4,334	14,527
2009-2010	11,263	-	(6,274)	2,406	-	4,266	11,661
2008-2009	3,549	-	(2,367)	1,246	-	(327)	2,101
Prior Years	2,020	-	(186)	120	-	(279)	1,675
	<u>\$ 165,339</u>	<u>\$ 1,998,094</u>	<u>\$ (1,942,510)</u>	<u>\$ 15,861</u>	<u>\$ (51,325)</u>	<u>\$ 29,118</u>	<u>\$ 214,577</u>

For the fiscal year June 30, 2013, the District levied their property taxes at the rate of \$2.0311 per \$1,000 of assessed property value. This levy was expected to raise \$2,087,267 in property tax revenues. Property tax revenues are recognized when levied, and are used to support general operations.

Fiscal Year	Receivable June 30, 2012	2012-2013 Net Levy	Collections	Interest Received	Discounts Allowed	Adjustments Applied	Receivable June 30, 2013
2012-2013	\$ -	\$ 2,087,267	\$ (1,939,127)	\$ 1,033	\$ (54,501)	\$ (796)	\$ 93,876
2011-2012	67,853	-	(35,904)	3,067	9	(864)	34,161
2010-2011	31,629	-	(14,485)	2,855	3	(454)	19,548
2009-2010	19,515	-	(11,429)	3,662	3	(487)	11,264
2008-2009	6,704	-	(4,339)	1,649	3	(468)	3,549
2007-2008	1,166	-	(294)	224	3	(443)	656
Prior Years	1,766	-	3	56	-	460	2,285
	<u>\$ 128,633</u>	<u>\$ 2,087,267</u>	<u>\$ (2,005,575)</u>	<u>\$ 12,546</u>	<u>\$ (54,480)</u>	<u>\$ (3,052)</u>	<u>\$ 165,339</u>

# LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 6 – Capital Assets

The following is a summary of changes in capital assets during the fiscal year:

	Balance June 30, 2013	Additions/ Transfers	Retirements	Balance June 30, 2014
Capital assets at cost:				
Land	\$ 183,735	\$ -	\$ -	\$ 183,735
Land improvements	1,026,581	46,752	-	1,073,333
Buildings and improvements	28,469,354	5,335	60,000	28,414,689
Moveable equipment	5,670,974	281,135	37,135	5,914,974
Software	738,900	120,213	-	859,113
Construction in process	-	532,211	-	532,211
	<u>36,089,544</u>	<u>985,646</u>	<u>97,135</u>	<u>36,978,055</u>
Total capital assets at cost				
Less accumulated depreciation and amortization for:				
Land improvements	528,528	79,967	-	608,495
Buildings and improvements	8,161,094	1,338,575	60,000	9,439,669
Moveable equipment	4,211,740	261,651	37,135	4,436,256
Software	432,247	235,845	-	668,092
	<u>13,333,609</u>	<u>1,916,038</u>	<u>97,135</u>	<u>15,152,512</u>
Total accumulated depreciation				
Capital assets, net	<u>\$ 22,755,935</u>	<u>\$ (930,392)</u>	<u>\$ -</u>	<u>\$ 21,825,543</u>
	Balance June 30, 2012	Additions/ Transfers	Retirements	Balance June 30, 2013
Capital assets at cost:				
Land	\$ 139,985	\$ 43,750	\$ -	\$ 183,735
Land improvements	1,026,581	-	-	1,026,581
Buildings and improvements	28,170,854	298,500	-	28,469,354
Moveable equipment	5,362,164	314,809	-	5,676,973
Software	718,300	14,600	-	732,900
	<u>35,417,884</u>	<u>671,659</u>	<u>-</u>	<u>36,089,543</u>
Total capital assets at cost				
Less accumulated depreciation and amortization for:				
Land improvements	451,665	76,863	-	528,528
Buildings and improvements	6,822,678	1,338,415	-	8,161,093
Moveable equipment	3,915,484	296,256	-	4,211,740
Software	197,325	234,922	-	432,247
	<u>11,387,152</u>	<u>1,946,456</u>	<u>-</u>	<u>13,333,608</u>
Total accumulated depreciation				
Capital assets, net	<u>\$ 24,030,732</u>	<u>\$ (1,274,797)</u>	<u>\$ -</u>	<u>\$ 22,755,935</u>

Depreciation and amortization expense for the years ended June 30, 2014 and 2013 was \$1,916,038 and \$1,946,456, respectively. Total cost of equipment under capital leases was \$1,285,210 and \$1,164,998 as of June 30, 2014 and 2013, respectively. For the years ended June 30, 2014 and 2013, amortization expense of equipment under capital leases was \$235,844 and \$234,922 and accumulated amortization was \$757,322 and \$521,478 as of June 30, 2014 and 2013, respectively. At June 30, 2014, construction in progress represents costs incurred related to implementation of a new MRI machine placed in service subsequent to year-end. Costs to complete the implementation of this new machine total approximately \$1,127,000.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Note 7 – Long-term Debt and Other Noncurrent Liabilities**

The schedule of changes in the District's noncurrent liabilities for 2014 is as follows:

	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014	Due Within One Year
Notes payable:					
State of Oregon - construction loan	\$ 2,765,065	\$ -	\$ (100,150)	\$ 2,664,915	\$ 104,937
Washington Federal - loan A	9,239,939	-	(158,647)	9,081,292	166,107
Washington Federal - loan B	1,029,925	-	(14,331)	1,015,594	15,191
USDA - general obligation bond	7,851,280	-	(154,298)	7,696,982	160,084
USDA - revenue bond	543,862	-	(6,369)	537,493	6,608
Total notes payable	21,430,071	-	(433,795)	20,996,276	452,927
Capitalized leases payable	487,919	422,733	(191,911)	718,741	441,038
Total long-term debt and noncurrent liabilities	<u>\$ 21,917,990</u>	<u>\$ 422,733</u>	<u>\$ (625,706)</u>	<u>\$ 21,715,017</u>	<u>\$ 893,965</u>

The schedule of changes in the District's noncurrent liabilities for 2013 is as follows:

	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Due Within One Year
Notes payable:					
Sterling Bank - CT & ultrasound	\$ 84,842	\$ -	\$ (84,842)	\$ -	\$ -
State of Oregon - construction loan	2,860,647	-	(95,582)	2,765,065	100,150
Washington Federal - loan A	9,405,828	-	(165,889)	9,239,939	158,648
Washington Federal - loan B	1,045,350	-	(15,425)	1,029,925	14,333
USDA - general obligation bond	8,000,000	-	(148,720)	7,851,280	154,298
USDA - revenue bond	550,000	-	(6,138)	543,862	6,368
Total notes payable	21,946,667	-	(516,596)	21,430,071	433,797
Capitalized leases payable	653,846	-	(165,927)	487,919	173,470
Total long-term debt and noncurrent liabilities	<u>\$ 22,600,513</u>	<u>\$ -</u>	<u>\$ (682,523)</u>	<u>\$ 21,917,990</u>	<u>\$ 607,267</u>

The terms and due dates of the District's long-term debt, including capital lease obligations, for the years ended June 30, 2014 and 2013 are as follows:

The Sterling Bank – CT & ultrasound capital lease was retired during the year ended June 30, 2014.

State of Oregon, construction loan, due in annual installments estimated at \$232,320, including interest at 4.78% through December 1, 2030, collateralized by the full faith and credit and taxing power of the District, specifically revenue after the payment of expenses. The debt service payment is approximately based on 1.4% of total revenues and 1.3% of total expenses.

Washington Federal – Loan A is due in monthly installments of \$48,456, consisting of principal and interest at a rate initially set at 4.54%. On January 1, 2027, the interest rate will reset to 0.75% over the Farmer Mac 15-Year Reset Cost of Funds Index Net Yield, and will reset every 15 years thereafter.

## **LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **Note 7 – Long-term Debt and Other Noncurrent Liabilities (continued)**

Washington Federal – Loan B is due in monthly installments of \$6,180, consisting of principal and interest at a variable rate initially set at 5.75%. The variable interest rate is set at prime (3.25% at June 30, 2014) plus 2.5%, with a floor of 5.75% and a ceiling of the lesser of 9.75% or the maximum rate allowed by applicable law. The interest rate was 5.75% at each of the years ended June 30, 2014 and 2013.

USDA general obligation bonds, dated March 13, 2012, in the amount of \$8,000,000 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 per year until \$448,720 has been accumulated. The District has accumulated \$96,491 and \$51,619 in the reserve account as of June 30, 2014 and 2013, respectively.

USDA revenue bonds, dated March 13, 2012, in the amount of \$550,000 for the purpose of providing permanent financing for the funds initially borrowed through the US BAN. The bonds have a 40 year term and are due in annual installments of \$26,763, 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 \$2,677 per year until \$26,763 has been accumulated. The District has accumulated \$3,081 and \$404 in the reserve account as of June 30, 2014 and 2013, respectively.

Capitalized leases payable consist of two components due to US Bank, dated April 1, 2011 and July 1, 2011, respectively, and one component due to GE Government Finance, Inc., dated March 28, 2014. The first component is due March 1, 2016 with monthly principal payments in varying amounts escalating to \$13,580 plus interest of 4.26%. The second component is due June 1, 2016 with monthly principal payments in varying amounts escalating to \$2,340 plus interest of 5.65%. The component due to GE Government Finance, Inc. is 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.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

**Note 7 – Long-term Debt and Other Noncurrent Liabilities (continued)**

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

Year	State of Oregon E.D. Project Loan		Capital Leases US Bank EMR & GE Construction		Washington Federal 2012 Loan A		Washington Federal 2012 Loan B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	104,937	127,383	441,038	52,354	166,107	415,360	15,191	58,965
2016	109,953	122,367	277,703	21,800	172,785	408,682	15,939	58,217
2017	115,209	117,111	-	-	182,039	399,428	17,055	57,101
2018	120,716	111,604	-	-	190,598	390,869	18,076	56,079
2019	126,486	105,834	-	-	199,559	381,909	19,159	54,997
2020-2024	729,112	432,488	-	-	1,145,505	1,761,830	114,114	256,664
2025-2029	920,845	240,756	-	-	1,442,665	1,464,671	152,827	217,951
2030-2034	437,657	31,735	-	-	1,815,364	1,091,972	204,422	166,356
2035-2039	-	-	-	-	2,284,363	622,973	273,439	97,338
2040-2044	-	-	-	-	1,482,307	100,054	185,372	15,974
2045-2049	-	-	-	-	-	-	-	-
2050-2053	-	-	-	-	-	-	-	-
	<u>\$ 2,664,915</u>	<u>\$ 1,289,278</u>	<u>\$ 718,741</u>	<u>\$ 74,154</u>	<u>\$ 9,081,292</u>	<u>\$ 7,037,748</u>	<u>\$ 1,015,594</u>	<u>\$ 1,039,642</u>

  

	USDA General Obligation Bond		USDA Revenue Bond		Long-Term Debt Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	160,084	288,637	\$ 6,608	\$ 20,156	\$ 893,965	\$ 962,855
2016	166,087	282,634	6,855	19,908	749,322	913,608
2017	172,315	276,405	7,112	19,651	493,730	869,696
2018	178,777	269,944	7,379	19,384	515,546	847,880
2019	185,481	263,239	7,656	19,108	538,341	825,087
2020-2024	1,037,105	1,206,500	42,807	91,011	3,068,643	3,748,493
2025-2029	1,246,702	996,901	51,458	82,359	3,814,497	3,002,638
2030-2034	1,498,660	744,942	61,858	71,960	4,017,961	2,106,965
2035-2039	1,801,539	442,062	74,359	59,549	4,433,700	1,221,922
2040-2044	1,250,232	94,880	89,387	44,431	3,007,298	255,339
2045-2049	-	-	107,452	26,365	107,452	26,365
2050-2053	-	-	74,562	5,658	74,562	5,658
	<u>\$ 7,696,982</u>	<u>\$ 4,866,144</u>	<u>\$ 537,493</u>	<u>\$ 479,540</u>	<u>\$ 21,715,017</u>	<u>\$ 14,786,506</u>

**Note 8 – Related Party**

**Related party** – Goose Lake Medical Services, Inc. (the Corporation) is a legally separate, tax-exempt corporation. The Corporation provides health care services to patients in the southern Oregon and northern California areas. The District and the Corporation have shared board members and officers. The District provided \$51,790 and \$59,362 in services and supplies to the Corporation during the years ended June 30, 2014 and 2013, respectively.

The District Board authorized an increase in the line of credit available to the Corporation from \$300,000 to \$550,000 in March 2013. Outstanding receivables from the Corporation are \$719,259 and \$433,038 at June 30, 2014 and 2013, respectively, and are included in other receivables on the balance sheet. At June 30, 2014 and 2013, the District recorded an allowance in the amount of \$619,259.

## **LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**

### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **Note 9 – Contingent Liabilities**

**General and professional liability** – 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.

Accounting principles generally accepted in the United States of America require that a health care facility disclose the estimated costs of malpractice claims in the period of the incident of malpractice if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. Management is not aware of any potential liabilities that would exceed its coverage at June 30, 2014 or 2013.

**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. Management believes that the District is in compliance with applicable government laws and regulations.

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.

The Centers for Medicare & Medicaid Services (CMS) has implemented a project using recovery audit contractors (RAC) as part of CMS’s further efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and that 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 RAC’s findings. RAC reviews of the District’s Medicare claims are anticipated; however, the outcomes of such reviews are unknown, and any financial impact cannot be reasonably estimated at June 30, 2014.

**Risk management** – The District is also exposed to various risks of loss from torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**Note 10 – Patient Accounts Receivable**

The District grants credit without collateral to its patients, most of who are local residents and insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Lake County. No single patient comprises more than five percent of the total receivable at year end.

Patient accounts receivable reported as current assets by the District at June 30, 2014 and 2013 consisted of these amounts:

	<u>2014</u>		<u>2013</u>	
Medicare	\$ 1,424,134	31%	\$ 1,173,279	30%
Medicaid	494,990	10%	371,901	10%
Other third-party payors	1,421,033	30%	1,703,044	43%
Self-pay	<u>1,292,688</u>	<u>29%</u>	<u>669,918</u>	<u>17%</u>
	4,632,845	100%	3,918,142	100%
Less:				
Allowance for contractual adjustments	(1,204,110)		(807,739)	
Allowance for bad debt	<u>(375,769)</u>		<u>(253,373)</u>	
Patient accounts receivable - net	<u>\$ 3,052,966</u>		<u>\$ 2,857,030</u>	

**Note 11 – Retirement Plans**

**Defined contribution plan** – The District provides pension benefits for all of its part-time and full-time employees who have worked at least one year through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed by the District to the plan plus investment earnings. 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 \$372,206 and \$335,442 for the years ended June 30, 2014 and 2013, respectively, and the employee’s contributions were \$199,455 and \$103,755, respectively.

**Deferred compensation plan** – In addition to the defined contribution plan described above, the District provides a deferred compensation plan to substantially all employees under section 403(b) of the Internal Revenue Code. 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 \$223,977 and \$103,755, for the years ended June 30, 2014 and 2013, respectively.

# LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL

## NOTES TO THE FINANCIAL STATEMENTS

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### Note 12 – 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, 2014 and 2013 amounted to \$229,934 and \$264,372, respectively. Future minimum payments under non-cancellable operating leases with initial or remaining terms in excess of one year are as follows:

Years ending June 30, 2015	\$	26,140
2016		26,140
2017		11,740
2018		1,200
		<hr/>
	\$	65,220
		<hr/> <hr/>

### Note 13 – Health Care Reform

As a result of enacted federal and state health care reform legislation, substantial changes are occurring in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are slated to take effect at specified times over approximately the next decade. The State of Oregon saw an expansion of its Medicaid program which impacted the payer mix of the District. In addition, there has been an increased in health insurance plans with high deductibles. The District continues to evaluate the impact of health care reform legislation in future years.

### Note 14 – Subsequent Event

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the balance sheet date, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the balance sheet date but arose after the balance sheet date and before financial statements are available to be issued. The District has evaluated subsequent events through December 31, 2014, which is the date the financial statements were available for issuance.

The license for long-term care was transferred from the District on December 1, 2014 to Lakeview Gardens, LLC, a single member LLC of Goose Lake Medical. Lakeview Gardens, LLC 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. Revenue and expenses of the long-term care unit represented approximately 7% and 8% of the District's net patient service revenue and operating expenses, respectively for the years ended June 30, 2014 and 2013.

**SUPPLEMENTARY INFORMATION**

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**LAKE HEALTH DISTRICT dba LAKE DISTRICT HOSPITAL  
SCHEDULE OF ADOPTED APPROPRIATIONS AND EXPENDITURES  
ORIGINAL AND FINAL BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2014**

	Actual	Budgetary Amendment	Budgetary Basis	Original/Final Budget	Variance
<b>Revenues</b>					
Total revenues except property taxes	\$ 19,960,757	\$ -	\$ 19,960,757	\$ 20,965,339	\$ 1,004,582
Property tax revenue	2,006,598	-	2,006,598	1,968,927	(37,671)
<b>Total revenues</b>	<b>21,967,355</b>	<b>-</b>	<b>21,967,355</b>	<b>22,934,266</b>	<b>966,911</b>
<b>Expenditures</b>					
Personal services	11,743,213	-	11,743,213	11,862,327	119,114
Materials and services	6,059,898	1,420,714	7,480,612	6,963,254	(517,358)
Capital only	1,916,942	(930,392)	986,550	2,900,000	1,913,450
Debt service	961,784	202,973	1,164,757	1,903,087	738,330
<b>Total expenditures</b>	<b>20,681,837</b>	<b>693,295</b>	<b>21,375,132</b>	<b>23,628,668</b>	<b>2,253,536</b>
Excess of expenditures over resources	1,285,518	(693,295)	592,223	(694,402)	(1,286,625)
Other financing sources (uses)	-	-	-	(1,343,554)	(1,343,554)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,343,554)</b>	<b>(1,343,554)</b>
Excess of revenues over expenditures (expenditures over revenues) and other financing sources (uses)	<u>\$ 1,285,518</u>	<u>\$ (693,295)</u>	592,223	(2,037,956)	(2,630,179)
FUND BALANCE, beginning of year			11,634,763	4,756,562	11,400,647
FUND BALANCE, end of year			<u>\$ 12,226,986</u>	<u>\$ 2,718,606</u>	<u>\$ 8,770,468</u>

## INDEPENDENT AUDITOR'S COMMENTS

To the Board of Directors  
Lake Health District

We have audited the accompanying financial statements of Lake Health District dba Lake District Hospital (the District) as of June 30, 2014, and for the year then ended and have issued our report thereon dated December 31, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

### Compliance

Compliance with laws, regulations, contracts, and grants applicable to the District is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the District's 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, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting systems and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt, if any, and the limitation on the debt amount, liquidation of debt within the prescribed period of time, and provisions of indentures or agreements, including restrictions on the use of monies available to retire the indebtedness.
- The requirements relating to the preparation, adoption and execution of the annual budget for the current fiscal year and the preparation and adoption of the budget for the next succeeding fiscal year.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

## INDEPENDENT AUDITOR'S COMMENTS (continued)

However, 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 Minimum Standards for Audits for Oregon Municipal Corporations, prescribed by the Secretary of State, except as noted below.

### **Accounting Records and Internal Control (OAR 162-010-0230)**

A summary of recommendations made to improve or strengthen the accounting records and internal control has been made by management letter to the District's Board of Directors.

This report is intended solely for the information and use of management, the Board of Directors 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 these specified parties.



for Moss Adams LLP  
Portland, Oregon  
December 31, 2014

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Lake Health District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lake Health District dba Lake District Hospital (the District) which are comprised of the balance sheet as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 31, 2014.

**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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS (continued)**

**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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



for Moss Adams LLP  
Portland, Oregon  
December 31, 2014