

Lake Health District  
d/b/a Lake District Hospital

Lakeview, Oregon

**Financial Statements and Supplementary Information**

Years Ended June 30, 2019 and 2018

**WIPFLi**<sup>LLP</sup>  
CPAs and Consultants

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

## Directory of Officials

June 30, 2019

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### Board of Directors

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

### Administrator

Charles Tveit  
700 South J Street  
Lakeview, OR 97630

### Mailing Address

Lake District Hospital  
700 South J Street  
Lakeview, OR 97630

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

Years Ended June 30, 2019 and 2018

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## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of the Lake Health District d/b/a Lake District Hospital (the "District") and its discretely presented component unit as of for the years ended June 30, 2019 and 2018, 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 opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and its discretely presented component unit as of June 30, 2019 and 2018, 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 10 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 opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

## Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 29, 2020, 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

January 29, 2020  
Spokane, Washington

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

## Management's Discussion and Analysis

Years Ended June 30, 2019 and 2018

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Our discussion and analysis of Lake Health District d/b/a Lake District Hospitals (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. 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 health care to its members. Tax receipts represented approximately 6.0% and 6.7% of District receipts for the years ended June 30, 2019 and 2018, 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, 2019 and 2018

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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 57% of the gross patient revenue for the fiscal year ended June 30, 2019, was derived from Medicare, 19% from Medicaid, 19% from other insurance, and 5% from private pay or uninsured.

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

Medicare compensates the District on fixed rates for different classifications of skilled nursing, home health, 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. There are high penalties for organizations caught breaking these laws. There are a number of examples in the west where hospitals have been audited and the Department of Justice looking to recover millions of dollars in what they allege to be improper payments. The fees and fines for a hospital caught in violation of these laws can be substantial. Failure of the District to be in compliance with these laws could result in the exclusion of Medicare and Medicaid funds along with fines and criminal penalties.

### **Risks Related to HIPAA**

Under the Health Insurance Portability and Accountability Act (HIPAA), health plans, 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, 2019 and 2018

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

### *Insurance*

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

### *Cost-Based Reimbursement*

CAHs are paid under 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.

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

## Management's Discussion and Analysis (Continued) Years Ended June 30, 2019 and 2018

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### Financial Discussion

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

1. **Data System:** The District is in the process of converting to a new Electronic Health Record (EHR) with a projected implementation date of April 1, 2020. Implementing one EHR across all departments of the hospital and clinics will unite and streamline processes, resulting in greater care and positive patient experience.
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 2018 and 2019 with the addition of Orthopedic surgery and is expected to be strong through 2020.
3. **Lakeview Gardens, LLC:** The license for long-term care was separated from Lake Health on December 1, 2014, to Lakeview Gardens, LLC "Lakeview Gardens", a not-for-profit. Lakeview Gardens will operate and be responsible for the long-term care operations previously managed and owned by Lake Health. The District is leasing the skilled nursing facility space to Lakeview Gardens. The District also has a shared services agreement with Lakeview Gardens for support services. Long-term care will continue operating under the name Lakeview Gardens.
4. **Provider-Based RHC:** The District retrospectively transitioned some of the clinical operations from Goose Lake Medical Services, Inc. (a discretely presented component unit), to the District as a department of the hospital. The District has spent countless hours over the course of three and a half years pursuing provider-based status for this clinic, which will increase both Medicare and Medi-Cal reimbursement substantially.

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

## Management's Discussion and Analysis (Continued)

Years Ended June 30, 2019 and 2018

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### 2019 Financial Highlights

The District's overall business increased in 2019 with net patient service revenue at \$30.6 million, an increase of \$3.1 million, or 11%, from 2018.

Adjustments including revenue deductions, allowances, charity, and bad debts reduced gross patient revenue in 2019 by \$8.7 million, or 22.2% of gross patient revenue. Revenue deductions increased by 5% from 2018, primarily because of increased contractual adjustments and bad debts.

In total, the District's operating expenses increased in 2019 by \$3 million, or 11%, from 2018. Salary and benefits increased in 2019 by approximately \$2.1 million, or 12%. Full-time equivalents (FTE) increased from 252 in 2018 to 291, or 15% in 2019.

Nonoperating revenue netted \$(0.4) million in 2019, a decrease of \$1,025,724, or 173%, from 2018.

The District had a net decrease in net position of \$(1,902,743) in 2019 compared with a net decrease in net position of \$(894,080) in 2018.

Net accounts receivable increased from \$5.3 million in 2018 to \$5.8 million, or 11% in 2019.

### Capital Assets

Lake District spent \$3,495,636 and \$5,408,077 in capital expenditures in 2019 and 2018, respectively. The majority of the expenditures in 2019 and 2018 were related to the on-campus clinical remodel and additions as well as the purchase of equipment.

### Long-Term Debt

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

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

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

## Management's Discussion and Analysis (Continued)

Years Ended June 30, 2019 and 2018

Condensed financial information as of and for the years ended June 30, 2019, 2018, and 2017, follows:

### Condensed Statements of Net Position (In Thousands)

|  | 2019             | 2018             | 2017             | Change         |                 |
|--|------------------|------------------|------------------|----------------|-----------------|
|  |                  |                  |                  | 2019-2018      | 2018-2017       |
| <b>Assets and deferred outflows of resources:</b>      |                  |                  |                  |                |                 |
| Current assets   | \$ 14,515        | \$ 15,342        | \$ 16,307        | \$ (827)       | \$ (965)        |
| Noncurrent assets                                      | 32,360           | 31,343           | 28,156           | 1,017          | 3,187           |
| Deferred outflows of resources                         | 25               | 51               | 77               | (26)           | (26)            |
| <b>Total assets and deferred outflows of resources</b> | <b>\$ 46,900</b> | <b>\$ 46,736</b> | <b>\$ 44,540</b> | <b>\$ 164</b>  | <b>\$ 2,196</b> |
| <b>Liabilities:</b>                                    |                  |                  |                  |                |                 |
| Current liabilities                                    | \$ 3,908         | \$ 3,669         | \$ 3,744         | \$ 239         | \$ (75)         |
| Noncurrent liabilities                                 | 32,231           | 30,404           | 27,239           | 1,827          | 3,165           |
| <b>Total liabilities</b>                               | <b>36,139</b>    | <b>34,073</b>    | <b>30,983</b>    | <b>2,066</b>   | <b>3,090</b>    |
| <b>Net position:</b>                                   |                  |                  |                  |                |                 |
| Net investment in capital assets                       | (912)            | (243)            | 49               | (669)          | (292)           |
| Restricted - Expendable                                | 228              | 228              | 228              | -              | -               |
| Restricted - Nonexpendable                             | 501              | 420              | 420              | 81             | -               |
| Unrestricted   | 10,944           | 12,258           | 12,860           | (1,314)        | (602)           |
| <b>Total net position</b>                              | <b>10,761</b>    | <b>12,663</b>    | <b>13,557</b>    | <b>(1,902)</b> | <b>(894)</b>    |
| <b>Total liabilities and net position</b>              | <b>\$ 46,900</b> | <b>\$ 46,736</b> | <b>\$ 44,540</b> | <b>\$ 164</b>  | <b>\$ 2,196</b> |

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

## Management's Discussion and Analysis (Continued)

Years Ended June 30, 2019 and 2018

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

|  | 2019             | 2018             | 2017             | Change            |                 |
|--|------------------|------------------|------------------|-------------------|-----------------|
|  |                  |                  |                  | 2019-2018         | 2018-2017       |
| <b>Operating revenue:</b>                  |                  |                  |                  |                   |                 |
| Net patient service revenue                | \$ 30,625        | \$ 27,501        | \$ 24,924        | \$ 3,124          | \$ 2,577        |
| Other operating revenue                    | 781              | 690              | 652              | 91                | 38              |
| <b>Total operating revenue</b>             | <b>31,406</b>    | <b>28,191</b>    | <b>25,576</b>    | <b>3,215</b>      | <b>2,615</b>    |
| <b>Operating expenses:</b>                 |                  |                  |                  |                   |                 |
| Salaries and benefits                      | 20,199           | 18,081           | 16,607           | 2,118             | 1,474           |
| Supplies                                   | 3,049            | 2,884            | 2,436            | 165               | 448             |
| Other                                      | 7,123            | 6,466            | 6,667            | 657               | (201)           |
| Depreciation and amortization              | 2,504            | 2,247            | 2,112            | 257               | 135             |
| <b>Total operating expenses</b>            | <b>32,875</b>    | <b>29,678</b>    | <b>27,822</b>    | <b>3,197</b>      | <b>1,856</b>    |
| <b>Operating income (loss)</b>             | <b>(1,469)</b>   | <b>(1,487)</b>   | <b>(2,246)</b>   | <b>18</b>         | <b>759</b>      |
| <b>Nonoperating revenue (expenses):</b>    |                  |                  |                  |                   |                 |
| Property tax revenue                       | 1,906            | 1,978            | 1,989            | (72)              | (11)            |
| Interest expense                           | (1,029)          | (940)            | (1,004)          | (89)              | 64              |
| Noncapital grants and donations - Net      | 575              | 691              | 1,605            | (116)             | (914)           |
| Miscellaneous                              | 123              | (1,337)          | (1,086)          | 1,460             | (251)           |
| Forgiveness of debt                        | (2,400)          | -                | -                | (2,400)           | -               |
| Lease income                               | 392              | 201              | 21               | 191               | 180             |
| <b>Net nonoperating revenue</b>            | <b>(433)</b>     | <b>593</b>       | <b>1,525</b>     | <b>(1,026)</b>    | <b>(932)</b>    |
| <b>Increase (decrease) in net position</b> | <b>(1,902)</b>   | <b>(894)</b>     | <b>(721)</b>     | <b>(1,008)</b>    | <b>(173)</b>    |
| <b>Net position - Beginning of year</b>    | <b>12,663</b>    | <b>13,557</b>    | <b>14,278</b>    | <b>(894)</b>      | <b>(721)</b>    |
| <b>Net position - End of year</b>          | <b>\$ 10,761</b> | <b>\$ 12,663</b> | <b>\$ 13,557</b> | <b>\$ (1,902)</b> | <b>\$ (894)</b> |

### Contacting the District's Financial Management

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

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

## Statements of Net Position

June 30, 2019 and 2018

| <i>Assets and Deferred Outflows of Resources</i>             | 2019                 | 2018                 |
|--|----------------------|----------------------|
| Current assets:  |                      |                      |
| Cash and cash equivalents:                                   |                      |                      |
| Cash and cash equivalents                                    | \$ 4,294,242         | \$ 6,164,324         |
| Board-designated cash  | 1,491,420            | 733,959              |
| Restricted cash and cash equivalents                         | 728,718              | 647,782              |
| Receivables:   |                      |                      |
| Patient accounts - Net                                       | 5,811,945            | 5,251,569            |
| Taxes  | 213,402              | 226,141              |
| Other  | 1,001,067            | 1,057,003            |
| Due from component units                                     | -                    | 428,765              |
| Third-party settlements                                      | 523,421              | 371,488              |
| Inventories  | 305,615              | 291,265              |
| Prepaid expenses   | 145,617              | 169,662              |
| Total current assets   | 14,515,447           | 15,341,958           |
| Noncurrent assets:   |                      |                      |
| Nondepreciable capital assets                                | 1,886,435            | 4,200,726            |
| Depreciable capital assets - Net of accumulated depreciation | 30,473,799           | 27,142,764           |
| Total noncurrent assets - Net                                | 32,360,234           | 31,343,490           |
| Deferred outflows of resources:                              |                      |                      |
| Excess consideration provided for acquisition - Net          | 25,178               | 51,000               |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>       | <b>\$ 46,900,859</b> | <b>\$ 46,736,448</b> |

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

## Statements of Net Position (Continued)

June 30, 2019 and 2018

| <i>Liabilities and Net Position</i>  | 2019                 | 2018                 |
|--|----------------------|----------------------|
| Current liabilities:   |                      |                      |
| Current maturities of long-term debt and capital lease obligations           | \$ 1,039,843         | \$ 1,182,794         |
| Accounts payable   | 786,289              | 632,871              |
| Accrued compensation and related liabilities                                 | 996,343              | 819,493              |
| Accrued vacation   | 961,926              | 909,128              |
| Accrued interest payable   | 123,399              | 125,198              |
| <b>Total current liabilities</b>   | <b>3,907,800</b>     | <b>3,669,484</b>     |
| Noncurrent liabilities:  |                      |                      |
| Long-term debt and capital lease obligation - Less current maturities        | 32,232,634           | 30,403,796           |
| <b>Total liabilities</b>   | <b>36,140,434</b>    | <b>34,073,280</b>    |
| Net position:  |                      |                      |
| Net investment in capital assets   | (912,243)            | (243,100)            |
| Restricted - Expendable - For debt service and specific operating activities | 227,888              | 227,888              |
| Restricted - Nonexpendable - Nonexpendable permanent endowments              | 500,830              | 419,894              |
| Unrestricted   | 10,943,950           | 12,258,486           |
| <b>Total net position</b>  | <b>10,760,425</b>    | <b>12,663,168</b>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                                    | <b>\$ 46,900,859</b> | <b>\$ 46,736,448</b> |

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

Statements of Net Position - Discretely Presented Component Unit - Goose Lake Medical Services, Inc.  
June 30, 2019 and 2018

|   | 2019                | 2018              |
|---|---------------------|-------------------|
| <i>Assets</i>                             |                     |                   |
| Current assets:                           |                     |                   |
| Cash and cash equivalents                 | \$ 372,245          | \$ 154,285        |
| Patient accounts - Net                    | 225,378             | 247,350           |
| Inventories                               | 503,557             | 539,936           |
| Total current assets                      | 1,101,180           | 941,571           |
| <b>TOTAL ASSETS</b>                       | <b>\$ 1,101,180</b> | <b>\$ 941,571</b> |
| <i>Liabilities and Net Position</i>       |                     |                   |
| Liabilities:                              |                     |                   |
| Current liabilities                       | \$ -                | \$ 47,937         |
| Due to Lake Health District               | -                   | 428,765           |
| Total current liabilities                 | -                   | 476,702           |
| Net position - Unrestricted               | 1,101,180           | 464,869           |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 1,101,180</b> | <b>\$ 941,571</b> |



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

## Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2019 and 2018

|  | 2019                 | 2018                 |
|--|----------------------|----------------------|
| Revenue:   |                      |                      |
| Net patient service revenue                              | \$ 30,625,259        | \$ 27,501,349        |
| Other operating revenue                                  | 780,613              | 689,997              |
| <b>Total operating revenue</b>                           | <b>31,405,872</b>    | <b>28,191,346</b>    |
| Operating expenses:                                      |                      |                      |
| Salaries and wages                                       | 15,000,390           | 13,546,778           |
| Employee benefits  | 5,199,013            | 4,534,350            |
| Professional fees  | 4,360,455            | 3,989,345            |
| Supplies   | 3,049,051            | 2,884,379            |
| Purchased services - Utilities                           | 639,487              | 599,730              |
| Purchased services - Other                               | 316,350              | 350,893              |
| Insurance  | 199,793              | 194,453              |
| Other  | 1,606,734            | 1,331,742            |
| Depreciation and amortization                            | 2,504,392            | 2,246,530            |
| <b>Total operating expenses</b>                          | <b>32,875,665</b>    | <b>29,678,200</b>    |
| <b>Loss from operations</b>                              | <b>(1,469,793)</b>   | <b>(1,486,854)</b>   |
| Nonoperating revenue (expense):                          |                      |                      |
| Property tax revenue                                     | 1,906,723            | 1,977,228            |
| Investment income  | 85,874               | 78,178               |
| Interest expense   | (1,029,203)          | (940,294)            |
| Transfer to component unit                               | 37,003               | (1,418,539)          |
| Noncapital grants and donations - Net                    | 575,295              | 691,316              |
| Other nonoperating income                                | -                    | 3,603                |
| Operating transfers to Goose Lake Medical Services, Inc. | (2,400,424)          | -                    |
| Lease income   | 391,782              | 201,282              |
| <b>Nonoperating revenue - Net</b>                        | <b>(432,950)</b>     | <b>592,774</b>       |
| Decrease in net position                                 | (1,902,743)          | (894,080)            |
| Net position - Beginning of year                         | 12,663,168           | 13,557,248           |
| <b>Net position - End of year</b>                        | <b>\$ 10,760,425</b> | <b>\$ 12,663,168</b> |

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

## Statements of Revenues, Expenses, and Change in Net Position - Discretely Presented Component Unit - Goose Lake Medical Services, Inc. Years Ended June 30, 2019 and 2018

|   | 2019         | 2018         |
|---|--------------|--------------|
| Patient service revenue - Net                 | \$ 2,482,765 | \$ 2,772,460 |
| Operating expenses:                           |              |              |
| Salaries and wages                            | 1,628,131    | 1,710,447    |
| Employee benefits                             | 465,162      | 459,561      |
| Professional fees                             | 1,137,597    | 753,880      |
| Supplies                                      | 410,486      | 322,181      |
| Purchased services - Utilities                | 71,560       | 77,303       |
| Other   | 533,942      | 386,454      |
| Total operating expenses                      | 4,246,878    | 3,709,826    |
| Loss from operations                          | (1,764,113)  | (937,366)    |
| Nonoperating revenue:                         |              |              |
| Operating transfers from Lake Health District | 2,400,424    | 1,183,006    |
| Total nonoperating revenue                    | 2,400,424    | 1,183,006    |
| Increase in net position                      | 636,311      | 245,640      |
| Net position - Beginning of year              | 464,869      | 219,229      |
| Net position - End of year                    | \$ 1,101,180 | \$ 464,869   |

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

## Statements of Cash Flows Years Ended June 30, 2019 and 2018

|   | 2019          | 2018          |
|---|---------------|---------------|
| Cash flows from operating activities:                             |               |               |
| Receipts from and on behalf of patients                           | \$ 29,912,950 | \$ 27,552,652 |
| Receipts from other operating revenue                             | 836,549       | 389,336       |
| Payments to employees   | (19,969,755)  | (17,978,408)  |
| Payments to suppliers, contractors, and others                    | (10,008,757)  | (9,866,454)   |
| Net cash provided by operating activities                         | 770,987       | 97,126        |
| Cash flows from noncapital financing activities:                  |               |               |
| Taxation for operations   | 1,919,462     | 1,968,358     |
| Cash received from grants and donations                           | 575,295       | 691,316       |
| Net cash provided by noncapital financing activities              | 2,494,757     | 2,659,674     |
| Cash flows from capital and related financing activities:         |               |               |
| Proceeds from debt issuance                                       | 2,820,455     | 4,401,316     |
| Principal payments on long-term debt and capital leases           | (1,134,568)   | (922,545)     |
| Interest paid on long-term debt and capital leases                | (1,031,002)   | (942,301)     |
| Purchase of capital assets  | (3,495,636)   | (5,408,077)   |
| Operating transfers to Goose Lake Medical Services, Inc.          | (2,400,424)   | -             |
| Proceeds from sale of equipment                                   | 322           | 3,603         |
| Net cash used in capital and related financing activities         | (5,240,853)   | (2,868,004)   |
| Cash flows from investing activities:                             |               |               |
| Interest received   | 85,874        | 78,178        |
| Transfer from (to) component unit                                 | 37,003        | (1,418,539)   |
| Cash received from lease income                                   | 391,782       | 201,282       |
| Due from component units  | 428,765       | 603,129       |
| Net cash provided by (used in) investing activities               | 943,424       | (535,950)     |
| Net decrease in cash and cash equivalents                         | (1,031,685)   | (647,154)     |
| Cash and cash equivalents - Beginning of year                     | 7,546,065     | 8,193,219     |
| Cash and cash equivalents - End of year                           | \$ 6,514,380  | \$ 7,546,065  |
| Reconciliation of cash and cash equivalents to the balance sheet: |               |               |
| Cash and cash equivalents   | \$ 4,294,242  | \$ 6,164,324  |
| Board-designated cash   | 1,491,420     | 733,959       |
| Restricted cash and cash equivalents                              | 728,718       | 647,782       |
| Total cash and cash equivalents                                   | \$ 6,514,380  | \$ 7,546,065  |

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

## Statements of Cash Flows (Continued) Years Ended June 30, 2019 and 2018

|   | 2019           | 2018           |
|---|----------------|----------------|
| Reconciliation of loss from operations to net cash provided by operating activities:        |                |                |
| Loss from operations  | \$ (1,469,793) | \$ (1,486,854) |
| Adjustments to reconcile loss from operations to net cash provided by operating activities: |                |                |
| Depreciation and amortization   | 2,504,392      | 2,246,530      |
| Provision for bad debts   | 655,091        | 1,051,556      |
| Changes in assets and liabilities:  |                |                |
| Receivables:  |                |                |
| Patient accounts - Net  | (1,215,467)    | (1,146,083)    |
| Other   | 55,936         | (300,661)      |
| Third-party settlements   | (151,933)      | 145,830        |
| Inventories   | (14,350)       | (13,289)       |
| Prepaid expenses  | 24,045         | (13,696)       |
| Accounts payable  | 153,418        | (488,927)      |
| Accrued compensation and related liabilities  | 176,850        | 12,721         |
| Accrued vacation  | 52,798         | 89,999         |
| Total adjustments   | 2,240,780      | 1,583,980      |
| Net cash cash provided by operating activities  | \$ 770,987     | \$ 97,126      |

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

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies

#### Reporting Entity

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

The District operates under the laws of the state of Oregon for Oregon municipal corporations and, as such, is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in these financial statements.

#### Discretely Presented Component Unit

Goose Lake Medical Services, Inc. (GLMS) is a legally separate, tax-exempt corporation. GLMS provides healthcare services to patients in the southern Oregon and northern California areas. The District and GLMS have shared board members and officers. These services and supplies are charged to GLMS, and any remaining balances are included in other receivables at June 30. Outstanding receivables from GLMS were \$0 and \$428,765 at June 30, 2019 and 2018, respectively, and are included in other receivables on the statements of net position. GLMS is reported in the accompanying financial statements to emphasize that it is legally separate from the District. Separate financial statements for the component unit are not available.

#### Blended Component Unit

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

#### Basis of Accounting

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

#### Budgetary Information

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

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

## Notes to Financial Statements

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

#### **Budgetary Information** (Continued)

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

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

#### **Cash and Cash Equivalents**

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

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

## Notes to Financial Statements

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

#### **Patient Accounts Receivable and Credit Policy**

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for co pay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The District charges interest on past due accounts on a monthly basis. Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and allowances for doubtful accounts, which reflect management's 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.

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

#### **Property Taxes**

The District received approximately 6% and 7% of its financial support from property taxes in the years ended June 30, 2019 and 2018, respectively.

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, 2019, 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 \$1,906,723 and \$1,977,228 for the years ended June 30, 2019 and 2018, respectively.

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

## Notes to Financial Statements

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### Note 1: Summary of Significant Accounting Policies (Continued)

#### Inventories

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

#### Restricted and Board-Designated Cash

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

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

#### Capital Assets

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

When capitalized assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the 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

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

#### **Capital Assets** (Continued)

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

#### **Asset Impairment**

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations, other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. No impairment loss was recorded for the years ended June 30, 2019 and 2018.

#### **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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The District reports 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, the estimated life of the underlying intangibles. The net carrying value of consideration in excess of acquisition value was \$25,178 and \$51,000, at June 30, 2019 and 2018, respectively.

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

## Notes to Financial Statements

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

#### **Accrued Vacation**

The District's employees accumulate paid time off (PTO) days composed of vacation, holidays, personal days, and sick days at varying rates depending on years of service. PTO starts to accumulate from an employee's most recent date of hire. New employees are eligible to take PTO only after 500 hours of employment. Should a newly hired employee terminate employment before his or her 500 hours are completed, the employee will not be eligible to receive payment for any accumulated PTO. Employees may carry over a maximum of two years of accumulated PTO from one year to the next year. Employees with PTO in excess of the combined two-year accrual may, with the approval of management, receive cash payment for excess hours of PTO. On termination of employment, 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 four categories:

*Net investment in capital assets:* This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build, acquire, or improve those assets. Deferred outflows of resources and deferred 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 - expendable:* This category consists of noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the facility.

*Restricted - nonexpendable:* This category consists of 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 three preceding categories.

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

#### **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, the District's principal activity. Nonexchange revenue, including grants, property taxes, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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

## Notes to Financial Statements

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

#### **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 revenue, expenses, and changes in net position as other operating revenue.

#### **Income Taxes**

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

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

## Notes to Financial Statements

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

#### **Advertising**

Advertising costs are expensed as incurred.

#### **Reclassifications**

Certain reclassifications of 2018 amounts have been made in the accompanying financial statements to conform to the 2019 presentation. Such reclassification had no effect on the previously reported amounts of net position.

#### **Subsequent Events**

Subsequent events have been evaluated through January 29, 2020, 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, 2019, 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. The investment in the LGIP is not subject to the fair value hierarchy disclosures.

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

## Notes to Financial Statements

### Note 2: Cash and Cash Equivalents (Continued)

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

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

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

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

*Custodial credit risk* - The risk that 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, 2019 and 2018.

The District did not have a policy for credit risk, concentration of credit risk, interest rate risk, or custodial credit risk during the years ended June 30, 2019 and 2018.

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

|  | 2019                | 2018                |
|--|---------------------|---------------------|
| Demand deposits                        | \$ 2,969,661        | \$ 3,596,759        |
| Petty cash                             | 4,563               | 3,773               |
| Certificates of deposit                | 77,460              | 76,737              |
| LGIP                                   | 3,462,696           | 3,868,796           |
| <b>Total cash and cash equivalents</b> | <b>\$ 6,514,380</b> | <b>\$ 7,546,065</b> |

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

## Notes to Financial Statements

### Note 2: Cash and Cash Equivalents (Continued)

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

|  | 2019                | 2018                |
|--|---------------------|---------------------|
| Included in the following balance sheet captions:      |                     |                     |
| Cash and cash equivalents                              | \$ 4,294,242        | \$ 6,164,324        |
| Board-designated cash:                                 |                     |                     |
| Board-designated cash - Capital acquisitions           | 1,254               | 1,252               |
| Board-designated cash - Pharmacy inventory replacement | 77,460              | 76,737              |
| Board-designated cash - Operational reserves           | 1,412,706           | 655,970             |
| <b>Total Board-designated cash</b>                     | <b>1,491,420</b>    | <b>733,959</b>      |
| Restricted cash and cash equivalents:                  |                     |                     |
| Restricted by debt instruments - USDA reserve funds    | 227,888             | 227,888             |
| Restricted by endowment provisions                     | 500,830             | 419,894             |
| <b>Total restricted cash and cash equivalents</b>      | <b>728,718</b>      | <b>647,782</b>      |
| <b>Totals</b>  | <b>\$ 6,514,380</b> | <b>\$ 7,546,065</b> |

### 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, 2019 and 2018, respectively.

#### Medicare

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

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

## Notes to Financial Statements

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

#### **Medicaid**

For a 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 audited by Medicare and Medicaid through June 30, 2018 and 2017, respectively.

#### **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.

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.

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

## Notes to Financial Statements

### Note 4: Property Taxes Receivable

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

| Fiscal Year   | Receivable<br>July 1, 2018 | 2018-2019<br>Net Levy | Discounts          | Adjustments        | Interest         | Cash<br>Collections  | Receivable<br>June 30, 2019 |
|---------------|----------------------------|-----------------------|--------------------|--------------------|------------------|----------------------|-----------------------------|
| 2018-2019     | \$ -                       | \$ 1,927,024          | \$ (51,655)        | \$ (17,026)        | \$ 1,238         | \$(1,781,882)        | \$ 77,699                   |
| 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                      |
| <b>Totals</b> | <b>\$ 226,141</b>          | <b>\$ 1,927,024</b>   | <b>\$ (51,662)</b> | <b>\$ (82,332)</b> | <b>\$ 51,752</b> | <b>\$(1,857,521)</b> | <b>\$ 213,402</b>           |

The schedule of property tax transactions and outstanding at June 30, 2018, follows:

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



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

## Notes to Financial Statements

### Note 5: Other Receivables and Due From Component Units

Other receivables consisted of the following at June 30:

|                                       | 2019                | 2018                |
|---------------------------------------|---------------------|---------------------|
| Other receivables:                    |                     |                     |
| Other accounts receivable             | \$ 719,286          | \$ 842,589          |
| Education/recruiting loans            | 281,781             | 214,414             |
| <b>Total other receivables</b>        | <b>1,001,067</b>    | <b>1,057,003</b>    |
| Due from component units:             |                     |                     |
| Lakeview Gardens                      | -                   | 302,195             |
| Lake Health Medical Supply            | -                   | 126,570             |
| <b>Total due from component units</b> | <b>-</b>            | <b>428,765</b>      |
| <b>Totals</b>                         | <b>\$ 1,001,067</b> | <b>\$ 1,485,768</b> |

### Note 6: Patient Accounts Receivable - Net

Patient accounts receivable net consisted of the following at June 30:

|   | 2019                | 2018                |
|---|---------------------|---------------------|
| Receivable from patients and their insurance carriers | \$ 4,197,485        | \$ 3,482,433        |
| Receivable from Medicare                              | 2,294,492           | 2,447,849           |
| Receivable from Medicaid                              | 1,668,968           | 1,577,287           |
| <b>Total patient accounts receivable</b>              | <b>8,160,945</b>    | <b>7,507,569</b>    |
| Less:   |                     |                     |
| Allowance for contractual adjustments                 | 1,664,000           | 1,583,000           |
| Allowance for uncollectible amounts                   | 685,000             | 673,000             |
| <b>Patient accounts receivable - Net</b>              | <b>\$ 5,811,945</b> | <b>\$ 5,251,569</b> |

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

## Notes to Financial Statements

### Note 7: Capital Assets - Net

Capital asset activity at June 30, 2019, consisted of the following:

|   | Balance<br>July 1, 2018 | Additions           | Transfer           | Retirements | Balance<br>June 30, 2019 |
|---|-------------------------|---------------------|--------------------|-------------|--------------------------|
| <b>Nondepreciable assets:</b>                   |                         |                     |                    |             |                          |
| Land  | \$ 183,735              | \$ -                | \$ -               | \$ -        | \$ 183,735               |
| Construction in progress                        | 4,016,991               | 2,981,302           | (5,295,593)        | -           | 1,702,700                |
| <b>Total nondepreciable assets</b>              | <b>4,200,726</b>        | <b>2,981,302</b>    | <b>(5,295,593)</b> | <b>-</b>    | <b>1,886,435</b>         |
| <b>Depreciable assets:</b>                      |                         |                     |                    |             |                          |
| 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                |
| <b>Total depreciable capital assets</b>         | <b>46,979,214</b>       | <b>514,334</b>      | <b>5,295,593</b>   | <b>-</b>    | <b>52,789,141</b>        |
| <b>Total capital assets before depreciation</b> | <b>51,179,940</b>       | <b>3,495,636</b>    | <b>-</b>           | <b>-</b>    | <b>54,675,576</b>        |
| <b>Total accumulated depreciation</b>           | <b>19,836,450</b>       | <b>2,478,892</b>    | <b>-</b>           | <b>-</b>    | <b>22,315,342</b>        |
| <b>Total capital assets - Net</b>               | <b>\$ 31,343,490</b>    | <b>\$ 1,016,744</b> | <b>\$ -</b>        | <b>\$ -</b> | <b>\$ 32,360,234</b>     |

At June 30, 2019, construction in progress consisted of the Clinic remodel and was expected to be completed during fiscal year 2020 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 - Net (Continued)

Capital asset activity at June 30, 2018, consisted of the following:

|   | Balance<br>July 1, 2017 | Additions           | Transfer           | Retirements | Balance<br>June 30, 2018 |
|---|-------------------------|---------------------|--------------------|-------------|--------------------------|
| <b>Nondepreciable assets:</b>                       |                         |                     |                    |             |                          |
| Land  | \$ 183,735              | \$ -                | \$ -               | -           | \$ 183,735               |
| Construction in progress                            | 8,795,590               | 4,557,299           | (9,335,898)        | -           | 4,016,991                |
| <b>Total nondepreciable<br/>assets</b>              | <b>8,979,325</b>        | <b>4,557,299</b>    | <b>(9,335,898)</b> | <b>-</b>    | <b>4,200,726</b>         |
| <b>Depreciable assets:</b>                          |                         |                     |                    |             |                          |
| Land improvements                                   | 948,088                 | -                   | -                  | -           | 948,088                  |
| Buildings and improvements                          | 29,168,268              | 28,817              | 9,323,286          | -           | 38,520,371               |
| Software  | 1,725,708               | 32,490              | -                  | -           | 1,758,198                |
| Equipment   | 4,950,474               | 789,471             | 12,612             | -           | 5,752,557                |
| <b>Total depreciable<br/>capital assets</b>         | <b>36,792,538</b>       | <b>850,778</b>      | <b>9,335,898</b>   | <b>-</b>    | <b>46,979,214</b>        |
| <b>Total capital assets<br/>before depreciation</b> | <b>45,771,863</b>       | <b>5,408,077</b>    | <b>-</b>           | <b>-</b>    | <b>51,179,940</b>        |
| <b>Total accumulated<br/>depreciation</b>           | <b>17,615,420</b>       | <b>2,221,030</b>    | <b>-</b>           | <b>-</b>    | <b>19,836,450</b>        |
| <b>Total capital assets - Net</b>                   | <b>\$ 28,156,443</b>    | <b>\$ 3,187,047</b> | <b>\$ -</b>        | <b>-</b>    | <b>\$ 31,343,490</b>     |

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

## Notes to Financial Statements

### Note 8: Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consisted of the following:

|  | Balance<br>July 1,<br>2018 | Additions           | Reductions            | Balance<br>June 30,<br>2019 | Amounts Due<br>Within One<br>Year |
|--|----------------------------|---------------------|-----------------------|-----------------------------|-----------------------------------|
| Bonds and notes payable:                               |                            |                     |                       |                             |                                   |
| 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           | (224,128)             | 13,775,872                  | 393,172                           |
| <b>Total long-term debt</b>                            | <b>30,705,816</b>          | <b>2,820,455</b>    | <b>(705,073)</b>      | <b>32,821,198</b>           | <b>890,363</b>                    |
| Capital leases obligations:                            |                            |                     |                       |                             |                                   |
| GE MRI   | 284,941                    | -                   | (284,941)             | -                           | -                                 |
| CT Lease   | 275,168                    | -                   | (73,449)              | 201,719                     | 75,994                            |
| GE DePuySynthes  | 320,665                    | -                   | (71,105)              | 249,560                     | 73,486                            |
| <b>Total capital leases obligations</b>                | <b>880,774</b>             | <b>-</b>            | <b>(429,495)</b>      | <b>451,279</b>              | <b>149,480</b>                    |
| <b>Total long-term debt and capital leases payable</b> | <b>\$ 31,586,590</b>       | <b>\$ 2,820,455</b> | <b>\$ (1,134,568)</b> | <b>\$ 33,272,477</b>        | <b>\$ 1,039,843</b>               |

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

## Notes to Financial Statements

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

Long-term debt and capital lease obligations consisted of the following:

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

#### Long-Term Debt

The terms and due dates of the District's long-term debt, including capital lease obligations, at June 30, 2019 and 2018, follow:

**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, 2019 and 2018, respectively, until \$448,720 and \$26,763, respectively has been accumulated. The District had accumulated \$227,888 and \$227,888 in the reserve account as of June 30, 2019 and 2018, respectively. The fiscal year 2016 USDA Bond of \$550,000 was paid off early using the proceeds from Revenue Bonds 2015A.

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

## Notes to Financial Statements

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

**Washington Federal 2015 Bonds** - Note dated October 22, 2015, in the amount of \$13,250,000, due in monthly installments of \$56,580, including variable interest at 3.10% through November 2025. Series A Bond issued totaling \$13,250,000 to pay off Washington Federal 2012 Loan A, Washington Federal 2012 Loan B, State of Oregon ED Project Loan and USDA Revenue Bonds. The note also issued Revenue Bonds 2015B, Series B Bonds totaling \$5,500,000 but 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 \$11,179,545 to finance construction for the long-term care and assisted living facility, clinic facility, and ambulance facility. The bonds have a maturity date of November 1, 2043, with interest payments beginning 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.

#### **Capital Leases Payable**

**GE Government Finance, Inc.** - Capitalized lease due April 2019 in monthly installments of \$29,078 plus interest of 3.25%. All capitalized leases payable are collateralized by the equipment under lease. The book value of the equipment was approximately \$968,000 as of June 30, 2019.

**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, 2019.

**GE DuPuySynthes 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, 2019.

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

## Notes to Financial Statements

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

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

| Year Ending June 30 | Bonds and Notes Payable |                      |
|---------------------|-------------------------|----------------------|
|                     | Principal               | Interest             |
| 2020                | \$ 890,143              | \$ 1,026,146         |
| 2021                | 918,759                 | 997,750              |
| 2022                | 948,067                 | 968,442              |
| 2023                | 978,319                 | 938,190              |
| 2024                | 1,009,545               | 906,964              |
| 2025-2029           | 5,552,494               | 4,030,051            |
| 2030-2034           | 6,498,795               | 3,960,220            |
| 2035-2039           | 7,608,114               | 3,743,145            |
| 2040-2044           | 7,529,790               | 2,161,381            |
| 2045-2049           | 887,172                 | 29,386               |
| <b>Totals</b>       | <b>\$ 32,821,198</b>    | <b>\$ 18,761,675</b> |

|  | Capital Leases Payable |                |
|--|------------------------|----------------|
|  | Interest               |                |
| 2020                                   | \$                     | 163,174        |
| 2021                                   |                        | 163,174        |
| 2022                                   |                        | 129,119        |
| 2023                                   |                        | 20,370         |
| Less: Amounts attributable to interest |                        | (24,558)       |
| <b>Total</b>                           | <b>\$</b>              | <b>451,279</b> |

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

## Notes to Financial Statements

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### Note 9: Net Patient Service Revenue

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

|                                | 2019          | 2018          |
|--------------------------------|---------------|---------------|
| Gross patient service revenue: |               |               |
| Inpatient services             | \$ 9,528,437  | \$ 9,450,889  |
| Outpatient services            | 29,812,610    | 26,368,135    |
| Subtotals                      | 39,341,047    | 35,819,024    |
| Less:                          |               |               |
| Contractual adjustments        | 8,060,697     | 7,266,119     |
| Provision for bad debts        | 655,091       | 1,051,556     |
| Net patient service revenue    | \$ 30,625,259 | \$ 27,501,349 |



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

## Notes to Financial Statements

### Note 9: Net Patient Service Revenue (Continued)

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

|                          | 2019  | 2018  |
|--------------------------|-------|-------|
| Medicare                 | 57 %  | 36 %  |
| Medicaid                 | 19 %  | 24 %  |
| Other third-party payors | 19 %  | 36 %  |
| Self-Pay                 | 5 %   | 4 %   |
| Totals                   | 100 % | 100 % |

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

|   | 2019         | 2018         |
|---|--------------|--------------|
| Gross patient service revenue - Outpatient services | \$ 2,629,911 | \$ 2,778,880 |
| Less - Contractual adjustments                      | 147,146      | 6,420        |
| Net patient service revenue                         | \$ 2,482,765 | \$ 2,772,460 |

### Note 10: Charity Care

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

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

Gross charges related to patients under the District's charity care policy were \$708,194 in 2019 and \$576,167 in 2018.

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

## Notes to Financial Statements

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### Note 11: Retirement Plans

#### Defined Contribution Retirement Plan

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

Some employees are eligible to participate only if they agree to contribute to the deferred compensation plan. Each pay period, the District contributes 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 \$635,401 and \$695,670 for the years ended June 30, 2019 and 2018, respectively. The Plan had \$42,818 and \$53,371 in forfeitures during 2019 and 2018, respectively. No employee contributions were made to this plan.

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. These assets may be used only for the payment of plan liabilities. Funds deposited with the insurance company by the individual employees were \$441,147 and \$399,042, for the years ended June 30, 2019 and 2018, respectively.

### Note 12: Operating Leases

The District is committed under various leases for equipment. These leases are considered operating leases for accounting purposes. Lease expenses for the years ended June 30, 2019 and 2018, amounted to \$179,360 and \$117,722, respectively. Future minimum payments under noncancelable operating leases with initial or remaining terms in excess of one year are as follows:

|                 |    |         |
|-----------------|----|---------|
| 2020            | \$ | 37,940  |
| 2021            |    | 33,560  |
| 2022            |    | 33,560  |
| 2023            |    | 33,560  |
| 2024            |    | 33,560  |
| 2025 and beyond |    | 33,560  |
| <hr/>           |    |         |
| Total           | \$ | 205,740 |

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

## Notes to Financial Statements

### Note 13: Risk Management

#### Liability Insurance

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

The District maintains primary and umbrella general and professional liability insurance coverage "claims made" 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, 2019, that have not yet been asserted.

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

### Note 14: Concentration of Credit Risk

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

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

|                          | 2019  | 2018  |
|--------------------------|-------|-------|
| Medicare                 | 28 %  | 33 %  |
| Medicaid                 | 20 %  | 21 %  |
| Other third-party payors | 34 %  | 26 %  |
| Self-pay                 | 18 %  | 20 %  |
| Totals                   | 100 % | 100 % |

## **Supplementary Information**

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

## Combining Statements of Net Position of GLMS and LVG Year Ended June 30, 2019

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

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

## Combining Statements of Net Position of GLMS and LVG (Continued)

Year Ended June 30, 2018

| <i>Assets</i>                              | LMS               | LVG               | Adjustments<br>and<br>Eliminations | Total             |
|--|-------------------|-------------------|------------------------------------|-------------------|
| <b>Current assets:</b>                     |                   |                   |                                    |                   |
| Cash and cash equivalents                  | \$ 64,128         | \$ 90,157         | \$ -                               | \$ 154,285        |
| Patient accounts - Net                     | 41,932            | 205,418           | -                                  | 247,350           |
| Inventories                                | 539,936           | -                 | -                                  | 539,936           |
| <b>TOTAL ASSETS</b>                        | <b>\$ 645,996</b> | <b>\$ 295,575</b> | <b>\$ -</b>                        | <b>\$ 941,571</b> |
| <b><i>Liabilities and Net Position</i></b> |                   |                   |                                    |                   |
| <b>Liabilities:</b>                        |                   |                   |                                    |                   |
| Accounts payable - Trade                   | \$ 1,820          | \$ 46,117         | \$ -                               | \$ 47,937         |
| Due to Lake Health District                | 126,570           | 302,195           | -                                  | 428,765           |
| <b>Total current liabilities</b>           | <b>128,390</b>    | <b>348,312</b>    | <b>-</b>                           | <b>476,702</b>    |
| <b>Net position - Unrestricted</b>         | <b>517,606</b>    | <b>(52,737)</b>   | <b>-</b>                           | <b>464,869</b>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>  | <b>\$ 645,996</b> | <b>\$ 295,575</b> | <b>\$ -</b>                        | <b>\$ 941,571</b> |

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

## Combining Statements of Revenues, Expenses, and Changes in Net Position of GLMS and LVG Year Ended June 30, 2019

|   | LMS               | LVG                | Adjustments<br>and<br>Eliminations | Total               |
|---|-------------------|--------------------|------------------------------------|---------------------|
| <b>Revenue:</b>                               |                   |                    |                                    |                     |
| Patient service revenue - Net                 | \$ 228,576        | \$ 2,254,189       | \$ -                               | \$ 2,482,765        |
| <b>Operating expenses:</b>                    |                   |                    |                                    |                     |
| Salaries and wages                            | 123,508           | 1,504,623          | -                                  | 1,628,131           |
| Employee benefits                             | 34,843            | 430,319            | -                                  | 465,162             |
| Professional fees                             | -                 | 1,137,597          | -                                  | 1,137,597           |
| General supplies                              | 202,337           | 208,149            | -                                  | 410,486             |
| Purchased services - Utilities                | -                 | 71,560             | -                                  | 71,560              |
| Other   | -                 | 533,942            | -                                  | 533,942             |
| <b>Total operating expenses</b>               | <b>360,688</b>    | <b>3,886,190</b>   | <b>-</b>                           | <b>4,246,878</b>    |
| <b>Loss from operations</b>                   | <b>(132,112)</b>  | <b>(1,632,001)</b> | <b>-</b>                           | <b>(1,764,113)</b>  |
| 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             |
| <b>Net position - End of year</b>             | <b>\$ 613,703</b> | <b>\$ 487,477</b>  | <b>\$ -</b>                        | <b>\$ 1,101,180</b> |

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

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

(Continued)

Year Ended June 30, 2018

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



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

## Schedule of Adopted Appropriations and Expenditure - Original, Final Budget, and Actual Year Ended June 30, 2019

|  | Original<br>Budget   | Budget<br>Amendments | Final Budget         | Actual               | Variance              |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|
| <b>Revenue:</b>  |                      |                      |                      |                      |                       |
| Revenue except for property taxes  | \$ 31,033,994        | \$ -                 | \$ 31,033,994        | \$ 32,458,823        | \$ (1,424,829)        |
| Property taxes   | 1,957,247            | -                    | 1,957,247            | 1,906,723            | 50,524                |
| <b>Total revenue</b>   | <b>\$ 32,991,241</b> | <b>\$ -</b>          | <b>\$ 32,991,241</b> | <b>\$ 34,365,546</b> | <b>\$ (1,374,305)</b> |
| <b>Expenditures:</b>   |                      |                      |                      |                      |                       |
| Personal services  | \$ 20,975,858        | \$ -                 | \$ 20,975,858        | \$ 20,199,403        | \$ 776,455            |
| Materials and services   | 8,729,964            | -                    | 8,729,964            | 10,744,039           | (2,014,075)           |
| Capital outlay   | 2,378,657            | -                    | 2,378,657            | 3,495,636            | (1,116,979)           |
| Debt service   | 1,051,000            | -                    | 1,051,000            | 1,134,568            | (83,568)              |
| <b>Total expenditures</b>  | <b>\$ 33,135,479</b> | <b>\$ -</b>          | <b>\$ 33,135,479</b> | <b>\$ 35,573,646</b> | <b>\$ (2,438,167)</b> |
| Income from operations - Budgetary   |                      |                      |                      | \$ (1,208,100)       |                       |
| Reconciliation of statutory operating expenditures to GAAP-basis operating expenses: |                      |                      |                      |                      |                       |
| Add: Capital outlay  |                      |                      |                      | 3,495,636            |                       |
| Add: Long-term debt and capital leases principal reductions                          |                      |                      |                      | 1,134,568            |                       |
| Less: Debt service   |                      |                      |                      | 2,820,455            |                       |
| Less: Depreciation and amortization  |                      |                      |                      | 2,504,392            |                       |
| Total effects of reconciliation  |                      |                      |                      | <u>(694,643)</u>     |                       |
| Loss from operations - GAAP  |                      |                      |                      | (1,902,743)          |                       |
| Net position - Beginning of year   |                      |                      |                      | <u>12,663,168</u>    |                       |
| Net position - End of year   |                      |                      |                      | <u>\$ 10,760,425</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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 29, 2020.

### **Internal Control Over Financial Reporting**

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

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

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

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

Wipfli LLP

January 29, 2020  
Spokane, Washington



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

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

We have audited the accompanying financial statements of Lake Health District d/b/a Lake District Hospital (the "District") as of and for the year ended June 30, 2019, and have issued our report thereon dated January 29, 2020. 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 pages.

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

January 29, 2020  
Spokane, Washington

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

## Audit Comments and Disclosures Required by State Regulations Years Ended June 30, 2019 and 2018

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### **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. Significant audit adjustments were identified and made related to the allowance for doubtful accounts and contractual adjustments, component unit due to/from, patient accounts receivable, GLMS and LVG forgiveness of debt, accumulated depreciation and depreciation expense, and property tax receivable.
3. Debt was improperly recorded by management.