

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

Financial Statements and Supplementary Information

Years Ended June 30, 2017 and 2016

WIPFLi^{LLP}
CPAs and Consultants

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

Directory of Officials

June 30, 2017

Board of Directors

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

Administrator

Charles Tveit
700 South J Street
Lakeview, OR 97630

Mailing Address

Lake District Hospital
700 South J Street
Lakeview, OR 97630

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

Years Ended June 30, 2017 and 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Lake Health District d/b/a Lake District Hospital (the "District"), and its discretely presented component unit, as of for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and its discretely presented component unit, as of June 30, 2017 and 2016, and the respective changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on page 4 through 11 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated February 15, 2018, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Wipfli LLP

Wipfli LLP

By:

Jeffrey M. Johnson

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

February 15, 2018
Spokane, Washington

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

Management's Discussion and Analysis Years Ended June 30, 2017 and 2016

Our discussion and analysis of Lake Health District d/b/a Lake District Hospital (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements that follow this analysis.

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

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

As a municipal government entity, the District levies and the county collects property taxes from property owners within the District. This tax revenue is used to support the purposes of the District, which is to provide health care to its members. Tax support has increased due to the construction of the replacement hospital as well recently due to a gas pipe line development. Tax receipts represented approximately 7% and 9% of District receipts for the years ended June 30, 2017 and 2016, respectively.

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

Issues Facing the District

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

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

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

Management's Discussion and Analysis (Continued) Years Ended June 30, 2017 and 2016

The District's hospital is certified as a provider under both the Medicare program, which provides certain health care benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. Approximately 36% of the gross patient revenue for fiscal year ending June 30, 2017, was derived from Medicare, 24% was derived from Medicaid, 36% from other insurance, and 4% from private pay or uninsured.

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

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

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

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

Risks Related to HIPAA

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

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

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

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

Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017 and 2016

General Risks Affecting Health Care Facilities

Technology and Service

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

Employment and Labor Issues

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

Competition

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

Insurance

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

Cost Based Reimbursement

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

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

Management's Discussion and Analysis (Continued) Years Ended June 30, 2017 and 2016

Financial Discussion

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

1. **Data System:** The District's new data system went live on January 1, 2011, and has been upgraded several times since. The system is a fully integrated tool designed to provide better information in a digital format also called an Electronic Health Record (EHR). In September 2011, the District met the clinical quality measures designated by the Center's for Medicare & Medicaid Systems. By meeting these measures, the District qualified for financial incentive reimbursements. In 2015, the District met the requirements of Meaningful Use stage 2, there were no financial gains, but this will ensure there will not be any financial penalties from Medicare in 2017. The District has replaced Evident with electronic System for EHR in the Emergency Room and is in the process of replacing Evident with eClinicalWorks in the Clinics. Both systems will help ensure we meet future Centers for Medicare and Medicaid Services EHR requirements.
2. **Surgery Service:** The District had been seeking to expand its surgical services for a number of years. In May 2012, a general surgeon was hired as a permanent solution to allow for more local surgical procedures, thus reducing travel for many patients living in or near the District. This practice increased in 2016 and 2017 and is expected to be strong through 2018.
3. **Lakeview Gardens, LLC:** The license for long-term care was separated from Lake Health on December 1, 2014 to Lakeview Gardens, LLC, a not-for-profit Lakeview Gardens will operate and be responsible for the long-term care operations previously managed and owned by Lake Health. The District is leasing the skilled nursing facility space to Lakeview Gardens. The District also has a shared services agreement with Lakeview Gardens for support services. Long-term care will continue operating under the name Lakeview Gardens.
4. **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 2015, recessionary factors in Lake County continue to be a challenge.
5. **Health Clinic:** The District bought Lake County Medical Clinic on June 1, 2015, which added two physicians and several staff people to our growing Lake Health Clinic. The Clinic passed their on site Rural Health Care inspection and certification in October, which helps ensure great patient care and increases reimbursement rates.

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

Management's Discussion and Analysis (Continued) Years Ended June 30, 2017 and 2016

2017 Financial Highlights

The District's overall business increased with net patient service revenue at \$24.7 million, an increase of \$2.6 million, or 12% from 2016.

Adjustments including revenue deductions, allowances, charity, and bad debts reduced gross patient revenue by \$6.7 million, or 21.4% of gross patient revenue. Revenue deductions increased -% from 2016 primarily due to increased contractual adjustments and bad debt.

In total, the District's operating expenses increased by \$3 million, or 13% from 2016. Salary and benefits increased approximately \$2.6 million, or 20%. Full time equivalents (FTE) increased from 206 in 2016 to 236 in 2017, or 15%.

Nonoperating revenue netted \$1.1 million in 2017, a decrease of \$638,124, or 37% from 2016.

The District had net loss of \$(562,190) in 2017 compared to net income of \$457,481 in 2016.

Net accounts receivable increased from \$4.7 million in 2016 to \$4.9 million in 2017, or 6%.

Capital Assets

Lake District spent \$8,834,313 and \$1,591,294 in capital expenditures in 2017 and 2016, respectively. The majority of the expenditures in 2017 were related to construction in progress and the purchase of equipment. Expenditures in 2016 were primarily related to to the purchase of equipment.

Long-term Debt

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

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

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

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

Management's Discussion and Analysis (Continued) Years Ended June 30, 2017 and 2016

Condensed financial information as of and for the years ended June 30, 2017, 2016, and 2015, are as follows:

Condensed Statements of Net Position (In Thousands)

	2017	2016	2015	Change	
				2017-2016	2016-2015
Assets and deferred outflows of resources:					
Current assets	\$ 15,965	\$ 16,461	\$ 15,939	\$ (496)	\$ 522
Noncurrent assets	28,001	21,250	21,840	6,751	(590)
Deferred outflows of resources	77	102	-	(25)	102
Total assets and deferred outflows of resources	\$ 44,043	\$ 37,813	\$ 37,779	\$ 6,230	\$ 34
Liabilities:					
Current liabilities	\$ 3,284	\$ 3,120	\$ 3,103	\$ 164	\$ 17
Noncurrent liabilities	27,239	20,611	21,051	6,628	(440)
Total liabilities	30,523	23,731	24,154	6,792	(423)
Net position:					
Net investment in capital assets	(107)	(134)	(166)	27	32
Restricted - Expendable	228	179	147	49	32
Restricted - Nonexpendable	420	486	486	(66)	-
Unrestricted	12,979	13,551	13,158	(572)	393
Total net position	13,520	14,082	13,625	(562)	457
Total liabilities and net position	\$ 44,043	\$ 37,813	\$ 37,779	\$ 6,230	\$ 34

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

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2017 and 2016

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

	2017	2016	2015	Change	
				2017-2016	2016-2015
Operating revenue:					
Net patient service revenue	\$ 24,707	\$ 22,128	\$ 20,509	\$ 2,579	\$ 1,619
Other operating revenue	652	408	314	244	94
Total operating revenue	25,359	22,536	20,823	2,823	1,713
Operating expenses:					
Salaries and benefits	16,039	13,419	11,985	2,620	1,434
Supplies	2,199	2,260	1,646	(61)	614
Other	6,667	5,924	5,049	743	875
Depreciation and amortization	2,109	2,207	2,053	(98)	154
Total operating expenses	27,014	23,810	20,733	3,204	3,077
Operating income (loss)	(1,655)	(1,274)	90	(381)	(1,364)
Nonoperating revenue (expenses)					
Property tax revenue	1,990	2,273	2,010	(283)	263
Interest expense	(1,004)	(601)	(1,154)	(403)	553
Noncapital grants and donations - Net	1,605	220	263	1,385	(43)
Miscellaneous	(1,513)	(176)	33	(1,337)	(209)
Lease income	15	15	55	-	(40)
Net nonoperating revenue	1,093	1,731	1,207	(638)	524
Increase (decrease) in net position	(562)	457	1,297	(1,019)	(840)
Net position - Beginning of year	14,082	13,625	12,328	457	1,297
Net position - End of year	\$ 13,520	\$ 14,082	\$ 13,625	\$ (562)	\$ 457

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

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2017 and 2016

Contacting the District's Financial Management

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

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

Statements of Net Position Years Ended June 30, 2017 and 2016

<i>Assets and Deferred Outflows of Resources</i>	2017	2016
Current assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 7,051,283	\$ 7,993,385
Board-designated cash	365,528	896,815
Restricted cash and cash equivalents	647,782	665,138
Receivables:		
Patient accounts - Net	4,943,911	4,671,177
Taxes	217,271	228,261
Other	756,342	180,463
Due from Component units	1,031,894	1,312,674
Third-party settlements	517,318	311,917
Inventories	277,976	88,304
Prepaid expenses	155,966	113,455
Total current assets	15,965,271	16,461,589
Noncurrent assets:		
Nondepreciable capital assets	8,979,325	1,193,413
Depreciable capital assets - Net of accumulated depreciation	19,021,388	20,056,268
Total noncurrent assets - Net	28,000,713	21,249,681
Deferred outflows of resources:		
Excess consideration provided for acquisition - Net	76,500	102,000
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 44,042,484	\$ 37,813,270

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

Statements of Net Position (Continued) Years Ended June 30, 2017 and 2016

<i>Liabilities and Net Position</i>	2017	2016
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	\$ 869,207	\$ 773,103
Account payable	661,591	901,093
Accrued compensation and related liabilities	806,772	638,166
Accrued vacation	819,129	736,531
Accrued interest payable	127,205	71,656
Total current liabilities	3,283,904	3,120,549
Noncurrent liabilities:		
Long-term debt and capital lease obligation - Less current maturities	27,238,612	20,610,563
Total liabilities	27,238,612	20,610,563
Net position:		
Net investment in capital assets	(107,106)	(133,985)
Restricted - Expendable:		
For debt service	227,888	179,488
Restricted - Nonexpendable -		
Nonexpendable permanent endowments	419,894	485,650
Unrestricted	12,979,292	13,551,005
Total net position	13,519,968	14,082,158
TOTAL LIABILITIES AND NET POSITION	\$ 44,042,484	\$ 37,813,270

Goose Lake Medical Services, Inc.

Discretely Presented Component Unit - Statements of Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 443,804	\$ 374,489
Patient accounts - Net	581,841	840,335
Inventories	154,253	-
Total current assets	1,179,898	1,214,824
Noncurrent assets:		
Depreciable capital assets - Net of accumulated depreciation	155,730	158,939
TOTAL ASSETS	\$ 1,335,628	\$ 1,373,763
<i>Liabilities and Net Position</i>		
Liabilities:		
Current liabilities	\$ 47,225	\$ 241,641
Due to Lake Health District	1,031,894	1,312,674
Total current liabilities	1,079,119	1,554,315
Net position - Unrestricted	256,509	(180,552)
TOTAL LIABILITIES AND NET POSITION	\$ 1,335,628	\$ 1,373,763

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

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Revenue:		
Net patient service revenue	\$ 24,707,173	\$ 22,128,479
Other operating revenue	651,899	408,405
Total operating revenue	25,359,072	22,536,884
Operating expenses:		
Salaries and wages	12,211,043	9,962,046
Employee benefits	3,827,486	3,456,636
Professional fees	3,966,506	3,783,714
Supplies	2,199,300	2,260,205
Purchased services - Utilities	538,683	479,185
Purchased services - Other	344,484	248,601
Insurance	171,961	184,100
Other	1,645,500	1,228,153
Depreciation and amortization	2,108,781	2,207,369
Total operating expenses	27,013,744	23,810,009
Loss from operations	(1,654,672)	(1,273,125)
Nonoperating revenue (expense):		
Property tax revenue	1,989,796	2,272,895
Investment income	61,892	41,834
Interest expense	(1,004,116)	(601,143)
Transfer to component unit	(1,575,121)	(218,198)
Noncapital grants and donations - Net	1,604,749	219,936
Lease income	15,282	15,282
Net nonoperating revenue	1,092,482	1,730,606
Increase (decrease) in net position	(562,190)	457,481
Net position - Beginning of year	14,082,158	13,624,677
Net position - End of year	\$ 13,519,968	\$ 14,082,158

Goose Lake Medical Services, Inc.

Discretely Presented Component Unit - Statements of Revenue, Expenses, and Changes in Net Position Years Ended June 30, 2017 and 2016

	2017	2016
Patient service revenue - Net	\$ 2,529,411	\$ 2,307,289
Operating expenses:		
Salaries and wages	1,785,403	1,508,559
Employee benefits	414,258	316,319
Professional fees	427,371	216,578
Supplies	562,634	572,389
Purchased services - Utilities	67,609	62,087
Other	238,912	145,521
Depreciation and amortization	3,209	3,209
Total operating expenses	3,499,396	2,824,662
Loss from operations	(969,985)	(517,373)
Nonoperating revenue (expense)		
Lease income	6,000	6,000
Transfer from Lake Health District	1,401,046	(688,832)
Total nonoperating revenue (expense)	1,407,046	(682,832)
Increase (decrease) in net position	437,061	(1,200,205)
Net position - Beginning of year	(180,552)	1,019,653
Net position - End of year	\$ 256,509	\$ (180,552)

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

Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 24,229,038	\$ 20,917,533
Receipts from other operating revenue	76,020	227,942
Payments to employees	(15,787,325)	(13,292,442)
Payments to supplies, contractors and others	(9,338,119)	(7,659,845)
Net cash provided by (used in) operating activities	(820,386)	193,188
Cash flows from noncapital financing activities:		
Taxation for operations	2,000,786	2,296,371
Cash received from grants and donations	1,604,749	219,936
Net cash provided by noncapital financing activities	3,605,535	2,516,307
Cash flows from capital and related financing activities:		
Proceeds from debt issuance	7,525,710	13,250,000
Principal payments on long-term debt and capital leases	(801,557)	(13,872,363)
Interest paid on long-term debt and capital leases	(948,567)	(710,642)
Purchase of capital assets	(8,834,313)	(1,591,294)
Net cash used in capital and related financing activities	(3,058,727)	(2,924,299)
Cash flows from investing activities:		
Interest received	61,892	41,834
Transfer to component unit	(1,575,121)	(218,198)
Cash received from lease income	15,282	15,282
Due from component units	280,780	(794,413)
Net cash used in investing activities	(1,217,167)	(955,495)
Net decrease in cash and cash equivalents	(1,490,745)	(1,170,299)
Cash and cash equivalents - Beginning of year	9,555,338	10,725,637
Cash and cash equivalents- End of year	\$ 8,064,593	\$ 9,555,338
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents	\$ 7,051,283	\$ 7,993,385
Board-designated cash	365,528	896,815
Restricted cash and cash equivalents	647,782	665,138
Total cash and cash equivalents	\$ 8,064,593	\$ 9,555,338

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

Statements of Cash Flows (Continued) Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of loss from operations to net cash provided by (used in) operating activities:		
Loss from operations	\$ (1,654,672)	\$ (1,273,125)
Adjustments to reconcile loss from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,108,781	2,207,369
Provision for bad debts	764,228	850,522
Changes in operating assets and liabilities:		
Receivable:		
Patient accounts - Net	(1,036,962)	(1,586,920)
Other	(575,879)	(180,463)
Third-party settlements	(205,401)	(474,548)
Inventory	(189,672)	(4,602)
Prepaid expenses	(42,511)	183,341
Accounts payable	(239,502)	345,374
Accrued compensation and related liabilities	168,606	49,596
Accrued vacation	82,598	76,644
Total adjustments	834,286	1,466,313
Net cash cash provided by (used in) operating activities	\$ (820,386)	\$ 193,188

Goose Lake Medical Services, Inc.

Discretely Presented Component Unit - Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 2,787,905	\$ 2,490,337
Payments to employees	(2,199,661)	(1,824,878)
Payments to supplies, contractors and others	(1,645,195)	(768,454)
Net cash used in operating activities	(1,056,951)	(102,995)
Cash flows from capital and related financing activities:		
Cash received from lease income	6,000	6,000
Cash flows from noncapital financing activities:		
Due to Lake Health District	(280,780)	794,413
Transfer from Lake Health District	1,401,046	(688,832)
Net cash used in noncapital financing activities	1,120,266	105,581
Net increase in cash and cash equivalent	69,315	8,586
Cash and cash equivalents - Beginning of year	374,489	365,903
Cash and cash equivalents - End of year	\$ 443,804	\$ 374,489
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (969,985)	\$ (517,373)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Depreciation and amortization	3,209	3,209
Changes in operating assets and liabilities:		
Receivable:		
Patient accounts - Net	258,494	183,048
Inventories	(154,253)	-
Accounts payable	(194,416)	228,121
Total adjustments	(86,966)	414,378
Net cash used in operating activities	\$ (1,056,951)	\$ (102,995)

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

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

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

Discretely Presented Component Unit

Goose Lake Medical Services, Inc. (GLMS) is a legally separate, tax-exempt corporation. GLMS provides health care services to patients in the southern Oregon and northern California areas. The District and GLMS have shared board members and officers. These services and supplies are charged to GLMS and any remaining balances are included in other receivables at December 31. Outstanding receivables from GLMS are \$448,377 and \$313,819 at June 30, 2017 and 2016, respectively, and are included in other receivables on the statement of net position. GLMS is reported in the accompanying financial statements to emphasize that it is legally separate from the District. Separate financial statements for the component unit are not available.

Blended Component Unit

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

Basis of Accounting

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

Budgetary information

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

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Budgetary information (Continued)

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy

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

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

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

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

Property Taxes

The District received approximately 7% of its financial support from property taxes in the years ended June 30, 2017 and 2016, respectively.

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes (Continued)

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

For the fiscal year June 30, 2017, the District levied their property taxes at the rate of \$2.0311 per \$1,000 of assessed property value. The funds used to support operations were \$1,989,796 and \$2,272,895 for the years ended June 30, 2017 and 2016, respectively.

Inventories

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

Restricted and Board-Designated Cash

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

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

Capital Assets

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

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

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

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

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

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

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenue, expenses, and changes in net position. No impairment loss was recorded for the years ended June 30, 2017 and 2016.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to the consideration in excess of acquisition value of \$127,500 for a clinic acquired on June 30, 2015. This amount is deferred and amortized over 5 years, the estimated life of the underlying intangibles. The net carrying value of consideration in excess of acquisition value is \$76,500 and \$102,000, at June 30, 2017 and 2016, respectfully.

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Accrued Vacation

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

Net Position

For government-wide and proprietary fund reporting, net position is reported in three categories.

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

Restricted: This category consists of noncapital assets whose use is restricted reduced by liabilities and deferred inflows of resources related to those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

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

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

Operating Revenue and Expenses

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

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patients Service Revenue

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

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

Charity Care

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

Grants and Contributions

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

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

Income Taxes

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

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are expensed as incurred.

Electronic Health Record Incentive Payments

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 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 District recognizes revenue for EHR incentive payments when they receive the payments. The EHR incentive payments are received after demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the CMS.

Amounts recognized under the Medicare and Medicaid EHR incentive programs are based on management's best estimates, which are 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 the meaningful use criteria is subject to audit by the federal government or its designee.

The District incurred both capital expenditures and operating expenses in connection with the implementation of its EHR initiative. The amount and timing of these expenditures does not directly correlate with the timing of the District's receipt or recognition of the EHR incentive payments.

Reclassifications

Certain reclassifications of 2016 amounts have been made in the accompanying financial statements to conform to the 2017 presentation.

Subsequent Events

Subsequent events have been evaluated through February 15, 2018, which is the date the financial statements were available to be issued.

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

Notes to Financial Statements

Note 2: Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. At June 30, 2016, the District exceeded the insured limits. However, this excess is collateralized with securities held by the pledging financial institution's trust department or agent not in the depositor's name.

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

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

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

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

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

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

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

Custodial credit risk - The risk that in an event of a bank failure, the District's deposits may not be returned to it. ORS 295.0002 provides for funds deposited in excess of \$250,000 to be held only in a depository qualified by the Oregon Public Funds Collateralization Program (PFCP). The District's deposits are held by a depository qualified under PFCP for the years ending June 30, 2016 and 2015.

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

Notes to Financial Statements

Note 2: Cash and Cash Equivalents (Continued)

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

	2017	2016
Demand deposits	\$ 2,824,183	\$ 3,135,311
Petty cash	2,803	2,224
Certificates of deposit	76,206	76,141
Local government investment pool	5,161,401	6,341,662
Total cash and cash equivalents	\$ 8,064,593	\$ 9,555,338

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

	2017	2016
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 7,051,283	\$ 7,993,385
Board-designated cash:		
Board-designated cash - Capital acquisitions	1,250	1,248
Board-designated cash - Pharmacy inventory replacement	76,206	76,141
Board-designated cash - Operational reserves	288,072	819,426
Total board-designated cash	365,528	896,815
Restricted cash and cash equivalents:		
Restricted by debt instruments - USDA reserve funds	227,888	179,488
Restricted by endowment provisions	419,894	485,650
Total restricted cash and cash equivalents	647,782	665,138
Totals	\$ 8,064,593	\$ 9,555,338

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

Notes to Financial Statements

Note 3: Reimbursement Arrangement With Third-Party Payors

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenue charged and reimbursement under each of the various programs are included in revenue deductions and allowances. Gross revenue billed under the Medicare and Medicaid programs totaled approximately \$18,810,000 and \$18,354,000 for the years ended June 30, 2017 and 2016, respectively.

Medicare

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

Medicaid

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

Other

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

Accounting for Contractual Arrangements

The District is reimbursed for certain cost-reimbursable items at an interim rate, with final settlements determined after an audit of the District's related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The cost reports for the District have been audited by Medicare and Medicaid through June 30, 2016 and 2015, respectively.

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

Notes to Financial Statements

Note 3: Reimbursement Arrangement With Third-Party Payors (Continued)

Laws and Regulations

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

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

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

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

Note 4: Property Taxes Receivable

A schedule of property tax transactions and outstanding balances for 2017 follows:

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

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

Notes to Financial Statements

Note 4: Property Taxes Receivable (Continued)

A schedule of property tax transactions and outstanding balances for 2016 follows:

Fiscal Year	Receivable July 1, 2015	2015-2016 Net Levy	Cash Collections	Interest Received	Discount Allowed	Adjustments Applied	Receivable June 30, 2016
2015-2016	\$ -	\$ 2,055,505	\$(1,899,643)	\$ 1,233	\$ (54,561)	\$ (17,129)	\$ 85,405
2014-2015	95,026	-	(33,878)	2,635	-	(5,105)	58,678
2013-2014	58,849	-	(15,449)	2,916	-	(9,258)	37,058
2012-2013	53,977	-	(16,248)	4,765	-	(24,320)	18,174
2011-2012	17,831	-	(4,692)	2,329	-	(3,219)	12,249
2010-2011	12,113	-	(959)	256	-	(4,072)	7,338
Prior	13,941	-	(241)	186	-	(4,527)	9,359
Totals	\$ 251,737	\$ 2,055,505	\$(1,971,110)	\$ 14,320	\$ (54,561)	\$ (67,630)	\$ 228,261

Note 5: Other Receivables

Other receivables are composed of the following at June 30:

	2017	2016
Other accounts receivable	\$ 493,669	\$ 52,871
Education/Recruiting loans	262,673	127,592
Lakeview Gardens	347,521	998,855
Gooselake Medical Services	448,377	313,819
Lake Health Medical Supply	235,996	-
Totals	\$ 1,788,236	\$ 1,493,137

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

Notes to Financial Statements

Note 6: Patient Accounts - Net

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

	2017	2016
Receivable from patient and their insurance carriers	\$ 3,811,410	\$ 3,814,954
Receivable from Medicare	2,021,659	1,861,601
Receivable from Medicaid	1,043,842	836,588
Total patient accounts receivable	6,876,911	6,513,143
Less:		
Allowance for contractual adjustments	931,000	747,966
Allowance for uncollectible amounts	1,002,000	1,094,000
Patient accounts - Net	\$ 4,943,911	\$ 4,671,177

The District's allowance for doubtful accounts for self-pay patients decreased from 54% of self-pay accounts receivable at June 30, 2016, to 50% for self-pay accounts receivable at June 30, 2017. In addition, the District's self-pay write-offs decreased approximately \$87,000 from \$851,000 for fiscal year 2016 to \$764,000 for fiscal year 2017. The District has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2017. The District does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

The discretely presented component unit had gross patient receivables of \$737,349 and \$1,082,556 at June 30, 2017 and 2016, with an allowance for contractual adjustments of \$155,508 and \$242,221 for 2017 and 2016, respectfully. Patient revenue net of contractual allowance was \$581,841 and \$840,335 for 2017 and 2016,. The Medicaid and Medicare percentage of accounts receivable was 45% and 55% for other payors.

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

Notes to Financial Statements

Note 7: Capital Assets - Net

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

	Balance July 1, 2016	Transfer/ Additions	Retirements	Balance June 30, 2017
Nondepreciable assets:				
Land	\$ 183,735	\$ -	\$ -	\$ 183,735
Construction in progress	1,009,678	7,785,912	-	8,795,590
Total nondepreciable assets	1,193,413	7,785,912	-	8,979,325
Depreciable assets:				
Land improvements	1,082,153	-	(134,065)	948,088
Buildings and improvements	30,029,777	111,626	(1,121,317)	29,020,086
Software	1,728,097	12,230	(14,619)	1,725,708
Equipment	6,543,778	924,545	(2,538,883)	4,929,440
Total depreciable capital assets	39,383,805	1,048,401	(3,808,884)	36,623,322
Total capital assets before depreciation	40,577,218	8,834,313	(3,808,884)	45,602,647
Less - Accumulated depreciation for:				
Land improvements	772,044	82,210	(134,065)	720,189
Buildings and improvements	12,234,681	1,283,650	(1,121,317)	12,397,014
Software	1,248,940	243,086	(14,619)	1,477,407
Equipment	5,071,872	474,335	(2,538,883)	3,007,324
Total accumulated depreciation	19,327,537	2,083,281	(3,808,884)	17,601,934
Total capital assets - Net	\$ 21,249,681	\$ 6,751,032	\$ -	\$ 28,000,713

At June 30, 2017, construction in progress consisted of LVG construction project and clinic remodel. The LVG project was completed in October 2017 with an additional cost of approximately \$450,000. The Clinic remodel is expected to be completed in late 2018 at an estimated additional cost of \$3,762,000. The District plans on utilizing current bond funds for the projects as well as operating funds.

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

Notes to Financial Statements

Note 7: Capital Assets - Net (Continued)

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Transfer/ Additions	Retirements	Balance June 30, 2016
Nondepreciable assets:				
Land	\$ 183,735	\$ -	\$ -	\$ 183,735
Construction in progress	108,552	901,126	-	1,009,678
Total nondepreciable assets	292,287	901,126	-	1,193,413
Depreciable assets:				
Land improvements	1,073,333	8,820	-	1,082,153
Buildings and improvements	30,032,744	26,717	(29,684)	30,029,777
Software	874,463	853,634	-	1,728,097
Equipment	6,773,902	(199,003)	(31,121)	6,543,778
Total depreciable capital assets	38,754,442	690,168	(60,805)	39,383,805
Total capital assets before depreciation	39,046,729	1,591,294	(60,805)	40,577,218
Less - Accumulated depreciation for:				
Land improvements	690,831	81,213	-	772,044
Buildings and improvements	10,883,168	1,381,197	(29,684)	12,234,681
Software	901,682	347,258	-	1,248,940
Equipment	4,730,792	372,201	(31,121)	5,071,872
Total accumulated depreciation	17,206,473	2,181,869	(60,805)	19,327,537
Total capital assets - Net	\$ 21,840,256	\$ (590,575)	\$ -	\$ 21,249,681

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

Notes to Financial Statements

Note 8: Long-Term Debt and Capital Lease Obligations

A schedule of changes in the District's long-term debt and capital lease obligations for 2017 follows:

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

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

Notes to Financial Statements

Note 8: Long-Term Debt and Capital Lease Obligations (Continued)

A schedule of changes in the District's long-term debt and capital lease obligations for 2016 follows:

	Balance June 30, 2015	Transfer/ Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Bonds and notes payable:					
State of Oregon E.D. Project Loan	\$ 2,559,978	\$ -	\$ (2,559,978)	\$ -	\$ -
Washington Federal 2012 Loan A	8,928,776	-	(8,928,776)	-	-
Washington Federal 2012 Loan B	1,001,521	-	(1,001,521)	-	-
USDA General Obligation Bonds	7,536,898	-	(166,086)	7,370,812	172,315
USDA Revenue Bonds	530,885	-	(530,885)	-	-
Washington Federal 2015 Bonds	-	13,250,000	(180,430)	13,069,570	277,723
Total long-term debt	20,558,058	13,250,000	(13,367,676)	20,440,382	450,038
Capital leases obligations:					
US Bank-EMR	147,881	-	(147,881)	-	-
GE MRI	1,300,090	-	(356,806)	943,284	323,065
Total capital leases obligations	1,447,971	-	(504,687)	943,284	323,065
Total long-term debt, capital leases payable, and other noncurrent liabilities	\$ 22,006,029	\$ 13,250,000	\$ (13,872,363)	\$ 21,383,666	\$ 773,103

Long-Term Debt

The terms and due dates of the District's long-term debt, including capital lease obligations, at June 30, 2017 and 2016, follow:

USDA General Obligation Bonds - Note dated March 13, 2012, in the amount of \$8,000,000 and \$550,000 for the purpose of providing permanent financing for the funds initially borrowed through the US Bank Bond Anticipation Note (BAN). The bonds have a 30-year term and are due in annual installments of \$448,720, \$26,763 including principal and interest at 3.75%. The bonds are collateralized by the full faith and credit of the District and have a reserve account requirement of \$44,872 and \$2,677 per year until \$448,720 and \$26,763 has been accumulated. The District has accumulated \$227,888 and \$179,488 in the reserve account as of June 30, 2017 and 2016, respectively. Fiscal year 2016, USDA Bond of \$550,000 was paid off early using the proceeds from Revenue Bonds 2015A.

State of Oregon E.D. Project Loan - Note dated February 26, 2010, in the amount of \$2,950,000, due in monthly installments of \$8,745, including interest at 4.78% until is paid off. Fiscal year 2016, the loan was paid off in full early using the proceeds from Revenue Bonds 2015A.

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

Notes to Financial Statements

Note 8: Long-Term Debt and Capital Lease Obligations (Continued)

Washington Federal 2012 Loan A - Note dated April 5, 2012, in the amount of \$9,450,000, due in monthly installments of \$48,456, including variable interest at 4.54% through April 2042. Fiscal year 2016, the loan was paid off in full early using the proceeds from Revenue Bonds 2015A.

Washington Federal 2012 Loan B - Note dated April 5, 2012, in the amount of \$1,050,000, due in monthly installments of \$6,180, including interest at 3.25% through April 2042. Fiscal year 2016, the loan was paid off in full early using the proceeds from Revenue Bonds 2015A.

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

Washington Federal 2016 Bonds - The District issued Draw Down Revenue Bonds Series 2016, totaling \$7,150,678 to finance construction for the long term care and assisted living facility, clinic facility, and ambulance facility. The Bonds have a maturity date of November 1, 2043 with interest payments beginning December 1, 2016 and first principal and interest payments beginning December 1, 2018. Interest is paid on the drawn down balance at a rate of 2.91%. The bonds shall not be unlimited tax general obligations of the District, but shall be payable solely from the revenues (including limited tax revenues) which the District pledges to payment of the bonds.

Capital Leases Payable

US Bank EMR - Capitalized leases payable consisting of two components due to US Bank. The first component due March 1, 2016, with monthly principal payments in varying amounts escalating to \$13,580 plus interest of 4.26%. The second component due June 1, 2016, with monthly principal payments in varying amounts escalating to \$2,351 plus interest of 5.65%. Both capital leases were paid off in full during 2016. The EMR equipment has been fully depreciated as of June 30, 2017.

GE Government Finance, Inc. - Capitalized lease due April 2019 in monthly installments of \$29,078 plus interest of 3.25%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately 1,201,000 as of June 30, 2017.

Siemens CT Lease - Capitalized lease due January 2022 in monthly installments of \$6,808, including interest of 0.28%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately 344,000 as of June 30, 2017.

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

Notes to Financial Statements

Note 8: Long-Term Debt and Capital Lease Obligations (Continued)

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

Year Ending June 30	Bonds and Notes Payable			Capital Leases Payable		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 464,495	\$ 870,529	\$ 1,335,024	\$ 404,712	\$ 25,916	\$ 430,628
2019	595,835	853,984	1,449,819	359,945	12,527	372,472
2020	698,735	832,553	1,531,288	75,994	5,698	81,692
2021	721,478	809,811	1,531,289	78,626	3,066	81,692
2022	744,968	786,321	1,531,289	47,099	537	47,636
2023-2027	4,105,129	3,551,314	7,656,443	-	-	-
2028-2032	4,819,746	3,219,339	8,039,085	-	-	-
2033-2037	5,660,116	3,455,013	9,115,129	-	-	-
2038-2042	6,647,572	3,279,101	9,926,673	-	-	-
2043-2047	2,683,369	136,695	2,820,064	-	-	-
Totals	\$ 27,141,443	\$ 17,794,660	\$ 44,936,103	\$ 966,376	\$ 47,744	\$ 1,014,120

Note 9: Net Patient Service Revenue

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

	2017	2016
Gross patient service revenue:		
Inpatient services	\$ 8,320,078	\$ 8,601,143
Outpatient services	23,103,304	20,212,794
Subtotals	31,423,382	28,813,937
Less:		
Contractual adjustments	5,951,981	5,834,936
Provision for bad debts	764,228	850,522
Net patient service revenue	\$ 24,707,173	\$ 22,128,479

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

Notes to Financial Statements

Note 9: Net Patient Service Revenue (Continued)

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

	2017	2016
Medicare	36 %	42 %
Medicaid	24 %	22 %
Other third-party payors	36 %	32 %
Self Pay	4 %	4 %
Totals	100 %	100 %

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

	2017	2016
Gross patient service revenue- Outpatient services	\$ 3,080,228	\$ 2,793,727
Less - Contractual adjustments	550,817	486,438
Net patient service revenue	\$ 2,529,411	\$ 2,307,289

Note 10: Charity Care

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

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

Gross charges related to patients under the District's charity care policy were \$482,041 in 2017 and \$420,677 in 2016. The estimated cost of providing this care was approximately \$415,000 and \$326,000 in 2017 and 2016, respectively, calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing the charity care.

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

Notes to Financial Statements

Note 11: Retirement Plans

Defined Contribution Retirement Plan

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

Some employees are eligible to participate only if they agree to contribute to the deferred compensation plan. Each pay period, the District contributes six percent of the employee's compensation. The contributions are vested at 20% after two years of service with graduated increases until vesting reaches 100% after six years of service. Unvested portions of District contributions and interest forfeited by employees who leave employment before six years of service are used to reduce the District's current period contribution requirement. The District made the required contributions of \$495,081 and \$461,609 for the years ended June 30, 2017 and 2016, respectively. The Plan had \$25,870 in forfeitures during 2017. No employee contributions were made to this plan.

The District provides a deferred compensation plan to substantially all employees under Section 403(b) of the IRC under Section 457. The deferred compensation plan is funded solely from employee contributions, which are deposited with an insurance company. These assets may only be used for the payment of plan liabilities. Funds deposited with the insurance company by the individual employees were \$334,759 and \$306,094, for the years ended June 30, 2017 and 2016, respectively.

Note 12: Operating Leases

The District is committed under various leases for equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the years ended June 30, 2017 and 2016, amounted to \$121,793 and \$102,799, respectively. Future minimum payments under noncancellable operating leases with initial or remaining terms in excess of one year are as follows:

2018	\$	37,940
2019		37,940
2020		37,940
2021		33,560
2022		33,560
2023 and beyond		33,560
<hr/>		
Total	\$	214,500

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

Notes to Financial Statements

Note 13: Risk Management

Liability Insurance

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

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

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the District. The District does not believe potential claims are significant and, accordingly, has not provided a reserve for potential claims from services provided to patients through June 30, 2017, which have not yet been asserted.

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

Note 14: Concentration of Credit Risk

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

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

	2017	2016
Medicare	29 %	29 %
Medicaid	15 %	13 %
Other third-party payors	26 %	27 %
Self Pay	30 %	31 %
Totals	100 %	100 %

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

Notes to Financial Statements

Note 15: Subsequent Events

Subsequent events have been evaluated through February 15, 2018, which is the date the financial statements were available to be issued.

Subsequent to year end, the District entered into a capital lease for equipment. The lease is due October 2022 in monthly installments of \$6,790, including interest. All capitalized leases payable are collateralized by the equipment under lease.

Supplementary Information

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

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

<i>Assets</i>	GLMS	LVG	Adjustments and Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 142,528	\$ 301,276	\$ -	\$ 443,804
Patient accounts - Net	263,404	318,437	-	581,841
Inventories	154,253	-	-	154,253
Total current assets	560,185	619,713	-	1,179,898
Capital assets:				
Depreciable capital assets - Net of accumulated depreciation	155,730	-	-	155,730
TOTAL ASSETS	\$ 715,915	\$ 619,713	\$ -	\$ 1,335,628
<i>Liabilities and Net Position</i>				
Liabilities:				
Current liabilities	\$ 23,975	\$ 23,250	\$ -	\$ 47,225
Due to Lake Health District	684,373	347,521	-	1,031,894
Total current liabilities	708,348	370,771	-	1,079,119
Net position - Unrestricted	7,567	248,942	-	256,509
TOTAL LIABILITIES AND NET POSITION	\$ 715,915	\$ 619,713	\$ -	\$ 1,335,628

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

Combining Statement of Net Position of GLMS and LVG Year Ended June 30, 2016

<i>Assets</i>	GLMS	LVG	Adjustments and Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 26,514	\$ 347,975	\$ -	\$ 374,489
Patient accounts - Net	566,237	274,098	-	840,335
Total current assets	592,751	622,073	-	1,214,824
Capital assets:				
Depreciable capital assets - Net of accumulated depreciation	158,939	-	-	158,939
TOTAL ASSETS	\$ 751,690	\$ 622,073	\$ -	\$ 1,373,763
<i>Liabilities and Net Position</i>				
Liabilities:				
Current liabilities	\$ 241,641	\$ -	\$ -	\$ 241,641
Due to Lake Health District	313,819	998,855	-	1,312,674
Total current liabilities	555,460	998,855	-	1,554,315
Net position - Unrestricted	196,230	(376,782)	-	(180,552)
TOTAL LIABILITIES AND NET POSITION	\$ 751,690	\$ 622,073	\$ -	\$ 1,373,763

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

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

	GLMS	LVG	Adjustments and Eliminations	Total
Revenue:				
Patient service revenue - Net	\$ 326,105	\$ 2,203,306	\$ -	\$ 2,529,411
Operating expenses:				
Salaries and wages	544,597	1,240,806	-	1,785,403
Employee and benefits	142,673	271,585	-	414,258
Professional fees	-	427,371	-	427,371
Supplies	336,575	226,059	-	562,634
Purchased services - Utilities	-	67,609	-	67,609
Other	-	238,912	-	238,912
Depreciation and amortization	3,209	-	-	3,209
Total operating expenses	1,027,054	2,472,342	-	3,499,396
Loss from operations	(700,949)	(269,036)	-	(969,985)
Nonoperating revenue (expenses)				
Lease income	6,000	-	-	6,000
Forgiveness on debt from Lake Health District	506,286	894,760	-	1,401,046
Total nonoperating revenue (expense)	512,286	894,760	-	1,407,046
Increase in net position	(188,663)	625,724	-	437,061
Net position - Beginning of year	196,230	(376,782)	-	(180,552)
Net position - End of Year	\$ 7,567	\$ 248,942	\$ -	\$ 256,509

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

Combining Statement of Revenue, Expenses, and Changes in Net Position of GLMS and LVG Year Ended June 30, 2016

	GLMS	LVG	Adjustments and Eliminations	Total
Revenue:				
Patient service revenue - Net	\$ 408,910	\$ 1,898,379	\$ -	\$ 2,307,289
Operating expenses:				
Salaries and wages	341,791	1,166,768	-	1,508,559
Employee and benefits	51,451	264,868	-	316,319
Professional fees	-	216,578	-	216,578
Supplies	323,642	248,747	-	572,389
Purchased services - Utilities	-	62,087	-	62,087
Other	-	145,521	-	145,521
Depreciation and amortization	3,209	-	-	3,209
Total operating expenses	720,093	2,104,569	-	2,824,662
Loss from operations	(311,183)	(206,190)	-	(517,373)
Nonoperating revenue (expenses)				
Lease income	6,000	-	-	6,000
Forgiveness on debt from Lake Health District	(22,054)	(666,778)	-	(688,832)
Total nonoperating revenue (expense)	(16,054)	(666,778)	-	(682,832)
Decrease in net position	(327,237)	(872,968)	-	(1,200,205)
Net position - Beginning of year	523,467	496,186	-	1,019,653
Net position - End of year	\$ 196,230	\$ (376,782)	\$ -	\$ (180,552)

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

Schedule of Adopted Appropriations and Expenditures Original and Final Budget and Actual Year Ended June 30, 2017

	Original Budget	Budget Amendments	Final Basis	Actual	Variance
Revenue:					
Revenue except property taxes	\$ 24,002,169	\$ -	\$ 24,002,169	\$ 27,040,995	\$ (3,038,826)
Property taxes	1,810,808	-	1,810,808	1,989,796	(178,988)
Total resources	\$ 25,812,977	\$ -	\$ 25,812,977	\$ 29,030,791	\$ (3,217,814)
Expenditures:					
Personal services	\$ 15,086,863	\$ -	\$ 15,086,863	\$ 16,038,529	\$ (951,666)
Materials and services	7,614,869	-	7,614,869	10,441,555	(2,826,686)
Capital outlay	2,279,790	-	2,279,790	8,834,313	(6,554,523)
Debt service	716,709	-	716,709	(5,720,037)	6,436,746
Total expenditures	\$ 25,698,231	\$ -	\$ 25,698,231	\$ 29,594,360	\$ (3,896,129)

Income from operations - Budgetary \$ (563,569)

Reconciliation of statutory operating expenditures to GAAP basis operating expenses:

Add: Capital Outlay	8,834,313
Add: Long-term debt and capital leases principal reductions	801,557
Less: Short-term notes payable	(7,525,710)
Less: Depreciation and amortization	<u>(2,108,781)</u>

Total effects of reconciliation 1,379

Loss from operations - GAAP (562,190)

Net position - Beginning of year 14,082,158

Net position - End of year \$ 13,519,968



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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lake Health District d/b/a Lake District Hospital (the "District"), the aggregate discretely presented component units as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 15, 2018.

Internal Control Over Financial Reporting

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

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

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

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

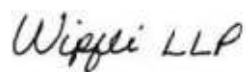
- **Financial Accounting and Reporting:** The District relies upon the auditor's to compile the financial statements and notes. As part of our professional services for the year ended June 30, 2017, we assisted in drafting the basic financial statements and related notes, including its discretely presented component unit. The District does not have sufficient expertise to prepare its own combined financial statements and notes disclosures. This circumstance is not unusual in an organization of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
- **Significant Audit Adjustments:** Audit adjustments were identified and recorded during the course of our audit procedures related to the third-party settlements, patient accounts receivable, estimate for allowance for doubtful accounts and contractual adjustments, and the adjustment to the due to/from receivable (Goose Lake Medical Services and Lakeview Gardens forgiveness of debt). External auditors assume that the books and records of the District are properly adjusted before the start of the audit. In some cases, however, adjustments are made in the normal course of the audit process that become imbedded within the financial statements, and therefore, become less apparent. We believe that the Board should gain a full and complete understanding of the scope and the extent of the audit process by disclosing significant audit adjustments when they are material. The District should strengthen controls that provide reasonable assurance that the estimate for third-party settlements, estimate for doubtful accounts and contractual adjustments, patient accounts receivable, and the due to/from receivable (Goose Lake Medical Services and Lakeview Gardens forgiveness of debt) by reviewing those accounts, at a minimum, on a semi-annual, quarterly basis, and in some cases, monthly.

Compliance and Other Matters

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

Purpose of This Report

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

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, slightly slanted style.

Wipfli LLP

February 15, 2018
Spokane, Washington



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

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

We have audited the accompanying financial statements of Lake Health District d/b/a Lake District Hospital (the "District") as of and for the year ended June 30, 2017, and have issued our report thereon dated February 15, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

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

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

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

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

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

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

Wipfli LLP

Wipfli LLP

By:

Jeffrey M. Johnson

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

February 15, 2018
Spokane, Washington

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

Audit Comments and Disclosures Required by State Regulations Year Ended June 30, 2017 and 2016

Accounting Records (OAR 162-010-0230)

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

1. Financial accounting and reporting is not compiled by management.
2. Significant audit adjustments were identified and made related to the third-party settlements, the allowance for doubtful accounts and contractual adjustments, component unit due to/from, patient accounts receivable, and Goose Lake Medical Services and Lakeview Gardens forgiveness of debt.