

Lake Health District d/b/a

Lake District Hospital

Lakeview, Oregon

Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

Lake Health District d/b/a Lake District Hospital

Directory of Officials

June 30, 2012 and 2011

Elected

Expiration

Board of Directors:	Chuck Kelley, Chair P.O. Box 711 Lakeview, OR 97630	June 2015
	Don Liddycoat, CPA, Secretary 220 North G Street Lakeview, OR 97630	June 2013
	Judy Graham, Treasurer P.O. Box 464 Lakeview, OR 97630	June 2013
	Bob Swart, Member 18122 Westside Road Lakeview, OR 97630	June 2015
	Rosvi Casteel, Member P.O. Box 74 Paisley, OR 97636	June 2013

Appointed

Administrator:	Charles Tveit 700 South J Street Lakeview, OR 97630
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Mailing Address

District:	Lake District Hospital 700 South J Street Lakeview, Oregon 97630
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Lake Health District d/b/a Lake District Hospital

Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

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Independent Auditor's Report

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

We have audited the accompanying balance sheets of Lake Health District d/b/a Lake District Hospital (the "District") as of June 30, 2012 and 2011, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles general accepted in the United States require that management's discussion and analysis on pages 5 through 11 and the Schedule of Revenues and Expenditures – Budget vs. Actual information on page 43, 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, 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 audits 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on pages 43 to 48 and the accompanying schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material aspects in relation to the financial statements as a whole.

This report is intended solely for the information of the Board of Directors, management, federal and state agencies and the State of Oregon, Secretary of State, Division of Audits, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wipfli LLP

Wipfli LLP

By:

Michael R. Bell

Michael R. Bell, CPA, Oregon Municipal Auditor, Lic# 1249

January 15, 2013
Spokane, Washington



**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

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

We have audited the financial statements of Lake Health District d/b/a Lake District Hospital (the "District") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated January 15, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Lake Health District is responsible for establishing and maintaining effective internal control over financial reporting. 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 opinions 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.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 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*.

This report is intended solely for the information of the Board of Directors, management, federal and state agencies and the State of Oregon, Secretary of State, Division of Audits, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wipfli LLP

Wipfli LLP
January 15, 2013
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Introduction

Our discussion and analysis of Lake Health District, dba Lake District Hospital (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. 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 5-member board of directors governs the District. The members of the board are elected for a term of 4 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 Lake Health District. These tax revenues are used to support the purpose of the District, which is to provide health care to its members. Tax support is minimal, but has increased recently due to a gas pipe line development. Tax receipts in 2011-12 represented approximately 6.6% of District receipts.

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 healthcare reform and budget shortfalls
- Labor shortages for healthcare professionals including physicians, registered nurses, and other healthcare related fields

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Issues Facing the District (Continued)

- 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

The District's hospital is certified as a provider under both the Medicare program, which provides certain healthcare 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, 2012 was derived from Medicare, 19% was derived from Medicaid, 29% from other insurance and 7% 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.

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Healthcare Reform Bill – HR 3962 (Affordable Care Act)

Healthcare Reform Bill 3962, signed into law March 23, 2010, is a sweeping overhaul of the nation's healthcare system. Part of the plan's mandate is to reduce healthcare 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. However, at this point Critical Access Hospitals in frontier communities are not expected to be affected by the changes until 2014.

Risks Related to HIPAA

Under the Health Insurance Portability and Accountability Act (HIPAA), health plans, healthcare clearinghouses, and healthcare 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 healthcare 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.

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 healthcare 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 healthcare 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.

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

General Risks Affecting Healthcare Facilities (Continued)

Competition

Even in a rather isolated geographic location, competition from other hospitals and healthcare 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 6 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 healthcare 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.

Financial Discussion

The downward trend in inpatient census, which has pressured financial results over the past four years, continued as inpatient census decreased 16%. However, a portion of this decrease is offset with a greater clinical focus on outpatient visits in observation and emergency room which both increased over 7%. 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 qualifies for financial incentive reimbursements. A Medicare financial incentive reimbursement of \$660,556 was received in the current fiscal year end for meeting meaningful use of electronic health records.
2. **Building Remodel:** During the fiscal year the District completed a remodel on the existing facility. The remodel and previously completed 37,000 square foot expansion completed a \$22,000,000

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Financial Discussion (Continued)

project to address limitations in space, service, and expansion which have limited patient service and have been a hindrance to economic growth.

3. **Surgery Center:** 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.
4. **Long Term Care:** The District's long term care census, which had dropped 48% over the previous four years, increased 20% in 2012. The previous trend of decreasing census had 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. The increase in 2012 is attributable to a number of factors, including the highly desired five star quality designation of the facility from Medicare, demonstration of pride and quality of care, and additional community education. Despite the current year increase, long term care is 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 increases in census.
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 2012, recessionary factors in Lake County continue to be a challenge.

Management is confident in the steps that have been taken to continue to improve overall financial performance.

Financial Highlights

The District's overall business increased with gross patient revenue at \$20.1 million or a 6% increase from the prior year. Net patient revenues increased \$2.37 million or 15.8% due to increased Medicare reimbursements. Acute patient days decreased by 16.9% and long term care days increased by 20.9%. Emergency room and outpatient observation increased by 7.8% and 7.3%, respectively. Management is pleased that strategic planning efforts are beginning to be realized.

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Financial Highlights (Continued)

Revenue deductions, allowances, charity and bad debts reduced gross patient revenue by \$2.8 million, or 13.7% of gross patient revenue. These reductions are largely the result of contractual adjustment and allowances with Medicare of \$0.6 million and Medicaid \$0.8 million, comprising 49.4% of total revenue deductions.

In total, including non-patient activities, the District's expenses increased by \$2.1 million or 13.1%. Salary and wages increased \$0.9 million, or 11%. Full time equivalents (FTE) increased by 17 to 162. These positions related to a combination of the expanded facility and implementation of the new data system. Employees benefit expense increased by \$0.5 million or 20.6% in large part due to the increase in FTEs.

Non operating revenues totaled \$367,347, a decrease of \$249,618 or 40.5% from 2011. This decrease was due to increased interest costs related to the construction project. Contributions in the amount of \$37,361 were received during fiscal year 2012.

The District had a net loss of \$159,487 in 2012 compared to a net loss of \$230,679 in 2011. The net loss is reasonable and manageable considering an increase in depreciation and interest expense related to project costs consisting of \$964,033 and \$873,659, respectively.

Net accounts receivable decreased from \$2.91 million in 2011 to \$2.78 million in 2012. The decrease was due to efficiency and timely billing as well as the direction of a new business office manager.

Capital Assets

Lake District spent \$3,900,671 in capital expenditures in 2012. The majority of this expenditure, \$3,248,567, related to the remodel of the existing building. Additional purchases included equipment for the enhanced surgery program in the amount of \$326,129. The District was fortunate to receive \$125,000 in grant funds toward this program from the Collins McDonald Foundation. The District also continued to enhance its health information technology systems in the amount of \$188,194. The District has a program for routine equipment replacement and/or upgrades and investments in new equipment to help keep the hospital functioning at a high level, and continue expanding our services for the District.

Long-Term Debt

The remodel and previously completed 37,000 square foot expansion, completed a \$22,000,000 project. These amounts are financed by a combination of community support in the passing of an \$8,000,000 general obligation bond, bank loans from South Valley Bank in the amount of \$10,500,000, and State loans in the amount of

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Financial Highlights (Continued)

\$2,950,000. The USDA purchased the \$8,000,000 GO bond and a \$550,000 revenue bond issued by the District. The new and remodeled facilities will help solve problems related to space, quality of care, and privacy.

Condensed financial information for the years ended June 30, 2012, 2011 and 2010 are as follows:

Table 1: Condensed Balance Sheets

	2012	2011	2010
Assets:			
Current assets	\$ 7,284,740	\$ 4,654,477	\$ 4,318,137
Capital assets, net	24,030,732	23,347,374	11,639,693
Other non-current assets	2,475,492	5,397,828	10,409,234
Total assets	\$ 33,790,964	\$ 33,399,679	\$ 26,367,064
Liabilities:			
Long-term debt outstanding	\$ 21,934,261	\$ 21,968,478	\$ 13,424,825
Other current and non-current	2,144,797	2,132,290	3,412,649
Deferred revenue	572,482	-	-
Total liabilities	\$ 24,651,540	\$ 24,100,768	\$ 16,837,474
Net assets:			
Unrestricted	\$ 7,149,931	\$ 4,973,936	\$ 2,968,017
Capital assets, net of related debt	1,430,219	876,134	(1,905,269)
Construction project funds	-	2,940,851	7,958,862
Temporarily restricted	273,104	221,820	221,810
Permanently restricted	286,170	286,170	286,170
Total net assets	\$ 9,139,424	\$ 9,298,911	\$ 9,529,590

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Financial Highlights (Continued)

Table 2: Condensed Statements of Revenue and Expenses and Changes in Net Assets

	2012	2011	2010
Operating revenues:			
Net patient service revenues	\$ 17,365,872	\$ 14,992,913	\$ 13,066,608
Other operating revenues	116,995	79,924	63,258
Total operating revenues	17,482,867	15,072,837	13,129,866
Operating expenses:			
Salaries and benefits	10,975,122	9,594,755	9,008,943
Depreciation and amortization	1,838,323	874,290	511,189
Supplies	1,424,058	1,404,381	1,119,772
Other operating expenses	3,772,198	4,047,055	3,516,067
Total operating expenses	18,009,701	15,920,481	14,155,971
Loss from operations	(526,834)	(847,644)	(1,026,105)
Non-operating revenues (expenses):			
Taxation	1,291,506	704,639	696,290
Lease income	48,789	45,224	45,224
Contributions	141,445	16,827	50,888
Interest expense	(1,121,452)	(247,793)	(14,251)
Other non-operating gains	7,059	98,068	44,128
Total non-operating gains, net	367,347	616,965	822,279
Decrease in net assets:			
Net assets, beginning of year	9,298,911	9,529,590	9,686,977
Interest earned on restricted net assets	56	66	255
Net assets released from restrictions	(56)	(66)	46,184
Net assets, end of year	\$ 9,139,424	\$ 9,298,911	\$ 9,529,590

Lake Health District d/b/a Lake District Hospital

Balance Sheets

June 30, 2012 and 2011

<i>Assets</i>	2012	2011
Current assets:		
Cash and cash equivalents	\$ 2,870,167	\$ 1,126,264
Receivables:		
Patient accounts - Less allowance for uncollectible accounts and contractual adjustments of \$839,064 in 2012 and \$1,205,573 in 2011	2,778,287	2,911,632
Taxes	128,633	90,086
Other	278,189	321,614
Third-party settlements	1,128,057	108,872
Inventories	61,906	60,981
Prepaid expenses	39,501	35,028
<hr/> Total current assets	<hr/> 7,284,740	<hr/> 4,654,477
Noncurrent assets:		
Cash and cash equivalents	2,475,492	5,397,828
Capital assets:		
Land	139,985	139,985
Construction in progress	-	2,073,621
Depreciable capital assets - Net of accumulated depreciation	23,890,747	21,133,768
<hr/> Total capital assets - Net of accumulated depreciation	<hr/> 24,030,732	<hr/> 23,347,374
<hr/> TOTAL ASSETS	<hr/> \$ 33,790,964	<hr/> \$ 33,399,679

<i>Liabilities and Net Assets</i>	2012	2011
Current liabilities:		
Current maturities - Long term debt and capital leases payable	\$ 666,252	\$ 502,762
Accounts payable - Operations	423,775	402,066
Accounts payable - Construction project related	-	240,475
Third-party settlements payable	-	746
Accrued compensation and related liabilities	399,508	335,052
Accrued vacation	470,625	486,267
Accrued interest	184,637	164,922
Total current liabilities	2,144,797	2,132,290
Long-term debt and capital leases payable - Less current maturities	21,934,261	21,968,478
Other liabilities - Deferred revenue	572,482	-
Total liabilities	24,651,540	24,100,768
Net assets:		
Invested in capital assets - Net of related debt	1,430,219	876,134
Restricted:		
For debt service	51,284	-
Expendable for specific operating activities	221,820	221,820
Expendable for construction project	-	2,940,851
Nonexpendable permanent endowments	286,170	286,170
Unrestricted	7,149,931	4,973,936
Total net assets	9,139,424	9,298,911
TOTAL LIABILITIES AND NET ASSETS	\$ 33,790,964	\$ 33,399,679

Lake Health District d/b/a Lake District Hospital

Statements of Revenues and Expenses and Changes in Net Assets

Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Net patient and resident service revenues	\$ 17,365,872	\$ 14,992,913
Other operating revenues - Total	116,995	79,924
Total operating revenues	17,482,867	15,072,837
Operating expenses:		
Salaries and wages	8,102,256	7,211,552
Employee benefits	2,872,866	2,383,203
Professional fees	1,874,944	2,390,153
Supplies	1,424,058	1,404,381
Purchased services - Utilities	538,235	492,850
Purchased services - Other	97,785	72,936
Insurance	137,233	78,203
Rents and leases	263,464	277,187
Maintenance	328,463	299,478
Other	532,074	436,248
Depreciation and amortization	1,838,323	874,290
Total operating expenses	18,009,701	15,920,481
Loss from operations	(526,834)	(847,644)
Nonoperating revenues - Net	367,347	616,965
Decrease in net assets	(159,487)	(230,679)
Net assets - Beginning of year	9,298,911	9,529,590
Net assets - End of year	\$ 9,139,424	\$ 9,298,911

Lake Health District d/b/a Lake District Hospital

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from patient services	\$ 17,095,193	\$ 13,873,571
Cash received from other operating revenue	116,995	79,924
Cash paid for salaries and benefits	(10,926,308)	(9,638,732)
Cash paid for supplies, professional fees and other operating expenses	(5,179,945)	(5,423,542)
Net cash provided by (used in) operating activities	1,105,935	(1,108,779)
Cash flows from noncapital financing activities:		
Cash received from donations	141,445	16,827
Taxation for operations	1,252,959	708,115
Net cash provided by noncapital financing activities	1,394,404	724,942
Cash flows from capital and related financing activities:		
Principal payments on long-term debt and capital leases	(18,920,727)	(174,772)
Proceeds from issuance of long-term debt	19,050,000	9,101,050
Interest paid	(1,101,737)	(82,871)
Payments for purchase of capital assets	(2,762,156)	(14,373,758)
Net cash used in capital and related financing activities	(3,734,620)	(5,530,351)
Cash flows from investing activities:		
Interest received	7,059	26,445
Cash received from lease income	48,789	45,224
Other cash received from nonoperating activities	-	71,623
Net cash provided by investing activities	55,848	143,292
Net decrease in cash and cash equivalents	(1,178,433)	(5,770,896)
Cash and cash equivalents - Beginning of year	6,524,092	12,294,988
Cash and cash equivalents - End of year	\$ 5,345,659	\$ 6,524,092

Lake Health District d/b/a Lake District Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Loss from operations	\$ (526,834)	\$ (847,644)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,838,323	874,290
Provision for bad debts	625,343	637,157
Changes in operating assets and liabilities:		
Receivables:		
Patient accounts - Net	(491,998)	(1,814,153)
Other	43,425	(241,671)
Third-party settlements	(446,703)	314,579
Inventories	(925)	(6,663)
Prepaid expenses	(4,473)	11,445
Accounts payable	21,709	23,112
Third-party settlements payable	(746)	(15,254)
Accrued compensation and related liabilities	64,456	(117,125)
Accrued vacations	(15,642)	73,148
Total adjustments	1,632,769	(261,135)
Net cash provided by (used in) operating activities	\$ 1,105,935	\$ (1,108,779)

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") owns and operates a 24-bed acute care hospital, a 47-bed skilled nursing facility, home health and hospice services in Lakeview, Oregon. The District provides healthcare 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.

Related Party

Goose Lake Medical Services, Inc. (the "Corporation") is a legally separate, tax-exempt corporation. The Corporation provides healthcare 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 \$88,987 and \$56,004 in services and supplies to the Corporation during the years ended June 30, 2012 and 2011, respectively. The District had a receivable of \$0 and \$56,004 due from the Corporation as of as of June 30, 2012 and 2011, respectively.

The District Board authorized an increase in the line of credit available to the Corporation from \$200,000 to \$300,000 in May of 2012. Outstanding receivables from the Corporation are \$179,038 and \$165,000 at June 30, 2012 and 2011, respectively, and are included in other receivables on the balance sheet. The interest rate is 4% and the note balance is payable on demand.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Basis of Accounting and Financial Statement Presentation

The District's financial statements are presented using the flow of economic resources measurement focus, which uses the accrual basis of accounting. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements of the Accounting Standards Codification (ASC).

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. No policies result in material departures from GAAP.

Use of Estimates

The preparation of the accompanying financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make certain 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Budgets

The District is required to prepare and adopt an annual operating budget in accordance with the State of Oregon (Oregon) Local Budget Law. This budget is prepared differently, in some respects, from GAAP. The differences are primarily as follows:

- Principal debt service payments are treated as expenditures for budgetary purposes.
- Purchases of capital assets are treated as capital outlay expenditures for budgetary purposes.
- Depreciation expense is not budgeted.

Expenditures are controlled by appropriations adopted by resolutions of the District's Board of Directors (the "Board"), as permitted by Oregon Local Budget Law. The District makes annual appropriations by object classification (i.e., personal services, materials and services, capital outlay, and debt service). Unexpended appropriations lapse at the end of each fiscal year.

Cash and Cash Equivalents

All cash receipts are deposited directly to the District's bank account. For purposes of the statement of cash flows, the District considers all cash and cash investments with maturity dates of less than 90 days as cash and cash equivalents.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

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.

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Taxes Receivable

Property taxes are levied by the District and collected by the Lake County Officials. Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as other non-operating revenues. The District received approximately 6.62% and 3.59% of its financial support from property taxes for the years ended July 30, 2012 and 2011, respectively. The funds were used as follows:

	2012	2011
Taxes levied to support operations - Total	\$ 1,291,506	\$ 704,639

Property taxes are levied by the District and collected by the Lake County Treasurer for operations. Taxes estimated to be collectible are recorded as revenue in the year of the levy. No allowance for doubtful taxes receivable is considered necessary.

Property taxes are levied by the County on the District's behalf on January 1st and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of January 1st. Any property tax balances due to the County after May 15th are considered delinquent.

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.

Noncurrent Assets

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.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

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 (Notes 2 and 4).

Capital Assets

Capital asset and expenditures exceeding \$5,000 are capitalized and recorded at cost. Expenditures for maintenance and repairs are charged to operations as incurred, betterments and major renewals are capitalized. When such 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 gains and losses. Donated items are recorded at fair market value at the date of contribution and are subsequently considered as being on the basis of cost. Depreciation and amortization have been computed on the straight-line method over the estimated useful service lives of each class of depreciable asset. 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. Such amortization is included with depreciation expense in the financial statements. The estimated useful lives of capital assets are as follows:

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

Generally, assets with useful lives of less than three years are expensed in the year of purchase.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Compensated Absences

The District's employees accumulate paid time off (PTO) days composed 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 Assets

Net assets of the District are classified in three components. Net assets invested in capital assets net of related debt, consist 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 assets, are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures, if any. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

The District's statement of revenues and expenses and changes in net assets distinguishes between operating and non-operating 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 non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 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 (Note 3).

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

	2012	2011
Gross patient and resident service revenue:		
Daily hospital care	\$ 2,777,460	\$ 2,857,575
Nursing home	1,992,901	1,407,821
Ancillary services	15,361,059	14,694,243
Total gross patient and resident service revenue	20,131,420	18,959,639
Less:		
Charity care	297,828	250,436
Contractual adjustments	1,842,377	3,079,133
Provision for bad debts	625,343	637,157
Total adjustments	2,765,548	3,966,726
Net patient and resident service revenue	\$ 17,365,872	\$ 14,992,913

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

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 \$297,828 and \$250,436 for the years ended June 30, 2012 and 2011, respectively.

The estimated cost of providing charity care to patients under the District's charity care policy was approximately \$288,640 and \$213,859 in 2012 and 2011, respectively, calculated by multiplying the District's ratio of cost to gross charges by the gross uncompensated charges associated with providing the charity care.

Gifts, Contributions, Grants and Bequests

Gifts, contributions, grants and bequests that are not restricted by the donor are included in non-operating gains in the statement of revenues and expenses. 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 and expenses 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.

New Accounting Pronouncement

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-23, *Measuring Charity Care for Disclosure*. This ASU amends ASC Topic 954 and requires entities to use cost as the measurement basis for charity care disclosures, including both direct and indirect costs. Entities are also required to disclose the method used to determine these costs, such as directly from a costing system or through an estimation process. The District adopted the guidance in this ASU for the year ended June 30, 2012. The amount of charity care for the year ended June 30, 2011 has been restated to reflect estimated cost.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Reclassifications

Reclassifications have been made to prior year balances to match current year classifications.

Subsequent Event

Subsequent events have been evaluated through January 15, 2012, which is the date the financial statements were available to be issued.

Note 2 **Deposits and Investments**

Deposits

As of June 30, 2012, the District's deposits and certificates of deposit were entirely covered by the Federal Deposit Insurance Corporation or by additional collateral purchased by the District. Effective July 1, 2008, Oregon Revised Statute Chapter 295 required 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.

As of the balance sheet dates, the District had deposit balances as follows:

	2012	2011
Uncollateralized	\$ -	\$ -
Insured by the FDIC	250,000	250,000
Collateralized with securities held by the pledging financial institution's trust department or agent but not in the deposit-District's name	5,095,659	6,274,092
Total deposits	\$ 5,345,659	\$ 6,524,092

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 2 Deposits and Investments (Continued)

Investments

The Oregon Revised Statutes, Chapter 294.035, authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government certificates, notes, or bonds; the Oregon State Local Government Investment Pool; savings accounts in qualified public depositories; and certain other investments.

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 District did not have any investment holdings as of June 30, 2012 or 2011.

The carrying amounts of deposits are included in the District's balance sheets as follows:

	2012	2011
Deposits:		
Current assets	\$ 2,870,167	\$ 1,126,264
Noncurrent assets (Note 4)	2,475,492	5,397,828
Total deposits	\$ 5,345,659	\$ 6,524,092

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 3 Reimbursement Arrangements with Third-Party Payors

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenues charged and reimbursement under each of the various programs are included in revenue deductions and allowances. Gross revenues billed under the Medicare and Medicaid programs totaled approximately \$12,960,000 and \$10,885,000 for the years ended June 30, 2012 and 2011, respectively.

The Hospital is certified as a critical access hospital and is reimbursed by Medicare for inpatient and outpatient services on a cost basis as defined and limited by the Medicare program.

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. Medicare has audited cost reports through 2011.

Medicaid reimbursement for inpatient acute care services and outpatient services is based on cost as defined and limited by the Oregon Department of Medical Assistance Programs (DMAP). Medicaid hospital cost reports have been audited and tentatively settled for years through 2009. Medicaid nursing home services are reimbursed based on costs as defined and limited by the Medicaid program.

Bad debt expense included in revenue deductions and allowances totaled \$625,343 and \$637,157 for 2012 and 2011, respectively.

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 3 Reimbursement Arrangements with Third Party Payors (Continued)

Laws and Regulations (Continued)

be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Centers for Medicare and 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, 2012.

Note 4 Noncurrent Assets

Noncurrent assets were held for the following purposes as of the balance sheet dates (Note 2):

	2012	2011
Cash and cash equivalents:		
Internally designated for:		
Capital acquisitions	\$ 1,356,015	\$ 4,295,251
Pharmacy inventory replacement	76,074	74,759
Operational reserves	484,129	519,828
Restricted by debt instruments, USDA reserve funds	51,284	-
Restricted by endowment provisions	507,990	507,990
Total noncurrent assets	\$ 2,475,492	\$ 5,397,828

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 5 Capital Assets

Capital assets consisted of the following at June 30, 2012:

	Balance at July 1, 2011	Additions/ Transfers	Retirements	Balance at June 30, 2012
Nondepreciable assets:				
Land	\$ 139,985	\$ -	-	\$ 139,985
Construction in progress	2,073,621	(2,073,621)	-	-
Total nondepreciable assets	2,213,606	(2,073,621)	-	139,985
Depreciable assets:				
Land improvements	1,026,581	-	-	1,026,581
Buildings and improvements	24,870,538	3,300,316	-	28,170,854
Moveable equipment	4,628,442	733,722	-	5,362,164
Software	157,036	561,264	-	718,300
Total depreciable assets	30,682,597	4,595,302	-	35,277,899
Total assets before depreciation	32,896,203	2,521,681	-	35,417,884
Less accumulated depreciation for:				
Land improvements	374,765	76,900	-	451,665
Buildings and improvements	5,660,442	1,162,236	-	6,822,678
Moveable equipment	3,469,403	446,081	-	3,915,484
Software	44,219	153,106	-	197,325
Total accumulated depreciation	9,548,829	1,838,323	-	11,387,152
Total capital assets - Net	\$ 23,347,374	\$ 683,358	\$ -	\$ 24,030,732

Construction in progress is related to the construction of an addition to and the remodel of the hospital building. The addition and remodel was completed during the year ended June 30, 2012.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 5 Capital Assets (Continued)

Capital assets consisted of the following at June 30, 2011:

	Balance at July 1, 2010	Additions/ Transfers	Retirements	Balance at June 30, 2011
Nondepreciable assets:				
Land	\$ 139,985	\$ -	-	\$ 139,985
Construction in progress	8,844,118	(6,770,497)	-	2,073,621
Total nondepreciable assets	8,984,103	(6,770,497)	-	2,213,606
Depreciable assets:				
Land improvements	1,026,581	-	-	1,026,581
Buildings and improvements	6,379,324	18,491,214	-	24,870,538
Moveable equipment	3,991,709	731,733	(95,000)	4,628,442
Software	27,515	129,521	-	157,036
Total depreciable assets	11,425,129	19,352,468	(95,000)	30,682,597
Total assets before depreciation	20,409,232	12,581,971	(95,000)	32,896,203
Less accumulated depreciation for:				
Land improvements	297,865	76,900	-	374,765
Buildings and improvements	5,209,147	451,295	-	5,660,442
Moveable equipment	3,242,685	321,718	(95,000)	3,469,403
Software	19,842	24,377	-	44,219
Total accumulated depreciation	8,769,539	874,290	(95,000)	9,548,829
Total capital assets - Net	\$ 11,639,693	\$ 11,707,681	\$ -	\$ 23,347,374

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities

The schedule of changes in the Hospital's non-current liabilities for 2012 follows:

	Balance at July 1, 2011	Additions	Reductions	Balance at June 30, 2012	Due Within One Year
Notes payable:					
Sterling Bank					
CT & ultrasound	\$ 209,309	\$ -	\$ 124,467	\$ 84,842	\$ 84,842
South Valley Bank					
Construction loan	10,500,000	-	10,500,000	-	-
State of Oregon					
Construction loan	2,950,000	-	89,353	2,860,647	95,581
US Bank					
General obligation BAN	8,000,000	-	8,000,000	-	-
South Valley Bank					
2012 construction loan A	-	9,450,000	44,172	9,405,828	151,523
South Valley Bank					
2012 construction loan B	-	1,050,000	4,650	1,045,350	13,522
USDA					
General obligation bond	-	8,000,000	-	8,000,000	148,720
USDA					
Revenue bond	-	550,000	-	550,000	6,138
Total notes payable	21,659,309	19,050,000	18,762,642	21,946,667	500,326
Capitalized leases payable:					
US Bank EMR Lease	811,931	-	158,085	653,846	165,926
Total long-term debt and noncurrent liabilities	\$ 22,471,240	\$ 19,050,000	\$ 18,920,727	\$ 22,600,513	\$ 666,252

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities (Continued)

The schedule of changes in the Hospital's non-current liabilities for 2011 follows:

	Balance at July 1, 2010	Additions	Reductions	Balance at June 30, 2011	Due Within One Year
Notes payable:					
Sterling Bank					
CT & ultrasound	\$ 329,356	\$ -	\$ 120,047	\$ 209,309	\$ 124,522
South Valley Bank					
Construction loan	2,244,173	8,255,827	-	10,500,000	-
State of Oregon					
Construction loan	2,971,433	-	21,433	2,950,000	89,353
US Bank					
General obligation BAN	8,000,000	-	-	8,000,000	130,172
Total notes payable	13,544,962	8,255,827	141,480	21,659,309	344,047
Capitalized leases payable:					
US Bank EMR Lease	-	845,223	33,292	811,931	158,715
Total long-term debt and noncurrent liabilities	\$ 13,544,962	\$ 9,101,050	\$ 174,772	\$ 22,471,240	\$ 502,762

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities (Continued)

The terms and due dates of the District's long-term debt, including capital lease obligations for 2012 and 2011 are as follows:

Long Term Debt

Sterling Bank note payable, due in monthly installments of \$10,833, including interest at 3.59% through March 2013; collateralized by equipment.

South Valley Bank construction loan, due in monthly installments of interest only, including variable interest at a rate of 5.25% through February 1, 2012, collateralized by property. The variable interest rate is based on Prime plus two percent, with a floor of 5.00%. At June 30, 2011, the balance due on the South Valley Bank loan consisted of amounts that were drawn down for payment of construction in progress. The total funding available to the District under terms of the Note was \$10,500,000. On April 5, 2012, the District refinanced the construction loan through South Valley Bank. The loan was refinanced into two components in the amounts of \$9,450,000 and \$1,050,000. The terms of both loans are 30 years. The \$9,450,000 component 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. The \$1,050,000 component 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 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.

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 1.4% of total revenues and 1.3% of total expenses.

US Bank, Bond Anticipation Note (BAN), due in a lump sum on October 1, 2011 - extended to April 1, 2012 (Note 1) - with monthly interest payments at 2.65% that began on April 1, 2010, collateralized by General Obligation Bonds (G.O. bonds). In March of 2012, this loan was refinanced into permanent financing through the USDA by the issuance of general obligation bonds.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities (Continued)

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% beginning March 13, 2013. 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. Proceeds from the bonds were used to finance the District's building addition and remodel, which was completed during the year ended June 30, 2012 (Note 5). The District is required to establish a reserve account that is to be accumulated at a minimum rate of \$48,400 per year until there is a minimum of \$484,000 in the account. The District has accumulated \$48,400 in the reserve account as of June 30, 2012.

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 a US Bank Bond Anticipation Note (BAN), dated October 24, 2011. The bonds have a 40 year term and are due in annual installments of \$26,763, including principal and interest at 3.75% beginning March 13, 2013. The bonds are payable from the net revenues of the district and have a reserve account requirement of \$2,677 per year until \$26,763 has been accumulated. Proceeds from the bonds were used to finance the District's building addition and remodel, which was completed during the year ended June 30, 2012 (Note 5). The District is required to establish a reserve account that is to be accumulated at a minimum rate of \$2,884 per year until there is a minimum of \$28,831 in the account. The District has accumulated \$2,884 in the reserve account as of June 30, 2012.

US Bank capital lease comprised of two components, dated April 1, 2011 and July 1, 2011, respectively. The first component is due March 1, 2016 with monthly principal payments in varying amounts of \$11,176 in August 2011 to \$13,580 in March 2016 plus interest of 4.26%. The second component is due June 1, 2016 with monthly principal payments in varying amounts of \$1,782 in August 2011 to \$2,340 in June 2016 plus interest of 5.65%. The total net book value of assets secured by the capital lease obligation was \$857,842 and \$994,880 as of June 30, 2012 and 2011, respectively.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 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 Ending June 30	Principal	Interest	Total
2013	\$ 666,252	\$ 974,910	\$ 1,641,162
2014	607,267	947,919	1,555,186
2015	634,286	920,902	1,555,188
2016	604,706	894,246	1,498,952
2017	493,732	869,695	1,363,427
2018-2022	2,814,840	4,002,321	6,817,161
2023-2027	3,496,712	3,320,423	6,817,135
2028-2032	4,118,831	2,470,732	6,589,563
2033-2037	4,069,973	1,585,551	5,655,524
2038-2042	4,874,160	613,418	5,487,578
2043-2047	99,825	33,993	133,818
2048-2052	119,929	13,816	133,745
Total	\$ 22,600,513	\$ 16,647,926	\$ 39,248,439

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities (Continued)

The District considers compensated absence liabilities (e.g., employee paid time off or accrued vacation) to be short term and current liabilities of the District (Note 1) and not long-term debt or noncurrent liabilities. Therefore, current operating funds classified as current assets are used to liquidate these liabilities.

Note 7 Contingent Liability

Liability Insurance

The District has its professional liability insurance coverage with Washington Casualty Company. The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies.

The current malpractice insurance provides \$1,000,000 per claim of primary coverage 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.

No liability has been accrued for future coverage for acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

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 d/b/a Lake District Hospital

Notes to Financial Statements

Note 8 Concentration of Credit Risk

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, 2012 and 2011, consisted of these amounts:

	2012		2011	
Medicare	\$ 958,949	27%	\$ 1,501,062	36%
Medicaid	668,979	18%	487,210	12%
Other third-party payors	1,278,308	36%	1,454,874	36%
Self pay	711,115	20%	674,059	16%
	3,617,351	100%	4,117,205	100%
Less:				
Allowance for contractual adjustments	(550,200)		(825,597)	
Allowance for bad debt	(288,864)		(379,976)	
Patient accounts receivable - Net	\$ 2,778,287		\$ 2,911,632	

Note 9 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 \$353,495 and \$323,700 for the years ended June 30, 2012 and 2011, respectively.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 9 Retirement Plans (Continued)

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 \$174,372 and \$171,433, for the years ended June 30, 2012 and 2011, respectively.

Note 10 Nonoperating Revenue

Nonoperating revenue (expense) as of the financial statement dates are as follows:

	2012	2011
Taxation	\$ 1,291,506	\$ 704,639
Interest earnings	7,059	26,379
Interest expense (Note 6)	(1,121,452)	(247,793)
Lease income	48,789	45,224
Grants and contributions - Net	141,445	16,827
Gain on asset disposal	-	21,000
Pension forfeiture	-	50,689
Nonoperating revenues - Net	\$ 367,347	\$ 616,965

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 11 **Deferred Revenue**

The American Recovery and Reinvestment Act of 2009 (“ARRA”) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (“EHR”) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

The incentive payment is equal to the product of the District’s reasonable costs incurred for the purchase of certified EHR technology and its Medicare share percentage which is based in part on cost report data that is subject to audit by fiscal intermediaries, accordingly, amounts recognized are subject to change. In addition, the District’s attestation of its compliance with demonstrating meaningful use of certified EHR technology for the applicable period is subject to audit by the federal government or its designee.

Normally, this reimbursement would be received as the District reported depreciation on the related assets and the Medicare cost reports are filed, rather than as a lump-sum payment. Therefore, the District has deferred recognition of the payment received under the Medicare EHR program. The deferred revenue is being amortized and recognized as revenue over 5 years, which is the period the software will be depreciated. As of June 30, 2012, deferred revenue from the Medicare EHR incentive payments totaled \$572,482.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 12 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, 2012 and 2011, amounted to \$263,464 and \$277,187, respectively. Future minimum payments under non-cancellable operating leases with initial or remaining terms in excess of one year are as follows:

	Total
2013	\$ 28,406
2014	28,406
2015	9,650
2016	4,380
2017	-
	<hr/> <hr/> \$ 70,842

Supplementary Information

Lake Health District d/b/a Lake District Hospital

Schedule of Revenues and Expenditures – Budget vs. Actual

Year Ended June 30, 2012

	Filed Budget	Budget Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Resources:					
Net working capital *	\$ 1,413,921	\$ -	\$ 1,413,921	\$ 1,216,350	\$ (197,571)
Net operating revenue	16,813,174	-	16,813,174	17,482,867	669,693
Property/other taxes	1,124,214	-	1,124,214	1,291,506	167,292
Grants/contributions/other nonoperating	721,185	-	721,185	190,234	(530,951)
Interest	-	-	-	7,059	7,059
Restricted fund transfers	100,000	-	100,000	56	(99,944)
Capital development transfers	2,760,000	-	2,760,000	-	(2,760,000)
Loan proceeds	1,000,000	-	1,000,000	19,050,000	18,050,000
Total resources	23,932,494	-	23,932,494	39,238,072	15,305,578
Expenditures:					
Personal services	10,648,410	-	10,648,410	10,975,122	(326,712)
Materials and services	6,044,917	-	6,044,917	5,196,256	848,661
Capital outlay	3,521,066	-	3,521,066	2,762,156	758,910
Debt service	1,445,000	-	1,445,000	18,920,727	(17,475,727)
Contingencies	912,331	-	912,331	-	912,331
Unappropriated ending net working capital *	1,360,770	-	1,360,770	2,998,800	(1,638,030)
Total expenditures	\$ 23,932,494	\$ -	\$ 23,932,494	40,853,061	\$(16,194,868)
Excess of expenditures over resources				(1,614,989)	
Reconciliation of statutory operating expenditures to GAAP basis operating expenses:					
Add: Plant and equipment additions				2,762,156	
Add: Principal payments on long term debt				18,920,727	
Add: Change in net working capital *				1,782,450	
Less: Interest expense				(1,121,452)	
Less: Loan proceeds				(19,050,000)	
Less: Restricted fund transfers				(56)	
Less: Depreciation and amortization				(1,838,323)	
Total effects of reconciliation				1,455,502	
Net loss				(159,487)	
Add: Interest earned on donor-restricted				56	
Less: Transfers to donor-restricted funds				(56)	
Net assets - Beginning of year				9,298,911	
Net assets - End of year				\$ 9,139,424	

Lake Health District d/b/a Lake District Hospital

Schedule of Property Tax Transactions and Outstanding Balances

Year Ended June 30, 2012

Fiscal Year	Property Taxes Receivable June 30, 2011	Current Levy as Extended by Assessor	Discount Allowed	Corrections and Adjustments	Interest	Cash Collections	Property Taxes Receivable June 30, 2012
2011-2012	\$ -	\$ 1,318,864	\$ (33,285)	\$ (2,849)	\$ 701	\$ (1,215,578)	\$ 67,853
2010-2011	48,214	-	-	(3,536)	1,542	(14,591)	31,629
2009-2010	22,780	-	-	(2,834)	1,221	(1,652)	19,515
2008-2009	12,694	-	-	(3,962)	1,748	(3,776)	6,704
2007-2008	3,490	-	-	(1,894)	712	(1,142)	1,166
2006-2007	1,097	-	-	(727)	137	(92)	415
2005-2006	590	-	-	(457)	51	(52)	132
2004-2005	257	-	-	962	-	-	1,219
2003-2004	964	-	-	(964)	-	-	-
	\$ 90,086	\$ 1,318,864	\$ (33,285)	\$ (16,262)	\$ 6,111	\$ (1,236,881)	\$ 128,633

Revenue reported:

Current levy	\$ 1,318,864
Discounts	(33,285)
Adjustments	(16,262)
Interest	6,111
Other adjustments/tax receipts	16,078
Total	\$ 1,291,506

Lake Health District d/b/a Lake District Hospital

Schedule of Long-Term Debt Transactions

Year Ended June 30, 2012

Bond/Note	Principal Transactions				Interest Transactions			
	Balance 7/1/11	Additions	Principal Payments	Balance 6/30/12	Balance 7/1/11	Matured During Year	Paid During Year	Balance 6/30/12
Loan - Sterling Bank	\$ 209,309	\$ -	\$ 124,467	\$ 84,842	\$ -	\$ 5,475	\$ 5,475	\$ -
Loan - South Valley Bank	10,500,000	-	10,500,000	-	-	361,314	361,314	-
Loan - State of Oregon	2,950,000	-	89,353	2,860,647	164,922	136,670	223,830	77,762
Loan - US Bank	8,000,000	-	8,000,000	-	-	360,000	360,000	-
Loan - US Bank EMR	811,931	-	158,085	653,846	-	33,045	33,045	-
Loan - South Valley Bank 2012 A	-	9,450,000	44,172	9,405,828	-	103,505	103,505	-
Loan - South Valley Bank 2012 B	-	1,050,000	4,650	1,045,350	-	14,568	14,568	-
Bond - USDA general obligation	-	8,000,000	-	8,000,000	-	100,000	-	100,000
Bond - USDA revenue	-	550,000	-	550,000	-	6,875	-	6,875
Totals	\$ 22,471,240	\$ 19,050,000	\$ 18,920,727	\$ 22,600,513	\$ 164,922	\$ 1,121,452	\$ 1,101,737	\$ 184,637

Lake Health District d/b/a Lake District Hospital

Schedule of Future Debt Service Requirements of Long Term Debt

June 30, 2012

Maturing During Year Ending June 30,	State of Oregon E.D. Project Loan		Sterling Bank CT Scan & Ultrasound		U.S. Bank EMR		South Valley Bank 2012 Project Loan A		South Valley Bank 2012 Project Loan B		USDA General Obligation Bond		USDA Revenue Bond		Long-Term Debt Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 95,581	\$ 136,739	\$ 84,842	\$ 1,135	\$ 165,926	\$ 25,834	\$ 151,523	\$ 429,943	\$ 13,522	\$ 60,634	\$ 148,720	\$ 300,000	\$ 6,138	\$ 20,625	\$ 666,252	\$ 974,910
2014	100,150	132,170	-	-	173,471	18,290	158,647	422,818	14,332	59,823	154,298	294,423	6,369	20,395	607,267	947,919
2015	104,937	127,383	-	-	181,360	10,400	166,106	415,360	15,191	58,966	160,084	288,637	6,608	20,156	634,286	920,902
2016	109,953	122,367	-	-	133,089	2,437	172,785	408,684	15,937	58,216	166,087	282,634	6,855	19,908	604,706	894,246
2017	115,209	117,111	-	-	-	-	182,040	399,428	17,056	57,100	172,315	276,405	7,112	19,651	493,732	869,695
2018-2022	664,106	497,494	-	-	-	-	1,045,772	1,861,588	101,705	269,073	963,488	1,280,116	39,769	94,050	2,814,840	4,002,321
2023-2027	838,745	322,855	-	-	-	-	1,315,918	1,591,419	136,035	234,742	1,158,209	1,085,396	47,805	86,011	3,496,712	3,320,423
2028-2032	831,966	102,068	-	-	-	-	1,655,253	1,252,078	181,865	188,915	1,392,280	851,320	57,467	76,351	4,118,831	2,470,732
2033-2037	-	-	-	-	-	-	2,083,815	823,512	243,416	127,361	1,673,661	569,941	69,081	64,737	4,069,973	1,585,551
2038-2042	-	-	-	-	-	-	2,473,969	285,680	306,291	45,268	2,010,858	231,694	83,042	50,776	4,874,160	613,418
2043-2047	-	-	-	-	-	-	-	-	-	-	-	-	99,825	33,993	99,825	33,993
2048-2052	-	-	-	-	-	-	-	-	-	-	-	-	119,929	13,816	119,929	13,816
	\$ 2,860,647	\$ 1,558,187	\$ 84,842	\$ 1,135	\$ 653,846	\$ 56,961	\$ 9,405,828	\$ 7,890,510	\$ 1,045,350	\$ 1,160,098	\$ 8,000,000	\$ 5,460,566	\$ 550,000	\$ 520,469	\$ 22,600,513	\$ 16,647,926

Lake Health District d/b/a Lake District Hospital

Schedule of Expenditures of Federal Awards

June 30, 2012

Federal Grantor Agency Pass-Through Grantor Program Title	Entity Passed Through	Federal CFDA Number	Project Name	Project Period	Program or Award Amount	Federal Expenditures
U.S. Department of Agriculture Community Facilities Loans & Grants	N/A	10.766	Hospital Expansion and Upgrade Project	N/A	\$ 550,000	\$ <u>550,000</u>
TOTAL FEDERAL EXPENDITURES						\$ <u><u>550,000</u></u>

Lake Health District d/b/a Lake District Hospital

Notes to Schedule of Expenditures of Federal Awards

June 30, 2012

Note 1

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal loan activity of Lake Health District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the Schedule of Expenditures of Federal Awards.

Other Reports

AUDIT COMMENTS AND DISCLOSURES

REQUIRED BY STATE REGULATIONS

Oregon Administrative Rules 162-10-000 through 162-16-000 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments, and disclosures required in audit reports. The required statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.



Independent Auditors Comments and Disclosures Required By State Regulations

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, doing business as, Lake District Hospital (the District) as of June 30, 2012 and for the year then ended and have issued our report thereon dated January 15, 2013. 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 an 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 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 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 test disclosed no instances of noncompliance that are required to be reported under *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State.

OAR 162-10-0230 Internal Control

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.

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:

Michael R. Bell

Michael R. Bell, CPA, Oregon Municipal Auditor, Lic# 1249

January 15, 2013
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Audit Comments and Disclosures Required by State Regulations

June 30, 2012 and 2011

Accounting Records

The records of the District are adequate for audit purposes.

Adequacy of Collateral Securing Depository Balance

ORS Chapter 295 provides that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having 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.

As of June 30, 2012, the District did not maintain any uncollateralized deposits and therefore, appears to be in compliance with collateral requirements.

Budget and Oregon Local Budget Law Compliance

The budget documents related to Lake District for 2011, 2012 and 2013 were reviewed. The District appears to have substantially complied with the legal requirements related to the preparation, adoption, and execution of the budget for the year ended June 30, 2012 and 2011, and preparation and adoption of the budget for the upcoming fiscal year.

Health Districts with fiscal years beginning on or after July 1, 2002, are exempt from ORS 295.434(4), which restricted municipal corporations from making expenditures in excess of budgeted amounts.

Indebtedness

The District, during 2012 and 2011, appeared to be in compliance with statutory 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.

Federal and State Grants

We reviewed and tested, to the extent deemed appropriate, transactions and reports of the federal and state programs in which the District participates. The scope of our audit engagement did not require us to make a complete audit examination of each project, and our audit opinion on the District's basic financial statements does not cover each individual grant.

Lake Health District d/b/a Lake District Hospital

Audit Comments and Disclosures Required by State Regulations (Continued)

June 30, 2012 and 2011

Insurance and Fidelity Bond Coverage

The District's insurance policies appear to be in force. We are not competent by training to state whether the insurance coverage in force at June 30, 2012 and 2011, is adequate. The District does review insurance coverage annually with its insurance agent.

Litigation

District management informs us that there is no ongoing or threatened litigation as of the years ended June 30, 2012 and 2011.

Public Contracts and Purchasing

The District appears to have complied with legal requirements regarding awarding public contracts.

Programs Funded From Outside Sources

During the years ended June 30, 2012 and 2011, the District complied in all material respects, with laws, regulations, contracts and grants pertaining to programs funded from outside sources.



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the District's Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the Lake Health District, doing business as, Lake District Hospital (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2012. The District's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the District's major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the *U.S. Department of Agriculture Rural Development Audit Program*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the District's major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Lake Health District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on the District's major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express any opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal and state agencies and the State of Oregon, Secretary of State, Division of Audits, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Wipfli LLP

Wipfli LLP
January 15, 2013
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Section I - Summary of Audit Results

1. The independent auditor's report expresses an unqualified opinion on the financial statements of Lake Health District (District).
2. No material weaknesses were identified during the audit of financial statements. Significant deficiencies not considered to be material weaknesses were not reported during the audit of financial statements.
3. No instances of noncompliance considered to be material to the financial statements of the District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weakness in internal control over major federal award programs were identified. No significant deficiencies identified not considered to be material weaknesses in internal control over major federal award programs were identified.
5. The independent auditor's report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion on all major federal programs.
6. The findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The program tested as major programs of the District is as follows:

<i>Program</i>	<i>CFDA #</i>
Community Facilities Loans & Grants	10.766

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs, as those terms are defined in OMB Circular A-133.
9. The District did not qualify as a low-risk auditee, as that term is defined in OMB Circular A-133.

Lake Health District d/b/a Lake District Hospital

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Section II - Financial Statement Audit Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior-Year Findings

None

Name and signature of partner



Michael R. Bell, CPA

Date of report

January 15, 2013