

Lake Health District d/b/a Lake District Hospital

Financial Statements and Supplementary Information

Years Ended June 30, 2020 and 2019



WIPFLI

Lake Health District d/b/a Lake District Hospital

Directory of Officials

June 30, 2020

Board of Directors

Don Liddycoat	Chair
John Shine	Treasurer
Jerald Steward	Secretary
Shirin Sabin	Member
Ken Kestner	Member

Administrator

Charles Tveit	CEO
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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, 2020 and 2019

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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 Lake Health District d/b/a Lake District Hospital (the "District") and its discretely presented component unit as of and for the years ended June 30, 2020 and 2019, 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 opinions 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.

Opinion

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, 2020 and 2019, and the respective changes in financial position and, as applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on page 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion 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 was derived from and relates 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 3, 2021, 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 3, 2021, 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:

Eric Volk

Eric Volk, CPA, Oregon Municipal Auditor, Lic#1637

February 3, 2021
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis

Years Ended June 30, 2020 and 2019

Our discussion and analysis of Lake Health District d/b/a Lake District Hospital's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2020. 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 healthcare 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 for which 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 they 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 in the District. This tax revenue is used to support the purpose of the District, which is to provide healthcare services to its members. Tax receipts represented approximately 5.0% and 6.0% of District receipts for the years ended June 30, 2020 and 2019, respectively.

The Governmental 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 because of state and national healthcare reform and budget shortfalls.
- Labor shortages for healthcare professionals, including physicians, registered nurses, and other healthcare-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, 2020 and 2019

The District's hospital is certified as a provider under both the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, which is funded jointly by the federal government and the states, and provides medical assistance to certain needy individuals and families. Approximately 44% of the gross patient revenue for the fiscal year ended June 30, 2020, was derived from Medicare, 20% from Medicaid, 33% from other insurance, and 3% from private pay or uninsured patients.

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 reimbursement 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, hospice, and physician services. When the reimbursement is fixed, the District is at risk to lose money on any service for which 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 healthcare fraud, and additional anti-fraud legislation has been adopted at both the federal and state levels. The fines for violation of these laws can be substantial. Failure of the District to be in compliance with these laws could also result in the exclusion of Medicare and Medicaid funds along with criminal penalties.

Risks Related to HIPAA

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

The District must also protect against reasonably 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 smartphones and other portable computers is adding risk to potential security breaches.

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued) Years Ended June 30, 2020 and 2019

General Risks Affecting Healthcare Facilities

Technology and Service

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

Employment and Labor Issues

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

Competition

Even in a rural geographic location, competition from other hospitals and healthcare providers is a risk to the District's revenue. Tertiary care facilities and others offering specialty care often promote competitive profitable services to those provided locally.

Insurance

Malpractice costs for hospitals and physicians have increased significantly over the last decade. These increases have caused providers to leave certain geographic areas and certain specialties. There are substantially higher premiums in Oregon given that there is no cap on malpractice damages, resulting in heightened exposure for healthcare providers.

Cost-Based Reimbursement

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

Financial Discussion

Enhanced details of financial highlights are explained below:

1. **Data System:** The District converted to a new Electronic Health Record (EHR) system on April 1, 2020. Implementing one EHR across all departments of the hospital and clinics helps to unite and streamline processes, resulting in greater care and positive patient experience.

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2020 and 2019

Financial Discussion (Continued)

- 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 2019 and 2020 with the addition of Orthopedic surgery.
- 3. Lakeview Gardens, LLC:** The license for long-term care was separated from the District on December 1, 2014, to Lakeview Gardens, LLC (Lakeview Gardens), a not-for-profit company. Lakeview Gardens operates and will 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. Provider-Based RHC:** The District retrospectively transitioned some of the clinical operations from Goose Lake Medical Services (a discretely presented component unit) to the District as a department of the hospital. The District has spent years pursuing provider-based status for this clinic, which will increase both Medicare and Medicaid reimbursement substantially.

2020 Financial Highlights

The District's overall business increased in 2020 with net patient service revenue at \$34.2 million, an increase of \$3.6 million, or 12%, from 2019.

Adjustments including revenue deductions, allowances, charity, and bad debts reduced gross patient revenue in 2020 by \$7.1 million, or 17.2% of gross patient revenue. Revenue deductions decreased by (18)% from 2019 as a result of decreased contractual adjustments and bad debts.

In total, the District's operating expenses increased in 2020 by \$4 million, or 12%, from 2019. Salary and benefits increased in 2020 by approximately \$2.2 million, or 11%. Full-time equivalents (FTE) increased from 252 in 2019 to 291, or 15%, in 2020.

Net nonoperating revenue totaled \$5.3 million in 2020, an increase of \$5,694,607, or 1,315%, from 2019. This increase was a result of the stimulus funding received in relation to the global pandemic.

The District had a increase in net position of \$2,752,837 in 2020 compared with a decrease in net position of \$1,902,743 in 2019.

Net accounts receivable increased from \$5.8 million in 2019 to \$6.7 million, or 16%, in 2020.

Capital Assets

Lake District spent \$726,838 and \$3,495,636 in capital expenditures in 2020 and 2019, respectively. The majority of the expenditures in 2020 and 2019 were related to the new EMR building and the purchase of equipment.

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2020 and 2019

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 U.S. Department of Agriculture (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 \$100,000.

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 balance of \$13,382,702. The bonds have a maturity date of November 1, 2043.

Condensed financial information are as follows:

Condensed Statements of Net Position (In Thousands)

<i>June 30,</i>	2020	2019	2018	Change	
				2020-2019	2019-2018
Assets and deferred outflows of resources:					
Current assets	\$ 30,305	\$ 12,116	\$ 15,342	\$ 18,189	\$ (3,226)
Noncurrent assets	32,400	34,760	31,343	(2,360)	3,417
Deferred outflows of resources	-	25	51	(25)	(26)
Total assets and deferred outflows of resources	\$ 62,705	\$ 46,901	\$ 46,736	\$ 15,804	\$ 165
Liabilities:					
Current liabilities	\$ 6,551	\$ 3,908	\$ 3,669	\$ 2,643	\$ 239
Noncurrent liabilities	42,641	32,232	30,404	10,409	1,828
Total liabilities	49,192	36,140	34,073	13,052	2,067
Net position:					
Net investment in capital assets	(1,671)	(912)	(243)	(759)	(669)
Restricted	951	729	648	222	81
Unrestricted	14,233	10,944	12,258	3,289	(1,314)
Total net position	13,513	10,761	12,663	2,752	(1,902)
Total liabilities and net position	\$ 62,705	\$ 46,901	\$ 46,736	\$ 15,804	\$ 165

Lake Health District d/b/a Lake District Hospital

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2020 and 2019

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

Years Ended June 30,	2020	2019	2018	Change	
				2020-2019	2019-2018
Operating revenue:					
Net patient service revenue	\$ 34,209	\$ 30,625	\$ 27,501	\$ 3,584	\$ 3,124
Other operating revenue	187	781	690	(594)	91
Total operating revenue	34,396	31,406	28,191	2,990	3,215
Operating expenses:					
Salaries and benefits	22,417	20,199	18,081	2,218	2,118
Supplies	3,345	2,996	2,884	349	112
Other	8,592	7,176	6,466	1,416	710
Depreciation and amortization	2,551	2,504	2,247	47	257
Total operating expenses	36,905	32,875	29,678	4,030	3,197
Operating loss	(2,509)	(1,469)	(1,487)	(1,040)	18
Nonoperating revenue (expenses):					
Property tax revenue	2,051	1,906	1,978	145	(72)
Interest expense	(1,051)	(1,029)	(940)	(22)	(89)
Noncapital grants and donations - Net	4,764	575	691	4,189	(116)
Miscellaneous	93	123	(1,337)	(30)	1,460
Forgiveness of debt	(1,100)	(2,400)	-	1,300	(2,400)
Lease income	548	392	201	156	191
Other nonoperating expense	(44)	-	-	(44)	-
Net nonoperating revenue (expenses)	5,261	(433)	593	5,694	(1,026)
Increase (decrease) in net position	2,752	(1,902)	(894)	4,654	(1,008)
Net position - Beginning of year	10,761	12,663	13,557	(1,902)	(894)
Net position - End of year	\$ 13,513	\$ 10,761	\$ 12,663	\$ 2,752	\$ (1,902)

Contacting the District's Financial Management

This financial report provides the District's patients, citizens, taxpayers, investors, and creditors with a general overview of the District's finances and shows the District's accountability for the money it receives. For questions about this report or for additional financial information, contact the Administration office at Lake Health District, 700 South J Street, Lakeview, OR 97630 or call 541.947.2114.

Lake Health District d/b/a Lake District Hospital

Statements of Net Position

<i>June 30,</i>	2020	2019
Current assets:		
Cash and cash equivalents - Unrestricted	\$ 20,535,697	\$ 4,115,007
Receivables:		
Patient accounts - Net	6,721,575	5,811,945
Taxes receivable	197,251	213,402
Other accounts receivable	366,285	1,001,067
Due from third-party payor settlements	1,963,478	523,421
Inventory	360,742	305,615
Prepaid expenses	159,955	145,617
Total current assets	30,304,983	12,116,074
Noncurrent assets:		
Cash and cash equivalents - Board designated	595,321	1,491,420
Cash and cash equivalents - Restricted	974,828	907,953
Capital assets - Nondepreciable	1,110,799	1,886,435
Capital assets - Net of accumulated depreciation	29,720,125	30,473,799
Total noncurrent assets	32,401,073	34,759,607
Deferred outflows of resources:		
Excess consideration provided for acquisition - Net	-	25,178
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 62,706,056	\$ 46,900,859

Lake Health District d/b/a Lake District Hospital

Statements of Net Position (Continued)

<i>June 30,</i>	2020	2019
Current liabilities:		
Current portion of long-term debt	\$ 918,757	\$ 890,363
Current portion of capital lease obligations	208,239	149,480
Current portion of refundable advance	874,902	-
Accounts payable	1,497,556	786,289
Accrued salary, payroll taxes, and benefits	2,376,227	1,958,269
Accrued interest	121,533	123,399
Unearned revenue	554,013	-
Total current liabilities	6,551,227	3,907,800
Noncurrent liabilities:		
Long-term debt, less current portion	36,154,189	31,930,836
Capital lease obligations, less current portion	363,062	301,798
Refundable advance, less current portion	6,124,316	-
Total noncurrent liabilities	42,641,567	32,232,634
Total liabilities	49,192,794	36,140,434
Net position:		
Net investment in capital assets	(1,671,213)	(912,243)
Restricted for debt service and specific operating activities	951,457	728,718
Unrestricted	14,233,018	10,943,950
Total net position	13,513,262	10,760,425
TOTAL LIABILITIES AND NET POSITION	\$ 62,706,056	\$ 46,900,859

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

Statements of Net Position - Discretely Presented Component Unit - Goose Lake Medical Services

<i>June 30,</i>	2020	2019
Current assets:		
Cash and cash equivalents	\$ 181,491	\$ 372,245
Patient accounts - Net	281,681	225,378
Inventory	484,195	503,557
Total current assets	947,367	1,101,180
TOTAL ASSETS	\$ 947,367	\$ 1,101,180
Liabilities and Net Position:		
Net position - Unrestricted	\$ 947,367	\$ 1,101,180
TOTAL LIABILITIES AND NET POSITION	\$ 947,367	\$ 1,101,180

Lake Health District d/b/a Lake District Hospital

Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2020	2019
Revenue:		
Net patient service revenue	\$ 34,208,943	\$ 30,625,259
Other operating revenue	186,892	780,613
Total operating revenue	34,395,835	31,405,872
Operating expenses:		
Salaries and wages	16,587,333	15,000,390
Employee benefits	5,829,565	5,199,013
Professional fees	4,825,296	4,488,551
Supplies	3,344,644	2,995,986
Purchased services	958,195	955,837
Licenses and taxes	1,211,421	32,894
Depreciation and amortization	2,550,829	2,504,392
Other operating expense	1,597,372	1,698,602
Total operating expenses	36,904,655	32,875,665
Loss from operations	(2,508,820)	(1,469,793)
Nonoperating revenue (expenses):		
Property taxes	2,051,304	1,906,723
Interest income	92,612	85,874
Interest expense	(1,051,123)	(1,029,203)
Transfer to component unit	-	37,003
Grants and contributions	4,763,560	575,295
Operating transfers to Goose Lake Medical Services	(1,099,530)	(2,400,424)
Lease income	548,603	391,782
Other nonoperating expenses	(43,769)	-
Total nonoperating revenue (expenses)	5,261,657	(432,950)
Increase (decrease) in net position	2,752,837	(1,902,743)
Net position - Beginning of year	10,760,425	12,663,168
Net position - End of year	\$ 13,513,262	\$ 10,760,425

Lake Health District d/b/a Lake District Hospital

Statements of Revenues, Expenses, and Changes in Net Position - Discretely Presented Component Unit - Goose Lake Medical Services

<i>Years Ended June 30,</i>	2020	2019
Net patient service revenue	\$ 3,205,490	\$ 2,482,765
Operating expenses:		
Salaries and wages	1,760,032	1,628,131
Employee benefits	426,214	465,162
Professional fees	1,242,064	1,291,586
Supplies	590,419	410,486
Purchased services	77,931	71,560
Other	529,773	379,953
Total operating expenses	4,626,433	4,246,878
Loss from operations	(1,420,943)	(1,764,113)
Nonoperating revenue:		
Operating transfers from Lake Health District	1,099,530	2,400,424
Nonoperating grants	167,600	-
Total nonoperating revenue	1,267,130	2,400,424
Increase (decrease) in net position	(153,813)	636,311
Net position - Beginning of year	1,101,180	464,869
Net position - End of year	\$ 947,367	\$ 1,101,180

Lake Health District d/b/a Lake District Hospital

Statements of Cash Flows

<i>Years Ended June 30,</i>	2020	2019
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 39,412,487	\$ 29,912,950
Receipts from other operating revenue	821,674	836,549
Payments to employees	(21,998,940)	(19,969,755)
Payments to suppliers, contractors, and others	(11,295,126)	(10,008,757)
Net cash provided by operating activities	6,940,095	770,987
Cash flows from noncapital financing activities:		
Property taxes	2,067,455	1,919,462
Cash received from grants and contributions	4,719,791	575,295
Proceeds from Paycheck Protection Program loan	5,142,110	-
Net cash provided by noncapital financing activities	11,929,356	2,494,757
Cash flows from capital and related financing activities:		
Proceeds from debt issuance	-	2,820,455
Principal payments on debt	(1,039,843)	(1,134,568)
Interest paid on debt	(1,052,989)	(1,031,002)
Purchase of capital assets	(726,838)	(3,495,636)
Operating transfers to Goose Lake Medical Services	(1,099,530)	(2,400,424)
Proceeds from sale of equipment	-	322
Net cash used in capital and related financing activities	(3,919,200)	(5,240,853)
Cash flows from investing activities:		
Interest received	92,612	85,874
Transfer from component unit	-	465,768
Cash received from lease income	548,603	391,782
Net cash provided by investing activities	641,215	943,424
Net increase (decrease) in cash and cash equivalents	15,591,466	(1,031,685)
Cash and cash equivalents - Beginning of year	6,514,380	7,546,065
Cash and cash equivalents - End of year	\$ 22,105,846	\$ 6,514,380

Lake Health District d/b/a Lake District Hospital

Statements of Cash Flows (Continued)

<i>Years Ended June 30,</i>	2020	2019
Reconciliation of loss from operations to net cash provided by operating activities:		
Loss from operations	\$ (2,508,820)	\$ (1,469,793)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	2,550,829	2,504,392
Provision for bad debts	947,013	655,091
Changes in assets and liabilities:		
Receivables:		
Patient accounts - Net	(1,856,643)	(1,215,467)
Other accounts receivable	634,782	55,936
Third-party settlements	(1,440,057)	(151,933)
Inventory	(55,127)	(14,350)
Prepaid expenses	(14,338)	24,045
Accounts payable	711,267	153,418
Accrued salaries, payroll taxes, and benefits	417,958	229,648
Refundable advance and unearned revenue	7,553,231	-
Total adjustments	9,448,915	2,240,780
Net cash provided by operating activities	\$ 6,940,095	\$ 770,987
Supplemental cash flows information:		
Assets financed with capital lease obligations	\$ 269,503	\$ -

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") is a municipal corporation that owns and operates a 24-bed acute care hospital and a home health and hospice service in Lakeview, Oregon. The District provides healthcare services to patients in the south central Oregon market. The services provided include an 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 municipal corporations and is exempt from payment of federal income tax.

Discretely Presented Component Unit

Goose Lake Medical Services (GLMS) is a legally separate, tax-exempt corporation. GLMS provides healthcare services to patients in the southern Oregon and northern California market. The District and GLMS have shared board members and officers. These services and supplies are charged to GLMS, and any remaining balances are included in other receivables at June 30. GLMS is reported as a discretely presented component unit in the accompanying financial statements to emphasize that it is legally separate from the District. Separate financial statements for the component unit are not available.

Blended Component Unit

GLMS is the sole member of Lakeview Gardens, LLC (LVG), which is presented as a blended component unit of GLMS. 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.

Method of Accounting

The District's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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. Expenditure levels of control are personnel services, materials and services, capital outlay, debt services, and contingencies.

After a public hearing on the budget, it is adopted, and appropriations are made by June 30, which is prior to the start of the fiscal year. Expenditures legally cannot 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 a supplemental budget. A supplemental budget requires hearings before the public, publication in newspapers, and approval by the Board. Expenditure appropriations may not legally be 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 budgeted 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 changes 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 of actual results and 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 principal payment on and proceeds from long-term debt are recorded in revenue when received and in 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.

The District considers significant accounting estimates to be those which require significant judgments and include the valuation of accounts receivable, including contractual allowances, allowance for doubtful accounts, and the estimated third-party payor settlements, and the revenue recognized as a result of provider relief fund payments.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid debt instruments with original maturity dates of three months or less.

Patient Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or, if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for copay 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 estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable.

In evaluating the collectibility of patient receivables, 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 that 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, 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.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

Property taxes are levied by the District and collected by the Lake County Treasurer for operations. These funds are used to support general operations. Property taxes are levied by the County on the District's behalf once a 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 15 are considered delinquent. Property tax revenues are recognized when levied. No allowance for doubtful taxes receivable is considered necessary.

For the fiscal year ended June 30, 2020, the District levied its property taxes at the rate of \$2.0311 per \$1,000 of assessed property value. The funds used to support operations were \$2,051,304 and \$1,906,723 for the years ended June 30, 2020 and 2019, respectively. The District received approximately 5% and 6% of its financial support from property taxes for the years ended June 30, 2020 and 2019, respectively.

Inventory

Inventory is valued at the lower of cost, determined on the first-in, first-out method, or net realizable value. Inventory consists of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

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, the related costs and accumulated depreciation and amortization are removed from the account, and the resulting gain or loss is classified in nonoperating revenue and expenses.

All capital assets other than land and construction in progress are depreciated using the straight-line method of depreciation and 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.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Outflows of Resources

In addition to assets, the statements of net position report a separate section of deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. The District reported a deferred outflow of resources related to the consideration in excess of acquisition value of \$127,500 for a clinic acquired on June 30, 2015. This amount is deferred and amortized over five years, which is the estimated life of the underlying intangibles. The net carrying value of consideration in excess of acquisition value was \$0 and \$25,178, at June 30, 2020 and 2019, respectively.

Accrued Vacation

The District's employees accumulate paid time off (PTO) days comprised of vacation, holidays, personal days, and sick days at varying rates depending on years of service. New employees are not eligible to take PTO until after their first 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 of accumulated PTO from one year to the next. Employees with PTO in excess of the combined two-year accrual may receive cash payment for excess hours of PTO with the approval of management. Upon termination, employees shall be paid all accrued but unused vacation hours, provided they have given the notice required by personnel policies, and the employee has not been terminated for cause.

Net Position

Net position 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 inflows of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category.

Restricted: This category consists of noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the facility or noncapital net position that has been restricted by donors to be maintained in perpetuity.

Unrestricted: This category consists 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.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

The District's statements of revenues, 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, which is 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, excluding financing costs.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated uncollectible revenue is reported as a 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 in charity care.

For uninsured patients who 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 revenues, expenses, and changes in net position as other operating revenue.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Tax Status

The District is a unit of government and a political subdivision of the state of Oregon and, as such, is not subject to federal income taxes. GLMS is a tax-exempt corporation and is exempt from federal income taxes on related income pursuant to Section 509(a)(2) of the Internal Revenue Code (IRC). It is also exempt from state income taxes on related income. Management believes GLMS has taken no uncertain tax positions and its tax returns for the years ended June 30, 2019, 2018, and 2017 are subject to examination.

Advertising

Advertising costs are expensed as incurred.

Reclassification

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 classifications.

Subsequent Events

Subsequent events have been evaluated through February 3, 2021, which is the date the financial statements were available to be issued.

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 for time deposits and an additional \$250,000 for demand deposits. At June 30, 2020, 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.

ORS Chapter 295 requires all Oregon bank depositories holding public fund deposits to maintain securities totaling a value not less than 110% 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, the 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.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 2: Cash and Cash Equivalents (Continued)

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 principal 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 the 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 ended June 30, 2020 and 2019.

The District does not have a policy for credit risk, concentration of credit risk, interest rate risk, or custodial credit risk.

Cash and cash equivalents consisted of the following:

<i>June 30,</i>	2020	2019
Demand deposits	\$ 19,818,070	\$ 2,969,661
Cash on hand	5,390	4,563
Certificates of deposit	-	77,460
LGIP	2,282,386	3,462,696
Total cash and cash equivalents	\$ 22,105,846	\$ 6,514,380

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 2: Cash and Cash Equivalents (Continued)

The composition of cash and cash equivalents consisted of the following:

<i>June 30,</i>	2020	2019
Current:		
Unrestricted	\$ 20,535,697	\$ 4,115,007
Noncurrent:		
Restricted for debt service	385,931	383,752
Restricted for endowment provisions	588,897	524,201
Unrestricted board designated	595,321	1,491,420
Totals	\$ 22,105,846	\$ 6,514,380

Restricted for Debt Service

County deposits held in trust for debt service payments.

Restricted for Endowment Provisions

Funds restricted by donor and held in perpetuity. Unless stated otherwise by the donor, the assets in the endowment fund are considered restricted assets and are reported in restricted net position until appropriated for expenditure by the governing board. Net appreciation on investments of donor-restricted endowments consisted of \$570,794 at June 30, 2020.

Board Designated Held for Capital Projects and Equipment

Capital project funds are funded with bond proceeds and consist of assets restricted to fund future construction of capital assets.

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 \$22,302,440 and \$21,491,415 for the years ended June 30, 2020 and 2019, respectively.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

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

Medicare

The District's hospital is designated as a Critical Access Hospital (CAH). As a CAH, the District's inpatient and outpatient services provided to Medicare program beneficiaries are paid for based on a cost-reimbursement methodology. The District's clinics are certified as Rural Health Clinics (RHC). For 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 settlements 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 settled or otherwise reviewed and settled on by the Medicare intermediary.

Medicaid

For CAHs, 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 final settled by Medicare and Medicaid through June 30, 2018 and 2017, 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 healthcare 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 healthcare 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 healthcare providers has increased. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. While no significant regulatory inquiries have been made of the District, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Centers for Medicare & Medicaid Services (CMS) uses recovery audit contractors (RAC) to search for potentially inaccurate Medicare payments that might have been made to healthcare 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 RAC's 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

The schedule of property tax transactions and outstanding balances at June 30, 2020, follows:

Fiscal Year	Receivable July 1, 2019	2019-2020 Net Levy	Discounts	Adjustments	Interest	Cash Collections	Receivable June 30, 2020
2019-2020	\$ -	\$ 2,051,304	\$ (50,445)	\$ (141,948)	\$ 1,233	\$(1,782,980)	\$ 77,164
2018-2019	57,398	-	(10)	(1,535)	2,979	(44,174)	14,658
2017-2018	42,002	-	(10)	(13)	3,445	(25,146)	20,278
2016-2017	33,032	-	(6)	1,048	4,946	(25,290)	13,730
2015-2016	19,826	-	-	(359)	2,463	(10,590)	11,340
2014-2015	12,876	-	-	(994)	1,136	(3,763)	9,255
Prior	27,967	-	-	4,661	1,219	(3,596)	30,251
Totals	\$ 193,101	\$ 2,051,304	\$ (50,471)	\$ (139,140)	\$ 17,421	\$(1,895,539)	\$ 176,676

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 4: Property Taxes Receivable (Continued)

The schedule of property tax transactions and outstanding balances at June 30, 2019, follows:

Fiscal Year	Receivable July 1, 2018	2018-2019 Net Levy	Discounts	Adjustments	Interest	Cash Collections	Receivable June 30, 2019
2018-2019	\$ -	\$ 1,906,723	\$ (51,655)	\$ (17,026)	\$ 1,238	\$(1,781,882)	\$ 57,398
2017-2018	79,782	-	(7)	(6,507)	2,230	(33,496)	42,002
2016-2017	50,954	-	-	(5,916)	2,528	(14,534)	33,032
2015-2016	37,954	-	-	(46,328)	43,340	(15,140)	19,826
2014-2015	19,741	-	-	(3,455)	1,478	(4,888)	12,876
2013-2014	12,142	-	-	(1,200)	365	(773)	10,534
Prior	25,568	-	-	(1,900)	573	(6,808)	17,433
Totals	\$ 226,141	\$ 1,906,723	\$ (51,662)	\$ (82,332)	\$ 51,752	\$(1,857,521)	\$ 193,101

Note 5: Other Receivables and Due From Component Units

Other receivables consisted of the following:

<i>June 30,</i>	2020	2019
Other receivables:		
Other accounts receivable	\$ 51,142	\$ 719,286
Education/recruiting loans to providers	315,143	281,781
Totals	\$ 366,285	\$ 1,001,067

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6: Patient Accounts Receivable

Patient accounts receivable - Net consisted of the following:

<i>June 30,</i>	2020	2019
Patient accounts receivable:		
Medicare	\$ 2,021,497	\$ 2,294,492
Medicaid	2,373,747	1,668,968
Commercial and other	3,259,490	2,720,225
Self-pay	2,094,841	1,477,260
<hr/>		
Total patient accounts receivable	9,749,575	8,160,945
<hr/>		
Less:		
Contractual adjustments	1,995,000	1,664,000
Allowance for doubtful accounts	1,033,000	685,000
<hr/>		
Patient accounts receivable - Net	\$ 6,721,575	\$ 5,811,945

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 7: Capital Assets

Capital assets consisted of the following:

	Balance July 1, 2019	Additions	Transfer	Retirements	Balance June 30, 2020
Nondepreciable assets:					
Land	\$ 183,735	\$ -	\$ -	\$ -	\$ 183,735
Construction in progress	1,702,700	748,723	(1,524,359)	-	927,064
Total nondepreciable capital assets	1,886,435	748,723	(1,524,359)	-	1,110,799
Depreciable assets:					
Land improvements	948,088	-	-	-	948,088
Buildings and improvements	43,856,209	1,329	1,525,654	-	45,383,192
Software	1,762,289	-	(1,295)	-	1,760,994
Equipment	6,222,555	246,289	-	-	6,468,844
Total depreciable capital assets	52,789,141	247,618	1,524,359	-	54,561,118
Total capital assets before depreciation	54,675,576	996,341	-	-	55,671,917
Total accumulated depreciation	22,315,342	2,525,651	-	-	24,840,993
Capital assets - Net	\$ 32,360,234	\$ (1,529,310)	\$ -	\$ -	\$ 30,830,924

At June 30, 2020, construction in progress consisted of the EMS building and is expected to be completed during fiscal year 2021 for minimal additional cost. The District plans on utilizing current bond funds for the projects, as well as operating funds.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 7: Capital Assets (Continued)

	Balance July 1, 2018	Additions	Transfer	Retirements	Balance June 30, 2019
Nondepreciable assets:					
Land	\$ 183,735	\$ -	\$ -	\$ -	\$ 183,735
Construction in progress	4,016,991	2,981,302	(5,295,593)	-	1,702,700
Total nondepreciable capital assets	4,200,726	2,981,302	(5,295,593)	-	1,886,435
Depreciable assets:					
Land improvements	948,088	-	-	-	948,088
Buildings and improvements	38,520,371	143,959	5,191,879	-	43,856,209
Software	1,758,198	4,091	-	-	1,762,289
Equipment	5,752,557	366,284	103,714	-	6,222,555
Total depreciable capital assets	46,979,214	514,334	5,295,593	-	52,789,141
Total capital assets before depreciation	51,179,940	3,495,636	-	-	54,675,576
Total accumulated depreciation	19,836,450	2,478,892	-	-	22,315,342
Capital assets - Net	\$ 31,343,490	\$ 1,016,744	\$ -	\$ -	\$ 32,360,234

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 8: Long-Term Debt Obligations

Long-term debt obligations consisted of the following:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
Direct borrowings and placements:					
USDA General Obligation Bonds	\$ 6,834,241	\$ -	\$ (192,437)	\$ 6,641,804	\$ 199,653
Washington Federal 2015 Bonds	12,211,085	-	(304,754)	11,906,331	314,337
Washington Federal 2016 Bonds	13,775,873	-	(393,171)	13,382,702	404,767
Paycheck Protection Program loan	-	5,142,110	-	5,142,110	-
Total bonds and notes payable	32,821,199	5,142,110	(890,362)	37,072,947	918,757
Capital lease obligations:					
CT Lease	201,718	-	(75,994)	125,724	78,626
GE DePuySynthes	249,560	-	(73,487)	176,073	76,404
First American	-	269,503	-	269,503	53,209
Total capital leases obligations	451,278	269,503	(149,481)	571,300	208,239
Total long-term debt	\$ 33,272,477	\$ 5,411,613	\$ (1,039,843)	\$ 37,644,247	\$ 1,126,996

Long-term debt obligations consisted of the following:

	Balance July 1, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Direct borrowings and placements:					
USDA General Obligation Bonds	\$ 7,019,722	\$ -	\$ (185,481)	\$ 6,834,241	\$ 192,437
Washington Federal 2015 Bonds	12,506,549	-	(295,464)	12,211,085	304,754
Washington Federal 2016 Bonds	11,179,545	2,820,455	(224,127)	13,775,873	393,172
Total bonds	30,705,816	2,820,455	(705,072)	32,821,199	890,363
Capital leases obligations:					
GE MRI	284,941	-	(284,941)	-	-
CT Lease	275,168	-	(73,450)	201,718	75,994
GE DePuySynthes	320,665	-	(71,105)	249,560	73,486
Total capital leases obligations	880,774	-	(429,496)	451,278	149,480
Total long-term debt	\$ 31,586,590	\$ 2,820,455	\$ (1,134,568)	\$ 33,272,477	\$ 1,039,843

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 8: Long-Term Debt Obligations (Continued)

The terms and due dates of the District's long-term debt consisted of the following:

USDA General Obligation Bonds - Note dated March 13, 2012, in the amounts of \$8,000,000 and \$550,000 for the purpose of providing permanent financing for the funds initially borrowed through the US Bank Bond Anticipation Note (BAN). The bonds have a 30-year term and are due in annual installments of \$448,720, including principal and interest at 3.75%. The bonds are collateralized by the full faith and credit of the District and have a reserve account requirement of \$44,872 and \$2,677 per year at June 30, 2020 and 2019, respectively, until \$448,720 and \$26,763, respectively, has been accumulated. The District had accumulated \$385,931 and \$383,752 in the reserve account as of June 30, 2020 and 2019, respectively. The fiscal year 2016 USDA Bond of \$550,000 was paid off 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 had not drawn on these funds as of the issuance date. The bonds shall not be unlimited general tax obligations of the District but shall be payable solely from the revenues, including limited tax revenues, the District pledges to payment of the bonds.

Washington Federal 2016 Bonds - The District issued Draw Down Revenue Bonds Series 2016, and draws at year-end totaled \$13,382,702 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 on December 1, 2016, and first principal and interest payments beginning on December 1, 2018. Interest is paid on the drawdown balance at a rate of 2.91%. The bonds shall not be unlimited general tax obligations of the District but shall be payable solely from the revenues, including limited tax revenues, the District pledges to payment of the bonds.

Paycheck Protection Program Loan - In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES Act) created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designated to help small businesses cover their near-term operating expenses and to provide an incentive to retain their employees during the COVID-19 crisis. The Hospital applied and was approved for a loan of \$5,142,110 that may be partially or fully forgiven based on the level of employee retention and if utilized for payroll costs, mortgage obligations, rent, or utilities within a specified covered period and in accordance with the terms and conditions of the PPP loan. The portion of the loan that is not forgiven, if any, will have a maturity date of April 19, 2022, and will bear interest at 1%.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 8: Long-Term Debt Obligations (Continued)

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 \$194,000 as of June 30, 2020.

GE DePuySynthes Lease - Capitalized lease due October 2022 in monthly installments of \$6,790, including interest of 3.60%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately \$0 as of June 30, 2020.

First American Lease - Capitalized lease due May 2025 in quarterly installments of \$13,704, including interest of 0.64%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately \$265,000 as of June 30, 2020.

GE MRI Lease - 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 \$968,000 as of June 30, 2020. This capital lease was paid off in its entirety during the year ended June 30, 2019.

Scheduled principal and interest repayments on bonds and notes payable are as follows:

<i>Years Ending June 30,</i>	Bonds and Notes Payable	
	Principal	Interest
2021	\$ 918,757	\$ 997,753
2022	6,090,175	1,022,180
2023	978,317	938,193
2024	1,009,542	906,968
2025	1,041,775	874,736
2026-2030	5,729,916	3,852,633
2031-2035	6,706,760	4,043,067
2036-2040	7,851,942	3,661,685
2041-2045	6,519,745	1,480,871
2046-2050	226,017	11,265
Totals	\$ 37,072,946	\$ 17,789,351

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 8: Long-Term Debt Obligations (Continued)

Scheduled repayments on capital lease obligations are as follows:

<i>Years Ending June 30,</i>		<i>Payments</i>
2021	\$	217,991
2022		183,934
2023		75,408
2024		54,817
2025		54,817
Less amounts attributable to interest		(15,666)
Present value of minimum lease payments		\$ 571,301

Note 9: Net Patient Service Revenue

Net patient service revenue consisted of the following:

<i>Years Ended June 30,</i>	2020	2019
Gross patient service revenue:		
Inpatient services	\$ 9,138,835	\$ 8,829,461
Outpatient services	32,177,975	30,511,586
Total gross patient service revenue	41,316,810	39,341,047
Less:		
Contractual adjustments	6,160,854	8,060,697
Provision for bad debts	947,013	655,091
Net patient service revenue	\$ 34,208,943	\$ 30,625,259

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:

<i>Years Ended June 30,</i>	2020	2019
Medicare	44 %	57 %
Medicaid	20 %	19 %
Other third-party payors	33 %	19 %
Self-pay	3 %	5 %
Totals	100 %	100 %

Discrete component unit net patient service revenue consisted of the following:

<i>Years Ended June 30,</i>	2020	2019
Gross patient service revenue - Outpatient services	\$ 3,405,243	\$ 2,629,911
Less - Contractual adjustments	199,753	147,146
Net patient service revenue	\$ 3,205,490	\$ 2,482,765

Note 10: 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 IRC. The plan covers full-time employees and part-time employees who have worked at least one year.

The District provides a deferred compensation plan to substantially all employees under Section 457 of the IRC. The deferred compensation plan is funded solely from employee contributions, which are deposited with an insurance company. Some employees are eligible to participate only if they agree to contribute to the deferred compensation plan. Each pay period, the District contributes 6% of employee 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 \$560,821 and \$441,147 for the years ended June 30, 2020 and 2019, respectively. The Plan had \$14,846 and \$42,818 in forfeitures during 2020 and 2019, respectively. No employee contributions were made to this plan.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 11: 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, 2020 and 2019, amounted to \$279,663 and \$179,360, respectively. Future minimum payments under noncancellable operating leases with initial or remaining terms in excess of one year are as follows:

2021	\$	33,560
2022		33,560
2023		33,560
2024		33,560
2025		33,560
<hr/>		
Total	\$	167,800

Note 12: Risks and Uncertainties

COVID-19

Specific to the District, COVID-19 impacted various aspects of operations and financial results for the year ended June 30, 2020, including investment return, contribution revenue, and expenses for program services. The anticipated increasing demand for program service funding, combined with reduced investment returns in the current fiscal year, led management to apply for assistance under the PPP, as discussed in Note 8. Management believes the District has taken appropriate actions in response to the pandemic. However, the full impact of COVID-19 remains unknown and cannot be reasonably estimated because these events are still developing.

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" types of 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, 2020, that have not yet been asserted.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 12: Risks and Uncertainties (Continued)

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 13: 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 healthcare provided to the patients.

The mix of receivables from patients and third-party payors consisted of the following:

<i>June 30,</i>	2020	2019
Medicare	21 %	28 %
Medicaid	24 %	20 %
Other third-party payors	33 %	34 %
Self-pay	22 %	18 %
Totals	100 %	100 %

Note 14: Medicare Advance Payment

As a result of the COVID-19 pandemic, CMS offered an accelerated and advance payment program which gave healthcare providers the opportunity to receive an advance on future Medicare payments. The District received a Medicare Advance Payment of \$6,999,218 in April 2020. Repayment of the Medicare Advance Payment is expected to begin 12 months after receipt of the advance, with a portion of Medicare payments being withheld until the advance is paid-in-full. Medicare will withhold 25% of net Medicare payments during the 12th through 23rd months after the original advance and 50% of net Medicare payments during the 24th through 29th month after the original advance. Interest will be charged on any remaining balance after the 29th month at an annual rate of 4.0%. The District reported a net liability totaling \$6,999,218 at June 30, 2020, which is included as both a current and noncurrent liability under refundable advances in the accompanying statements of net position.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 15: Provider Relief Funds and Grant Revenue

During 2020, the District received \$4,724,596 in grant funding from the U.S. Department of Health & Human Services Provider Relief Fund, which was established as a result of the CARES Act. Based on the terms and conditions of the grant, the District earns the grant by incurring healthcare-related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, or by incurring lost revenues, defined as a negative change in year-over-year net patient care operating income, net of healthcare-related expenses attributable to COVID-19. During 2020, the District recognized \$4,002,983 in grant revenue, and LVG recognized \$167,600 in grant revenue related to this program, which reflect management's estimate of the amount of the grant earned, including consideration for uncertainties related to reporting guidance still developing as of the date the financial statements were available to be issued. As of June 30, 2020, the District recorded unearned revenue of \$554,013 for the amount of grants received but not earned.

Supplementary Information

Lake Health District d/b/a Lake District Hospital

Combining Statements of Net Position of LMS and LVG

<i>June 30, 2020</i>	LMS	LVG	Adjustments and Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 82,418	\$ 99,073	\$ -	\$ 181,491
Patient accounts - Net	-	281,681	-	281,681
Inventory	484,195	-	-	484,195
TOTAL ASSETS	\$ 566,613	\$ 380,754	\$ -	\$ 947,367
Net position - Unrestricted	\$ 566,613	\$ 380,754	\$ -	\$ 947,367
TOTAL LIABILITIES AND NET POSITION	\$ 566,613	\$ 380,754	\$ -	\$ 947,367

Lake Health District d/b/a Lake District Hospital

Combining Statements of Net Position of LMS and LVG (Continued)

<i>June 30, 2019</i>	LMS	LVG	Adjustments and Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 58,062	\$ 314,183	\$ -	\$ 372,245
Patient accounts - Net	52,084	173,294	-	225,378
Inventories	503,557	-	-	503,557
TOTAL ASSETS	\$ 613,703	\$ 487,477	\$ -	\$1,101,180
Net position - Unrestricted	\$ 613,703	\$ 487,477	\$ -	\$1,101,180
TOTAL LIABILITIES AND NET POSITION	\$ 613,703	\$ 487,477	\$ -	\$1,101,180

Lake Health District d/b/a Lake District Hospital

Combining Statements of Revenues, Expenses, and Changes in Net Position of LMS and LVG

<i>Year Ended June 30, 2020</i>	LMS	LVG	Adjustments and Eliminations	Total
Revenue:				
Net patient service revenue	\$ 272,130	\$ 2,933,360	\$ -	\$ 3,205,490
Operating expenses:				
Salaries and wages	134,982	1,625,050	-	1,760,032
Employee benefits	39,931	386,283	-	426,214
Professional fees	-	1,242,064	-	1,242,064
Supplies	360,520	229,899	-	590,419
Purchased services	-	77,931	-	77,931
Other	-	529,773	-	529,773
Total operating expenses	535,433	4,091,000	-	4,626,433
Loss from operations	(263,303)	(1,157,640)	-	(1,420,943)
Operating transfers from Lake Health District	216,213	883,317	-	1,099,530
Noncapital grants	-	167,600	-	167,600
Total nonoperating revenue	216,213	1,050,917	-	1,267,130
Decrease in net position	(47,090)	(106,723)	-	(153,813)
Net position - Beginning of year	613,703	487,477	-	1,101,180
Net position - End of year	\$ 566,613	\$ 380,754	\$ -	\$ 947,367

Lake Health District d/b/a Lake District Hospital

Combining Statements of Revenues, Expenses, and Changes in Net Position of LMS and LVG (Continued)

<i>Year Ended June 30, 2019</i>	LMS	LVG	Adjustments and Eliminations	Total
Revenue:				
Net patient service revenue	\$ 228,576	\$ 2,254,189	\$ -	\$ 2,482,765
Operating expenses:				
Salaries and wages	123,508	1,504,623	-	1,628,131
Employee benefits	34,843	430,319	-	465,162
Professional fees	-	1,291,586	-	1,291,586
Supplies	202,337	208,149	-	410,486
Purchased services	-	71,560	-	71,560
Other	-	379,953	-	379,953
Total operating expenses	360,688	3,886,190	-	4,246,878
Loss from operations	(132,112)	(1,632,001)	-	(1,764,113)
Operating transfers from Lake Health District	228,209	2,172,215	-	2,400,424
Increase in net position	96,097	540,214	-	636,311
Net position - Beginning of year	517,606	(52,737)	-	464,869
Net position - End of year	\$ 613,703	\$ 487,477	\$ -	\$ 1,101,180

Lake Health District d/b/a Lake District Hospital

Schedule of Adopted Appropriations and Expenditures - Original, Final Budget, and Actual Year Ended June 30, 2020

	Original Budget	Budget Amendments	Final Budget	Actual	Variance
Revenue:					
Revenue except for property taxes	\$ 34,749,440	\$ -	\$ 34,749,440	\$ 39,800,610	\$ (5,051,170)
Property taxes	1,987,418	-	1,987,418	2,051,304	(63,886)
Total revenue	\$ 36,736,858	\$ -	\$ 36,736,858	\$ 41,851,914	\$ (5,115,056)
Expenditures:					
Personnel services	\$ 22,942,374	\$ -	\$ 22,942,374	\$ 22,416,898	\$ 525,476
Materials and services	9,841,301	-	9,841,301	14,131,350	(4,290,049)
Capital outlay	2,494,396	-	2,494,396	726,838	1,767,558
Debt service	1,023,422	-	1,023,422	1,039,843	(16,421)
Total expenditures	\$ 36,301,493	\$ -	\$ 36,301,493	\$ 38,314,929	\$ (2,013,436)
Gain from operations - Budgetary				\$ 3,536,985	
Reconciliation of statutory operating expenditures to GAAP-basis operating expenses:					
Add: Capital outlay				726,838	
Add: Long-term debt and capital leases principal reductions				1,039,843	
Less: Depreciation and amortization				<u>2,550,829</u>	
Total effects of reconciliation				<u>(784,148)</u>	
Change in net position				2,752,837	
Net position - Beginning of year				<u>10,760,425</u>	
Net position - End of year				<u>\$ 13,513,262</u>	

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

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lake Health District d/b/a Lake District Hospital (the "District") and its discretely presented component unit as of and for the year ended June 30, 2020, 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 3, 2021.

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) as a basis for determining audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did identify certain deficiencies in internal control that we consider to be significant deficiencies. It is listed as finding 2020-001 and 2020-002 in the Schedule of Audit Finding and Response.

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 statements. 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, flowing style.

Wipfli LLP

February 3, 2021
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Schedule of Audit Finding and Response

Year Ended June 30, 2020

Finding Number: 2020-001

Type of Finding: Significant deficiency

Description: Financial statement preparation and accompanying note disclosures

Condition: The District relies upon the auditor to compile the financial statements and notes. As part of our professional services for the year ended June 30, 2020, 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 financial statements and disclosures. This circumstance is not unusual in an organization of your size. It is the responsibility of 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.

Criteria - *Government Auditing Standards* considers the inability to report the financial data reliably in accordance with GAAP in the United States to be an internal control deficiency.

Context - This finding appears to be a systemic problem.

Cause - The completeness of the financial statement disclosures and the accuracy of the overall financial presentation may be negatively impacted, since outside auditors do not have the same comprehensive understanding as its internal finance staff.

Effect - The independent auditor's assistance in preparation of the financial statements to provide the necessary understanding of the current accounting and disclosure requirements represents a significant deficiency in the District's internal control over financial reporting.

Recommendation - We recommend management and those charged with governance continue to evaluate the degree of risk associated with this condition because of cost or other considerations.

Management Response - Management agrees with the assessment and has committed to evaluating the costs and benefits associated with preparing the annual financial statements.

Lake Health District d/b/a Lake District Hospital

Schedule of Audit Finding and Response

Year Ended June 30, 2020

Finding Number: 2020-002

Type of Finding: Significant deficiency

Description: Significant audit adjustments

Condition: The District is responsible for the internal controls over the period-end financial reporting process, including controls over procedures to recognize transactions in the correct period and properly adjust the general ledger. During the audit, it was required that less-than-material but still significant adjusting journal entries be posted to convert the District's financial records to the financial statements as reported.

Criteria - *Government Auditing Standards* considers the inability to properly reconcile the general ledger in accordance with GAAP in the United States to be an internal control deficiency.

Context - This finding appears to be a systemic problem.

Cause - Internal control over year-end reconciliations of the general ledger and financial reporting were not operating as designed.

Effect - The District's internal controls over financial reporting at the general ledger and financial statement levels were not adequate to ensure a material misstatement would be prevent and/or detected. The District was not always in compliance with GAAP.

Recommendation - We recommend the District continue to evaluate its year-end closeout procedures and put processed in place to ensure all accounts are reconciled from support to the general ledger. The District should design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements.

Management Response - Management agrees with the assessment and has committed to evaluating the costs and benefits associated with reconciling the general ledger.

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, 2020, and have issued our report thereon dated February 3, 2021. 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 is 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:

Eric Volk

Eric Volk, CPA, Oregon Municipal Auditor, Lic# 1637

February 3, 2021
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Audit Comments and Disclosures Required by State Regulations Years Ended June 30, 2020 and 2019

Accounting Records (OAR 162-010-0230)

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

1. Financial accounting and reporting are not compiled by management.
2. The general ledger is not adequately reconciled by management.