

Lake Health District d/b/a

Lake District Hospital

Lakeview, Oregon

Financial Statements and Additional Information

Years Ended June 30, 2011 and 2010

Lake Health District d/b/a Lake District Hospital

Directory of Officials

June 30, 2011 and 2010

Elected

Expiration

Board of Directors:

Rosvi Casteel, Chair
P.O. Box 74
Paisley, OR 97636

June 2013

Bob Swart, Secretary
18122 Westside Road
Lakeview, OR 97630

June 2011

Don Liddycoat, CPA, Treasurer
220 North G Street
Lakeview, OR 97630

June 2013

Judy Graham
P.O. Box 464
Lakeview, OR 97630

June 2011

Chuck Kelley
P.O. Box 711
Lakeview, OR 97630

June 2011

Appointed

Administrator:

Gordon Ensley
700 South J Street
Lakeview, OR 97630

Mailing Address

District:

Lake District Hospital
700 South J Street
Lakeview, Oregon 97630

Lake Health District d/b/a Lake District Hospital

Financial Statements and Additional Information

Years Ended June 30, 2011 and 2010

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Independent Auditor's Report

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

We have audited the accompanying balance sheets of Lake Health District d/b/a Lake District Hospital (the "District") as of June 30, 2011 and 2010, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lake Health District d/b/a Lake District Hospital (the "District") as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2012, on our consideration of Lake Health District d/b/a Lake District Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Lake Health District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material aspects in relation to the financial statements taken as a whole.

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

Wipfli LLP

Wipfli LLP

By:



Konrad Capeller, CPA, Oregon Municipal Auditor, Lic#4155

January 13, 2012
Spokane, Washington



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

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

We have audited the financial statements of Lake Health District d/b/a Lake District Hospital (the "District") as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated January 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Wipfli LLP

Wipfli LLP
January 13, 2012
Spokane, Washington

LAKE HEALTH DISTRICT
dba
Lake District Hospital & Long Term Care Facility
aka
Lakeview Home Health & Hospice
Lake District Medical Office
Lake District Health Center

Management's Discussion and Analysis

Our discussion and analysis of Lake Health District, dba Lake District Hospital & Long Term Care Facility's (District) financial performance provides an overview of the District Hospital's financial activities for the fiscal year ended on June 30, 2011. Please read it in conjunction with the District's financial statements that follow this analysis.

The District Hospital is a governmental entity, a political subdivision of the State of Oregon. The State of Oregon has provided counties authority to create independent Health Districts rendering hospital and other health care services for the residents of the District. The District was created by public vote on July 18, 1967 and the current District facility opened its doors in 1971. The District operates a 24-bed acute care hospital, an attached 47-bed skilled long term care facility, outpatient medical services, and home health and hospice services. The District services include the acute care hospital, obstetrical services, surgery, emergency department and related ancillary services (lab, x-ray,etc.). Outpatient clinic services are provided through leased physician clinic facilities, where the District provides buildings to support those operations.

A 5-member board of directors governs the District. The members of the board are elected for a term of 4 years. Elections are staggered so no more than one third of the board is up for election at one time. The board is required to elect a chairman and secretary. One of their duties is to appoint an administrator / chief executive officer (CEO). The board delegates the day-to-day operations of the district to the CEO.

As a municipal government entity the District levies and the county collects property taxes from property owners within Lake Health District. These tax revenues are used to support the purpose of the District, which is to provide health care to its members. However, tax support is minimal representing approximately 4.0 percent of District receipts.

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

LAKE HEALTH DISTRICT

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Lake District Hospital and Long Term Care Facility Management Discussion and Analysis

Issues Facing the Health District

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

- Risks related to Medicare and Medicaid Reimbursement due to state and national healthcare reform and budget shortfalls
- Labor shortages for healthcare professionals in Physicians and Registered Nurses and in other healthcare related fields
- Increasing employee and employee benefit costs
- Increasing numbers of uninsured and underinsured patients
- High liability and malpractice insurance premiums for the hospital and physician practices
- Concern about retaining and recruiting primary care physicians
- Difficulty recruiting and maintaining specialty physician services in the community

The Hospital is certified as a provider under both the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. Approximately 45.2 percent of the gross patient revenue for FY ending June 30, 2011 was derived from Medicare, 13.8 percent were derived from Medicaid, 28.7% from other insurance and 12.3% from private pay or uninsured.

As a Critical Access Facility since December 2001, payments for Medicare and Medicaid hospital services have been paid on a cost basis. Actual interim payment is computed on a percentage of charges, derived from the most recent filed Medicare Statement of Reimbursable Cost.

Medicare compensates the District on fixed rates for different classifications of Skilled Nursing and Home Health Services. Also, Hospice services and physician services are paid at fixed rates or fee schedules. When the reimbursement is fixed, the District is at risk to lose money on any service where expenses exceed the reimbursement.

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

In recent years, both the state and federal governments have increased enforcement of laws designed to combat health care fraud, and additional anti-fraud legislation has been adopted at both the federal and state levels. There are high penalties for organizations caught breaking these laws. There are a number of examples in the west, where hospitals have been audited and the justice department is looking to recover millions of dollars from each one in what they allege to be improper payments. The fees and fines for a hospital caught in

LAKE HEALTH DISTRICT

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Lake District Hospital and Long Term Care Facility Management Discussion and Analysis

violation of these laws can be substantial. Failure of the District to meet these laws can result in the exclusion of Medicare and Medicaid funds along with fines and criminal penalties.

Healthcare Reform Bill – HR 3962

Healthcare Reform Bill 3962, signed into law into law March 23, 2010, is a sweeping overhaul of the nation's health-care system. Part of the plan's mandate is to reduce healthcare costs. Implementation of this law will take place over a number of years and the process is still being debated. How the mandates will affect reimbursement and operating expenditures is still unknown. However, at this point Critical Access Hospitals are not expected to be adversely affected.

Risks Related to HIPAA

Under the Health Insurance Portability and Accountability Act (HIPAA), health plans, healthcare clearinghouses, and healthcare providers including hospitals and their business partners must maintain reasonable and appropriate administrative, technical, and physical safeguards to ensure the integrity and confidentiality of electronic healthcare information. The District must also protect against reasonable foreseeable threats to the security or integrity of the information and protect against unauthorized use or disclosure. Penalties are high with the loss of Medicare and Medicaid funds, fines and criminal sanctions. The implementation of our electronic medical records system and upgrade to the District's information system takes place in 2011, and will help strengthen security related to HIPAA.

General Risks Affecting Healthcare Facilities

Technology and Services

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

Employment and Labor Issues

The District is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, housekeeping, union and non-union workers. Risks include contract disputes, discrimination claims, personal tort actions, work-related injuries and exposure to hazardous materials to name a few of the potential issues. A nursing shortage, as well as other medical professional/technical employees, is another issue that is causing higher salaries, requiring the usage of agency staff at a premium wage rate.

Competition

Even in a rather isolated geographic location, competition from other hospitals and healthcare providers are a risk to the District's revenue. Tertiary care facilities and others offering specialty care often promote

LAKE HEALTH DISTRICT

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Lake District Hospital and Long Term Care Facility Management Discussion and Analysis

competitive profitable services to those provided locally. All too frequently, others try to carve out profitable segments of the District's business leaving the hospital with product lines or services that are losing money.

Insurance

Malpractice costs for hospitals and physicians have increased significantly over the last 6 years. These increases have caused providers to leave certain geographic areas and certain specialties. In Oregon, with no cap on malpractice damages, the exposure is high for healthcare providers resulting in substantially higher premiums.

Cost Based Reimbursement

Critical access hospitals are paid on cost based reimbursement from Medicare and Medicaid. Gains and losses are limited on services performed for those hospital patients. The larger gains and losses come from Private Insurance and Self Pay. This is approximately 40% of the District's hospital patient revenue. Long Term Care, Home Health and Hospice are not paid on cost based reimbursement.

Financial Discussion

The District accomplished two major projects during this past fiscal year. They include implementation of an upgraded data system, and completion of a 37,000 square foot hospital addition. The downward trend in census which had pressured financial results over the past three years changed course as inpatient census increased 18%. Enhanced details on financial highlights are explained below.

1. **Data System:** The District's new data system went live on January 1, 2011. The system is a fully integrated tool designed to provide better information in a digital format also called an Electronic Health Record. In September 2011 the District met the clinical quality measures designated by Center's for Medicare & Medicaid Systems. By meeting these measures, the District qualifies for financial incentive reimbursements.
2. **New Building:** On March 1, 2011, Acute Care (patient rooms), Obstetrics, Emergency Department (ED), Radiology, Lab, Cardiopulmonary and EKG departments moved into our newly constructed 37,000 square foot facility. The new facility addresses limitations in space, service and expansion which have limited patient service and have been a hindrance to economic growth.
3. **Physician practice:** The District had been seeking a full time practitioner for a number of years. In September 2010 a Locum Tenen Physician was hired as a temporary solution to ease current primary physician patient loads and handle increased walk in traffic due to development projects in Lake County. In September 2011, the District secured the services of a permanent primary care physician.
4. **Long Term Care:** The District's Long Term Care census has dropped 48% over the past four years. This has been due in large part to the State of Oregon's focus on removing residents from Long Term Care facilities. While other hospitals across the State have closed or disposed of their Long Term Care facilities, the Board has seen fit to subsidize the District facility because of community needs. The highly desired five star quality designation of the

LAKE HEALTH DISTRICT

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Lake District Hospital and Long Term Care Facility
Management Discussion and Analysis

facility from Medicare shows the pride and quality of care that continues to be provided. Management understands that maintaining Long Term Care is an economic challenge. Management believes that with the increased aging population, a pent up demand for Long Term Care is building and by continuing to promote the District's high quality care, census and demand will rise.

5. **Recessionary Issues:** The past three years of the national economic downturn has affected hospitals across the country and the District has also been impacted. During the new fiscal year beginning July 2011 recessionary factors in Lake County have become an even greater challenge.

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

Financial Highlights

The Hospital's overall business increased significantly with gross patient revenue at \$18.9 million or 15% increase from the prior year. Net patient revenues increased \$1.93 million or 14.7% due to increased Medicare reimbursements. Acute patient days increased by 18.0% and long term care days decreased by 8.3%. The Long Term Care decrease stems in part from Medicaid economic shifts and skilled care patients being moved to the Acute side of the hospital. Long Term care will take more time to rebuild. Surgeries increased by 10% as a result of expanded specialty recruitment and outreach efforts. Management is pleased that strategic planning efforts are beginning to be realized. Non operating revenues totaled \$616,965 a decrease of \$205,314 or 25.2% from 2010. This decrease was due to increased interest costs related to the Construction Project. Revenue deductions, allowances, charity and bad debts reduced gross patient revenue by \$ 4.0 million or 20.9% of gross patient revenue. These reductions are largely the result of contractual adjustment and allowances with Medicare \$ 2.0 million and Medicaid \$ 0.6 million, comprising 65.0% of total revenue deductions.

In total, including non-patient activities, the District's expenses increased by \$1.8 million or 12.5%. Salary and wages increased \$ 519 thousand or 7.8%. Full time equivalents (FTE) increased by 8 to 145. These positions related to a combination of expanded facility, implementation of the new data system and the start up of the Rapid Care Clinic. Employees benefit expense increased by \$67,000 thousand or 2.9%.

The District had a net loss of \$230,679 in 2011 compared to a net loss of \$203,826 in 2010. The net loss, despite a relatively strong year, was related to \$363,101 in additional depreciation costs.

Net accounts receivable increased from \$1.73 million in 2010 to \$2.91 million. The increase was due to a combination of increased revenue and a comprehensive information system implementation which caused delays in billing.

Lake District spent \$1,887,083 in capital expenditures in 2011, an increase of \$1,006,185 or an increase of 114% from 2010. The majority of this expenditure, related to equipment and furnishings for the new facility

LAKE HEALTH DISTRICT

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Lake District Hospital and Long Term Care Facility
Management Discussion and Analysis

These included items for the following programs: Acute Care, Obstetrics, Radiology, Cardiopulmonary, EKG, Surgery, Laboratory and Oncology. Additionally, the District spent \$1,110,322 on its Electronic Health Record System. The District has a program for routine equipment replacement and/or upgrades and investments in new equipment to help keep the hospital functioning at a high level, and continue expanding our services for the District.

Not included in the capital expenditures listed above was the facility cost of \$17,203,812. This cost is a cumulative cost over the past three years listed in Construction in Progress until its opening in early March 2011. Construction in Progress continues with the remodel of the older building. The entire project which includes the expansion, upgrade and equipment needed will be approximately \$22,000,000. These amounts are financed by a combination of community support in the passing of an \$8,000,000 general obligation bond, bank loans from South Valley Bank in the amount of \$10,500,000 and State loans in the amount of \$2,950,000. The USDA will be purchasing the \$8,000,000 GO bond and a \$550,000 revenue bond issued by the District. The new and remodeled facilities will help solve problems related to space, quality of care and privacy.

The District has been fortunate to have received grants and private party contributions in the amounts of \$38,164 during fiscal year 2011.

LAKE HEALTH DISTRICT

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Lake District Hospital and Long Term Care Facility
Management Discussion and Analysis

Condensed financial information for the years ended June 30, 2011 June 30, 2010 & June 30, 2009 are as follows:

Table 1: Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 4,654,477	\$ 4,318,137	\$ 5,021,872
Capital assets, net	23,347,374	11,639,693	4,116,215
Other non-current assets	<u>5,397,828</u>	<u>10,409,234</u>	<u>2,438,781</u>
Total assets	<u>\$ 33,399,679</u>	<u>\$ 26,367,064</u>	<u>\$ 11,576,868</u>
Liabilities:			
Long-term debt outstanding	\$21,968,478	\$13,424,825	\$ 329,580
Other current and non-current liabilities	<u>2,132,290</u>	<u>3,412,649</u>	<u>1,525,762</u>
Total liabilities	<u>\$24,100,768</u>	<u>\$16,837,474</u>	<u>\$ 1,855,342</u>
Net assets:			
Unrestricted	\$ 4,973,936	\$ 2,968,017	\$ 5,588,872
Capital assets, net of related debt	876,134	<1,905,269>	3,671,113
Construction Project Funds	2,940,851	7,958,862	
Temporarily restricted	221,820	221,810	175,371
Permanently restricted	<u>286,170</u>	<u>286,170</u>	<u>286,170</u>
Total net assets	<u>\$ 9,298,911</u>	<u>\$ 9,529,590</u>	<u>\$ 9,721,526</u>

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:			
Net patient service revenues	\$ 14,992,913	\$ 13,066,608	\$ 12,340,776
Other operating revenues	<u>79,924</u>	<u>63,258</u>	<u>77,048</u>
Total operating revenues	<u>15,072,837</u>	<u>13,129,866</u>	<u>12,417,824</u>
Operating Expenses:			
Salaries and benefits	9,594,755	9,008,943	8,587,853
Depreciation and amortization	874,290	511,189	477,839
Supplies	1,404,381	1,119,772	1,076,697
Other operating expenses	<u>4,047,055</u>	<u>3,516,067</u>	<u>3,370,607</u>
Total operating expenses	<u>15,920,481</u>	<u>14,155,971</u>	<u>13,512,996</u>
Loss from Operations	<u>(847,644)</u>	<u>(1,026,105)</u>	<u>(1,095,172)</u>
Non-operating Revenues (Expenses)			
Taxation	704,639	696,290	689,348
Lease income	45,224	45,224	45,965
Contributions	16,827	50,888	139,173
Interest Expense	<247,793>	<14,251>	
Other non operating gains/<Losses>	<u>98,068</u>	<u>44,128</u>	<u>85,965</u>
Total non-operating gains, net	<u>616,965</u>	<u>822,279</u>	<u>960,451</u>
Increase (Decrease) in net assets	\$ (230,679)	\$ (203,826)	\$ (134,721)
Net assets, beginning of year	9,529,590	9,686,977	9,707,463
Capital Contributions	0	0	190,000
Interest Earned on Restricted Net Assets	66	255	8,181
Net Assets Released from Restrictions	<u><66></u>	<u>46,184</u>	<u>(83,946)</u>
Net assets, end of year	<u>\$ 9,298,911</u>	<u>\$ 9,529,590</u>	<u>\$ 9,686,977</u>

Lake Health District d/b/a Lake District Hospital

Balance Sheets

June 30, 2011 and 2010

<i>Assets</i>	2011	2010
Current assets:		
Cash and cash equivalents	\$ 1,126,264	\$ 1,885,754
Receivables:		
Patient accounts - Less allowance for uncollectible accounts and contractual adjustments of \$1,205,573 in 2011 and \$818,000 in 2010	2,911,632	1,734,636
Taxes	90,086	93,562
Other	321,614	79,943
Third-party settlements	108,872	423,451
Inventories	60,981	54,318
Prepaid expenses	35,028	46,473
Total current assets	4,654,477	4,318,137
Noncurrent assets:		
Cash and cash equivalents	5,397,828	10,409,234
Capital assets:		
Land	139,985	139,985
Construction in progress	2,073,621	8,844,118
Depreciable capital assets - Net of accumulated depreciation	21,133,768	2,655,590
Total capital assets - Net of accumulated depreciation	23,347,374	11,639,693
TOTAL ASSETS	\$ 33,399,679	\$ 26,367,064

<i>Liabilities and Net Assets</i>	2011	2010
Current liabilities:		
Current maturities - long term debt and capital leases payable	\$ 502,762	\$ 120,137
Accounts payable - Operations	402,066	378,954
Accounts payable - Construction project related	240,475	2,032,262
Third-party settlements payable	746	16,000
Accrued compensation and related liabilities	335,052	452,177
Accrued vacation	486,267	413,119
Accrued interest	164,922	-
Total current liabilities	2,132,290	3,412,649
Long-term debt and capital leases payable - less current maturities	21,968,478	13,424,825
Total liabilities	24,100,768	16,837,474
Net assets:		
Invested in capital assets - Net of related debt	876,134	(1,905,269)
Restricted:		
Expendable for specific operating activities	221,820	221,810
Expendable for construction project	2,940,851	7,958,862
Nonexpendable permanent endowments	286,170	286,170
Unrestricted	4,973,936	2,968,017
Total net assets	9,298,911	9,529,590
TOTAL LIABILITIES AND NET ASSETS	\$ 33,399,679	\$ 26,367,064

Lake Health District d/b/a Lake District Hospital

Statements of Revenues and Expenses and Changes in Net Assets

Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Patient service revenue:		
Daily hospital care	\$ 2,857,575	\$ 1,738,039
Nursing home	1,407,821	1,498,772
Ancillary services	14,694,243	13,264,166
Total patient service revenue	18,959,639	16,500,977
Revenue deductions and allowances, including provision for bad debt	(3,966,726)	(3,434,369)
Net patient service revenues	14,992,913	13,066,608
Other operating revenues - Total	79,924	63,258
Total operating revenues	15,072,837	13,129,866
Operating expenses:		
Salaries and wages	7,211,552	6,692,738
Employee benefits	2,383,203	2,316,205
Professional fees	2,390,153	2,124,551
Supplies	1,404,381	1,119,772
Purchased services - Utilities	492,850	332,290
Purchased services - Other	72,936	67,764
Insurance	78,203	122,058
Rents and leases	277,187	262,237
Maintenance	299,478	281,433
Other	436,248	325,734
Depreciation and amortization	874,290	511,189
Total operating expenses	15,920,481	14,155,971
Loss from operations	(847,644)	(1,026,105)
Nonoperating revenues - Net	616,965	822,279
Decrease in net assets	(230,679)	(203,826)
Net assets - Beginning of year	9,529,590	9,686,977
Interest earned on restricted net assets	66	255
Net assets released (from) to restrictions	(66)	46,184
Net assets - End of year	\$ 9,298,911	\$ 9,529,590

See accompanying notes to financial statements.

Lake Health District d/b/a Lake District Hospital

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from patient services	\$ 13,873,571	\$ 13,105,265
Cash received from other operating revenue	79,924	63,258
Cash paid for salaries and benefits	(9,638,732)	(8,890,401)
Cash paid for supplies, professional fees and other operating expenses	(5,423,542)	(4,930,175)
Net cash used in operating activities	(1,108,779)	(652,053)
Cash flows from noncapital financing activities:		
Cash received from donations	16,827	50,888
Taxation for operations	708,115	682,439
Net cash provided by noncapital financing activities	724,942	733,327
Cash flows from capital and related financing activities:		
Principal payments on long-term debt	(174,772)	(115,746)
Proceeds from issuance of long-term debt	9,101,050	13,215,606
Interest paid	(82,871)	(14,251)
Payments for purchase of property, buildings, and equipment	(14,373,758)	(6,002,405)
Net cash (used in) provided by capital and related financing activities	(5,530,351)	7,083,204
Cash flows from investing activities:		
Interest received	26,445	44,383
Cash received from lease income	45,224	45,224
Other cash received from nonoperating activities	71,623	46,184
Net cash provided by investing activities	143,292	135,791
Net (decrease) increase in cash and cash equivalents	(5,770,896)	7,300,269
Cash and cash equivalents - Beginning of year	12,294,988	4,994,719
Cash and cash equivalents - End of year	\$ 6,524,092	\$ 12,294,988

See accompanying notes to financial statements.

Lake Health District d/b/a Lake District Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of loss from operations to net cash used in operating		
Loss from operations	\$ (847,644)	\$ (1,026,105)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation and amortization	874,290	511,189
Provision for bad debts	637,157	750,752
Changes in operating assets and liabilities:		
Receivables:		
Patient accounts - Net	(1,814,153)	(346,526)
Other	(241,671)	26,431
Third-party settlements	314,579	(343,757)
Inventories	(6,663)	1,529
Prepaid expenses	11,445	(11,333)
Accounts payable	23,112	(284,532)
Third-party settlements payable	(15,254)	(48,243)
Accrued compensation and related liabilities	(117,125)	104,111
Accrued vacations	73,148	14,431
Total adjustments	(261,135)	374,052
Net cash used in operating activities	\$ (1,108,779)	\$ (652,053)

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 **Summary of Significant Accounting Policies**

Reporting Entity

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

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

Related Party

Goose Lake Medical Services, Inc. (the "Corporation") is a legally separate, tax-exempt corporation. The Corporation provides healthcare services to patients in the southern Oregon and northern California areas. The District and the Corporation have shared board members and officers. The District provided \$56,004 in services and supplies to the Corporation during the reporting period and the District had a receivable of \$56,004 due from the Corporation as of as of June 30, 2011.

The District Board authorized a \$200,000 line of credit to the Corporation and has disbursed \$165,000 from this line of credit as of June 30, 2011. The interest rate is 4% and the note balance is payable on demand.

Basis of Presentation and Accounting

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

GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant policies. No policies result in material departures from GAAP.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

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

Use of Estimates

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

Budgets

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

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

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

Financial Statement Presentation

The Hospital's financial statements are presented using the flow of economic resources measurement focus, which uses the accrual basis of accounting to determine excess (deficiency) of revenue over expenses, financial position, and cash flows.

Cash and Cash Equivalents

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

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

Accounts Receivable and Credit Policy

Accounts receivable are uncollateralized patient obligations, most of whom are local residents insured under third party payor agreements, and are stated at the amount management expects to collect from outstanding balances. The Hospital bills third party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Hospital does not have a policy to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient receivables. In addition, management provides for probable uncollectible amounts, primarily uninsured patients, and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

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

Taxes Receivable

Property taxes are levied by the District and collected by the Lake County Officials. Taxes estimated to be collectible are recorded as revenue in the year of the levy. Taxes levied for operations are recorded as other non-operating revenues. The District received approximately 3.59% and 3.93% of its financial support from property taxes for the years ended June 30, 2011 and 2010, respectively. The funds were used as follows:

	2011	2010
Taxes levied to support operations - Total	\$ 704,639	\$ 696,290

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

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

Inventories

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

Noncurrent Assets

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

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

Donor Restricted Investments

The District has donor-restricted investments. The investments represent temporarily and permanently restricted endowment funds restricted for the purchase of hospital and nursing home equipment, the support of hospital and nursing home operations and nursing education. These investments are recorded at cost which approximates market value (Notes 2 and 4).

Capital Assets

Capital asset and expenditures exceeding \$5,000 are capitalized and recorded at cost. Expenditures for maintenance and repairs are charged to operations as incurred, betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is classified in nonoperating gains and losses. Donated items are recorded at fair market value at the date of contribution and are subsequently considered as being on the basis of cost. Depreciation and amortization have been computed on the straight-line method over the following estimated useful service lives:

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

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

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

Compensated Absences

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

Net Assets

Net assets of the District are classified in three components. Net assets invested in capital assets net of related debt, consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets, are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures, if any. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

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

Patient Service Revenues

Revenues from patient services are reported on the accrual basis in the period in which services are provided at established rates whether or not collection in full is anticipated. Contractual adjustments, the results of arrangements to provide services for other than established rates, are reported as revenue deductions and allowances. Contractual allowances include differences between established rates and amounts estimated by management as reimbursable under various reimbursement programs in effect. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's contractual allowances (note 3).

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. The District maintains records to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges associated with charity care were \$250,436 and \$241,222 for the years ended June 30, 2011 and 2010, respectively.

Gifts, Contributions, Grants and Bequests

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

Reclassifications

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

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Subsequent Event

A Revenue Anticipation Note (RAN) was issued by US Bank in the amount of \$550,000, dated October 24, 2011, due in lump sum including interest of 2.65% on April 1, 2012 for the construction project (Note 11). The due date of the US Bank Bond Anticipation Note (BAN) was extended in October of 2011 to April 1, 2012 (Note 6).

Subsequent events have been evaluated through January 13, 2012, which is the date the financial statements were available to be issued.

Note 2 Deposits and Investments

Deposits

As of June 30, 2011, the District's deposits and certificates of deposit were entirely covered by the Federal Deposit Insurance Corporation or by additional collateral purchased by the District. Effective July 1, 2008, Oregon Revised Statute Chapter 295 required all Oregon bank depositories holding public fund deposits to maintain securities totaling a value not less than 110 percent of the greater of:

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

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

	2011	2010
Uncollateralized	\$ -	\$ -
Insured by the FDIC	250,000	250,000
Collateralized with securities held by the pledging financial institution's trust department or agent but not in the deposit-District's name	6,274,092	12,044,988
Total deposits	\$ 6,524,092	\$ 12,294,988

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 2 Deposits and Investments (Continued)

Investments

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

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

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

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

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

The District did not have any investment holdings as of June 30, 2011 or 2010.

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

	2011	2010
Deposits:		
Current assets	\$ 1,126,264	\$ 1,885,754
Noncurrent assets (Note 4)	5,397,828	10,409,234
Total deposits	\$ 6,524,092	\$ 12,294,988

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 3 Third-Party Contractual Agreements

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross revenues charged and reimbursement under each of the various programs are included in revenue deductions and allowances. Gross revenues billed under the Medicare and Medicaid programs totaled approximately \$10,885,000 and \$9,705,000 for the years ended June 30, 2011 and 2010, respectively.

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

The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare intermediary. Medicare has audited cost reports through 2009.

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

Bad debt expense included in revenue deductions and allowances totaled \$637,157 and \$750,752 for 2011 and 2010, respectively.

Note 4 Noncurrent Assets

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

	2011	2010
Cash and cash equivalents:		
Internally designated for:		
Capital acquisitions	\$ 4,295,251	\$ 9,310,188
Pharmacy inventory replacement	74,759	74,759
Operational reserves	519,828	516,307
Restricted by endowment provisions	507,990	507,980
Total noncurrent assets	\$ 5,397,828	\$ 10,409,234

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 5 Capital Assets (Note 11)

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

	Balance at June 30, 2010	Additions/ Transfers	Retirements	Balance at June 30, 2011
Nondepreciable assets:				
Land	\$ 139,985	\$ -	-	\$ 139,985
Construction in progress (Note 11)	8,844,118	(6,770,497)	-	2,073,621
Total nondepreciable assets	8,984,103	(6,770,497)	-	2,213,606
Depreciable assets:				
Land improvements	1,026,581	-	-	1,026,581
Buildings and improvements	6,379,324	18,841,379	-	25,220,703
Moveable equipment	4,019,224	511,089	(95,000)	4,435,313
Total depreciable assets	11,425,129	19,352,468	(95,000)	30,682,597
Total assets before depreciation	20,409,232	12,581,971	(95,000)	32,896,203
Less accumulated depreciation for:				
Land improvements	297,865	76,900	-	374,765
Buildings and improvements	5,209,147	474,639	-	5,683,786
Moveable equipment	3,262,527	322,751	(95,000)	3,490,278
Total accumulated depreciation	8,769,539	874,290	(95,000)	9,548,829
Total capital assets - Net	\$ 11,639,693	\$ 11,707,681	\$ -	\$ 23,347,374

Construction in progress is related to the construction of an addition to and the remodel of the hospital building (Note 11).

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 5 Capital Assets (Note 11) (Continued)

Capital assets consisted of the following at June 30, 2010:

	Balance at June 30, 2009	Additions/ Transfers	Retirements	Balance at June 30, 2010
Nondepreciable assets:				
Land	\$ 139,985	\$ -	-	\$ 139,985
Construction in progress (Note 11)	1,690,348	7,153,770	-	8,844,118
Total nondepreciable assets	1,830,333	7,153,770	-	8,984,103
Depreciable assets:				
Land improvements	291,689	734,892	-	1,026,581
Buildings and improvements	6,342,146	37,178	-	6,379,324
Moveable equipment	3,910,397	108,827	-	4,019,224
Total depreciable assets	10,544,232	880,897	-	11,425,129
Total assets before depreciation	12,374,565	8,034,667	-	20,409,232
Less accumulated depreciation for:				
Land improvements	251,481	46,384	-	297,865
Buildings and improvements	5,062,285	146,862	-	5,209,147
Moveable equipment	2,944,584	317,943	-	3,262,527
Total accumulated depreciation	8,258,350	511,189	-	8,769,539
Total capital assets - Net	\$ 4,116,215	\$ 7,523,478	\$ -	\$ 11,639,693

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities (Note 11)

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

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

The schedule of changes in the Hospital's non-current liabilities for 2010 follows:

	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Due Within One Year
Notes payable:					
Sterling Bank					
CT & ultrasound	\$ 445,102	\$ -	\$ 115,746	\$ 329,356	\$ 120,137
South Valley Bank					
Construction loan	-	2,244,173	-	2,244,173	-
State of Oregon					
Construction loan	-	2,971,433	-	2,971,433	-
US Bank					
General obligation BAN	-	8,000,000	-	8,000,000	-
Total long-term debt and noncurrent liabilities	\$ 445,102	\$13,215,606	\$ 115,746	\$13,544,962	\$ 120,137

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities (Note 11) (Continued)

The terms and due dates of the District's long-term debt, including capital lease obligations for 2011 and 2010 are as follows:

Long Term Debt

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

South Valley Bank construction loan, due in monthly installments of interest only, including variable interest rate of 5.25% through February 1, 2012, collateralized by property. The variable interest rate is based on Prime plus two percent, with a floor of 5.00%. At June 30, 2011, the balance due on the South Valley Bank consists of amounts that have been drawn down for payment of construction in progress. The total funding available to the District under terms of the Note is \$10,500,000. The District has the ability and intent to refinance the construction loan through guarantees issued by the bank. The term of the loan will be 30 years and the interest rate will be determined at the date of issuance. The interest rate will be comprised of two components, a fixed portion and a variable portion. 90% of the total anticipated financing (\$9,450,000) will be refinanced at fixed rate based on the cost of financing index + .75%. As of the report date, this rate is currently 3.46%. 10% of the total anticipated financing (\$1,050,000) will be refinanced based on a variable rate. The variable rate will reset every five years and is based on Prime + 2.50%, with a floor of 5.75% and a ceiling of 9.75%. As of the report date, this rate is currently 5.75%.

State of Oregon, construction loan, due in annual installments estimated at \$232,300, including interest at 4.78% through December 1, 2030, collateralized by the full faith and credit and taxing power of the District, specifically revenue after the payment of expenses. The debt service payment is approximately 1.5% of total revenues and 1.4% of total expenses.

US Bank, Bond Anticipation Note (BAN), due in a lump sum on October 1, 2011 - extended to April 1, 2012 (Note 1) - with monthly interest payments at 2.65% began on April 1, 2010, collateralized by General Obligation Bonds (G.O. bonds).

US Bank capital lease comprised of two components, dated April 1, 2011 and July 1, 2011, respectively. First component due March 1, 2016 with monthly principal payments in varying amounts of \$11,176 in August 2011 to \$13,580 in March 2016 plus interest of 4.26%. Second component due June 1, 2016 with monthly principal payments

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 Long-Term Debt and Other Noncurrent Liabilities (Note 11) (Continued)

in varying amounts of \$1,782 in August 2011 to \$2,340 in June 2016 plus interest of 5.65%. The total net book value of assets secured by the capital lease obligation was \$994,880 as of June 30, 2011.

The District has the ability and intent to refinance the BAN through loan guarantees received from the U.S. Department of Agriculture Community Facilities Guarantee and Rural Development RUS Program (USDA Rural Development). USDA Rural Development has agreed to loan \$8,000,000 to the District upon completion of the construction project (Note 11) by purchasing the issued G.O. Bonds. The agreed upon terms are 30 years at a 4.375% interest rate.

On November 4, 2008, the District voters approved the issuance of \$8,000,000 of G.O. bonds, payable over 30 years. It is anticipated the funding of the bonds will occur in 2011. G.O. bonds are direct and general obligations of the District and are paid each year by the District levying an additional tax over and above the normal operating levy upon the taxable property within the District.

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows. This schedule assumes the South Valley Bank construction loan is converted at current rates:

Year Ending June 30	Principal	Interest	Total
2012	\$ 502,762	\$ 985,788	\$ 1,488,550
2013	687,235	880,625	1,567,860
2014	627,761	854,176	1,481,937
2015	654,160	827,777	1,481,937
2016	624,535	800,537	1,425,072
2017-2021	2,778,861	3,672,025	6,450,886
2022-2026	3,396,798	3,054,089	6,450,887
2027-2031	4,160,190	2,295,451	6,455,641
2032-2036	3,810,688	1,478,599	5,289,287
2037-2041	4,679,534	668,320	5,347,854
2042-2046	548,716	18,958	567,674
Total	\$ 22,471,240	\$ 15,536,345	\$ 38,007,585

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 6 **Long-Term Debt and Other Noncurrent Liabilities** (Note 11) (Continued)

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

Note 7 **Contingent Liability**

Liability Insurance

As of June 30, 2011, the District has its professional liability insurance coverage with Washington Casualty Company. The policy provides protection on a "claims-made" basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies.

The current malpractice insurance provides \$1,000,000 per claim of primary coverage with a \$5,000,000 annual aggregate limit, plus \$1,000,000 annual excess coverage per claim with a \$1,000,000 annual aggregate. There are no significant deductibles or coinsurance clauses.

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

The District is also exposed to various risks of loss from torts (Note 11), theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 8 Accounts Receivable

Patient accounts receivable reported as current assets by the District at June 30, 2011 and 2010, consisted of these amounts:

	2011		2010	
Medicare	\$ 1,501,062	36%	\$ 738,444	29%
Medicaid	487,210	12%	258,339	10%
Other third-party payors	1,454,874	36%	1,121,443	44%
Self pay	674,059	16%	434,410	17%
	4,117,205	100%	2,552,636	100%
Less:				
Allowance for contractual adjustments	(825,597)		(359,639)	
Allowance for bad debt	(379,976)		(458,361)	
Patient accounts receivable - Net	\$ 2,911,632		\$ 1,734,636	

Note 9 Retirement Plans

Defined Contribution Plan

The District provides pension benefits for all of its part-time and full-time employees who have worked at least one year through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed by the District to the plan plus investment earnings. Some employees are eligible to participate only if they agree to contribute to the deferred compensation plan. Each pay period, the District contributes six percent of the employee's compensation. The contributions are vested at 20% after two years of service with graduated increases until vesting reaches 100% after six years of service. Unvested portions of District contributions and interest forfeited by employees who leave employment before six years of service are used to reduce the District's current period contribution requirement. The District made the required contributions of \$328,446 and \$313,483 for the years ended June 30, 2011 and 2010, respectively.

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 9 Retirement Plans (Continued)

Deferred Compensation Plan

In addition to the defined contribution plan described above, the District provides a deferred compensation plan to substantially all employees under section 403(b) of the Internal Revenue Code. The deferred compensation plan is funded solely from employee contributions, which are deposited with an insurance company. These assets may only be used for the payment of plan liabilities. Funds deposited with the insurance company by the individual employees were \$171,433 and \$132,211, for the years ended June 30, 2011 and 2010, respectively.

Note 10 Nonoperating Revenue

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

	2011	2010
Taxation	\$ 704,639	\$ 696,290
Interest earnings	26,379	44,128
Interest expense (Note 6)	(247,793)	(14,251)
Lease income	45,224	45,224
Grants and contributions - Net	16,827	50,888
Gain on asset disposal	21,000	-
Pension forfeiture	50,689	-
Nonoperating revenues - Net	\$ 616,965	\$ 822,279

Lake Health District d/b/a Lake District Hospital

Notes to Financial Statements

Note 11 Commitments

Construction Project (Notes 5 and 6)

In November 2009, the District started a construction project to expand and remodel the Hospital.

The construction and remodel of the Hospital is anticipated to be completed in 2012 and will add approximately 35,000 square feet to the existing hospital building. It is anticipated that the total cost of the project will be approximately \$22,000,000 and will include the construction and remodel, the purchase of new equipment, and the related capitalized financing and legal costs. As of June 30, 2011, total cost to complete the project is approximately \$2,522,000. Capitalized interest as of June 30, 2011, is \$673,212.

The majority of the cost of the project will be financed through the issuance of \$21,450,000 of long term debt through various sources including a local bank, the State of Oregon, Department of Community, Trade and Economic Development, the issuance of General Obligation Bonds approved in November 2008, and loan guarantees by the U.S. Department of Agriculture Community Facilities Guarantee and Rural Development RUS Program, at aggregate interest rates not anticipated to exceed 5.80%. The remaining costs of the project will be financed through District operations, community donations and grant funding.

General contractor and architect – Andersen Construction has been retained by the District to be the general contractor and CTA Group has been retained as the project architect.

Additional Information

Lake Health District d/b/a Lake District Hospital

Schedule of Revenues and Expenditures – Budget vs. Actual

Year Ended June 30, 2011

	Filed Budget	Budget Amendments	Final Budget	Actual	Variance Favorable (Unfavorable)
Resources:					
Net working capital *	\$ 1,870,000	\$ -	\$ 1,870,000	\$ 1,979,316	\$ 109,316
Net operating revenue	15,588,502	-	15,588,502	15,072,837	(515,665)
Property/other taxes	712,393	-	712,393	704,639	(7,754)
Grants/contributions/other nonoperating	1,032,925	-	1,032,925	133,740	(899,185)
Interest	-	-	-	26,379	26,379
Restricted fund transfers	100,000	-	100,000	66	(99,934)
Capital development transfers	14,981,720	-	14,981,720	-	(14,981,720)
Loan proceeds	-	-	-	9,101,050	9,101,050
Total resources	34,285,540	-	34,285,540	27,018,027	(7,267,513)
Expenditures:					
Personal services	10,157,385	-	10,157,385	9,594,755	562,630
Materials and services	5,238,604	-	5,238,604	5,451,436	(212,832)
Capital outlay	16,102,349	-	16,102,349	14,373,758	1,728,591
Debt service	288,916	-	288,916	174,772	114,144
Contingencies	1,342,926	-	1,342,926	-	1,342,926
Unappropriated ending net working capital *	1,155,360	-	1,155,360	1,216,350	(60,990)
Total expenditures	\$ 34,285,540	\$ -	\$ 34,285,540	30,811,071	\$ 2,192,533
Excess of expenditures over resources				(3,793,044)	
Reconciliation of statutory operating expenditures to GAAP basis operating expenses:					
Add: Plant and equipment additions				14,373,758	
Add: Principal payments on long term debt				174,772	
Add: Change in net working capital *				(762,966)	
Less: Interest expense				(247,793)	
Less: Loan proceeds				(9,101,050)	
Less: Restricted fund transfers				(66)	
Less: Depreciation and amortization				(874,290)	
Total effects of reconciliation				3,562,365	
Net loss				(230,679)	
Add: Interest earned on donor-restricted				66	
Less: Transfers to donor-restricted funds				(66)	
Net assets - Beginning of year				9,529,590	
Net assets - End of year				\$ 9,298,911	

Lake Health District d/b/a Lake District Hospital

Schedule of Property Tax Transactions and Outstanding Balances

Year Ended June 30, 2011

Fiscal Year	Property Taxes Receivable June 30, 2010	Current Levy as Extended by Assessor	Discount Allowed	Corrections and Adjustments	Interest	Cash Collections	Property Taxes Receivable June 30, 2011
2010-2011	\$ -	\$ 709,634	\$ (15,948)	\$ (2,253)	\$ 658	\$ (643,877)	\$ 48,214
2009-2010	47,937	-	-	(4,675)	1,869	(22,351)	22,780
2008-2009	23,171	-	-	(5,060)	1,946	(7,364)	12,694
2007-2008	12,236	-	-	(5,425)	2,575	(5,895)	3,490
2006-2007	6,840	-	-	(4,040)	1,896	(3,599)	1,097
2005-2006	1,374	-	-	(638)	200	(346)	590
2004-2005	819	-	-	(544)	159	(177)	257
2003-2004	330	-	-	634	-	-	964
2002-2003	550	-	-	(550)	-	-	-
2001-2002	305	-	-	(305)	-	-	-
	\$ 93,562	\$ 709,634	\$ (15,948)	\$ (22,856)	\$ 9,303	\$ (683,609)	\$ 90,086

Revenue reported:

Current levy	\$ 709,634
Discounts	(15,948)
Adjustments	(22,856)
Interest	9,303
Other adjustments/tax receipts	24,506
Total	\$ 704,639

Lake Health District d/b/a Lake District Hospital

Schedule of Long-Term Debt Transactions

Year Ended June 30, 2011

Bond/Note	Principal Transactions				Interest Transactions			
	Balance 6/30/10	Additions	Principal Payments	Balance 6/30/11	Balance 6/30/10	Matured During Year	Paid During Year	Balance 6/30/11
Loan - Sterling Bank	\$ 329,356	\$ -	\$ 120,047	\$ 209,309	\$ -	\$ 5,479	\$ 5,479	\$ -
Loan - South Valley Bank	2,244,173	8,255,827	-	10,500,000	-	449,155	449,155	-
Loan - State of Oregon	2,971,433	-	21,433	2,950,000	-	164,922	-	164,922
Loan - US Bank	8,000,000	-	-	8,000,000	-	214,944	214,944	-
Loan - US Bank EMR	-	845,223	33,292	811,931	-	31,495	31,495	-
Totals	\$ 13,544,962	\$ 9,101,050	\$ 174,772	\$ 22,471,240	\$ -	\$ 865,995	\$ 701,073	\$ 164,922

Lake Health District d/b/a Lake District Hospital

Schedule of Future Debt Service Requirements of Long-Term Debt

June 30, 2011

Maturing During Year Ending June 30,	U.S. Bank -BAN/USDA/G.O. Bonds Project Loan		State of Oregon E.D. Project Loan		South Valley Bank Project Loan		Sterling Bank CT Scan & Ultrasound		U.S. Bank EMR		Long-Term Debt Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 130,172	\$ 360,000	\$ 89,353	\$ 224,493	\$ -	\$ 362,775	\$ 124,522	\$ 5,475	\$ 158,715	\$ 33,045	\$ 502,762	\$ 985,788
2013	136,030	354,142	95,581	136,739	204,910	362,775	84,787	1,135	165,927	25,834	687,235	880,625
2014	142,151	348,021	100,150	132,170	211,990	355,695	-	-	173,470	18,290	627,761	854,176
2015	148,548	341,624	104,937	127,383	219,314	348,371	-	-	181,361	10,399	654,160	827,777
2016	155,233	334,939	109,953	122,367	226,891	340,794	-	-	132,458	2,437	624,535	800,537
2017-2021	887,450	1,563,412	633,810	527,790	1,257,601	1,580,823	-	-	-	-	2,778,861	3,672,025
2022-2026	1,105,924	1,344,938	800,482	361,118	1,490,392	1,348,033	-	-	-	-	3,396,798	3,054,089
2027-2031	1,378,183	1,072,679	1,015,734	150,620	1,766,273	1,072,152	-	-	-	-	4,160,190	2,295,451
2032-2036	1,717,466	733,396	-	-	2,093,222	745,203	-	-	-	-	3,810,688	1,478,599
2037-2041	2,198,843	310,586	-	-	2,480,691	357,734	-	-	-	-	4,679,534	668,320
Thereafter	-	-	-	-	548,716	18,958	-	-	-	-	548,716	18,958
	\$ 8,000,000	\$ 6,763,737	\$ 2,950,000	\$ 1,782,680	\$ 10,500,000	\$ 6,893,313	\$ 209,309	\$ 6,610	\$ 811,931	\$ 90,005	\$ 22,471,240	\$ 15,536,345

AUDIT COMMENTS AND DISCLOSURES

REQUIRED BY STATE REGULATIONS

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



Independent Auditors Comments and Disclosures Required By State Regulations

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

We have audited the accompanying financial statements of Lake Health District, doing business as, Lake District Hospital (the District) as of June 30, 2011 and for the year then ended and have issued our report thereon dated January 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

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

- The accounting records and related internal control structure (OAR. 162-010-0230)
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds (OAR 162-010-0240).
- The requirements relating to debt, including the limitation of debt, liquidation of debt in the prescribed period of time, and compliance with provisions of bond indentures or other requirements, including restrictions placed on funds available to retire indebtedness (OAR 162-010-0250).
- The requirements relating to the preparation, adoption and execution of the annual budgets for the current fiscal year and the preparation and adoption of the budget for the next succeeding fiscal year (OAR 162-010-0260).
- The requirements relating to insurance and fidelity bond coverage (OAR 162-010-0270).

- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies (OAR 162-010-0280).
- The statutory requirements pertaining to the investment of public funds (OAR 162-010-0300).
- The requirements pertaining to the awarding of public contracts and the construction of public improvements (OAR 162-010-0310).

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

OAR 162-10-0230 Internal Control

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

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

Wipfli LLP

Wipfli, LLP

By:



Konrad Capeller, CPA, Oregon Municipal Auditor, Lic#4155

January 13, 2012
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Audit Comments and Disclosures Required by State Regulations

June 30, 2011 and 2010

Accounting Records

The records of the District are adequate for audit purposes.

Adequacy of Collateral Securing Depository Balance

ORS Chapter 295 provides that each depository throughout the period of its possession of public fund deposits shall maintain on deposit with its custodians, at its own expense, securities having a value not less than 110 percent of the greater of:

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

As of June 30, 2011 and 2010, the District did not maintain any uncollateralized deposits and therefore, appears to be in compliance with collateral requirements.

Budget and Oregon Local Budget Law Compliance

The budget documents related to Lake District for 2010, 2011 and 2012 were reviewed. The District appears to have substantially complied with the legal requirements related to the preparation, adoption, and execution of the budget for the year ended June 30, 2010 and 2011, and preparation and adoption of the budget for the upcoming fiscal year.

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

Indebtedness

The District, during 2010 and 2011, appeared to be in compliance with statutory requirements relating to debt, including the limitation of debt, liquidation of debt in the prescribed period of time, and compliance with provisions of bond indentures or other requirements, including restrictions placed on funds available to retire indebtedness.

Federal and State Grants

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

Lake Health District d/b/a Lake District Hospital

Audit Comments and Disclosures Required by State Regulations (Continued)

June 30, 2011 and 2010

Insurance and Fidelity Bond Coverage

The District's insurance policies appear to be in force. We are not competent by training to state whether the insurance coverage in force at June 30, 2011 and 2010, is adequate. The District does review insurance coverage annually with its insurance agent.

Litigation

District management informs us that there is no ongoing or threatened litigation as of the years ended June 30, 2011 and 2010.

Public Contracts and Purchasing

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

Programs Funded From Outside Sources

During the years ended June 30, 2011 and 2010, the District complied in all material respects, with laws, regulations, contracts and grants pertaining to programs funded from outside sources.

A-133 Information



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

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

Compliance

We have audited the compliance of the Lake Health District, doing business as, Lake District Hospital (District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2011. The District's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the District's major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the District's major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

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

Wipfli LLP

Wipfli LLP

January 13, 2012
Spokane, Washington

Lake Health District d/b/a Lake District Hospital

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor Agency Pass-Through Grantor Program Title	Entity Passed Through	Federal CFDA Number	Project Name	Project Period	Program or Award Amount	Federal Expenditures
U.S. Department of Agriculture Community Facilities Loans & Grants	N/A	10.766	Hospital Expansion and Upgrade Project	N/A	\$ 8,000,000	\$ <u>8,000,000</u>
TOTAL FEDERAL EXPENDITURES						\$ <u><u>8,000,000</u></u>

Lake Health District d/b/a Lake District Hospital

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Note 1

Basis of Presentation

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

Lake Health District d/b/a Lake District Hospital

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Section I - Summary of Audit Results

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

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

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

Lake Health District d/b/a Lake District Hospital

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Section II - Financial Statement Audit Findings

None

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Prior-Year Findings

None

Name and signature of partner



Konrad Capeller

Date of report

January 13, 2012