Morrow County Health District d/b/a Pioneer Memorial Hospital

Heppner, Oregon

Financial Statements and Supplementary Information

Years Ended June 30, 2017 and 2016

WIPFLi LLP

CPAs and Consultants

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Directory of Officials

June 30, 2017

		Elected / Expiration
Board of Directors:	John Murray PO Box 427 Heppner, OR 97836	June 2021
	Jill Parker PO Box 1209 Boardman, OR 97818	June 2019
	Aaron Palmquist PO Box 428 Irrigon, OR 97844	June 2019
	Leann Rea 430 Frank Gilliam Drive Heppner, OR 97836	June 2021
	Joe Perry PO Box 952 Heppner, OR 97836	June 2021
	Appointed	
Administrator:	Robert Houser	
	Mailing Address	
District:	Pioneer Memorial Hospital PO Box 9 564 East Pioneer Drive Heppner, OR 97836	

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Financial Statements and Supplementary Information

Years Ended June 30, 2017 and 2016

Table of Contents

WIPFLI LLP

Independent Auditor's Report

Board of Trustees
Morrow County Health District
d/b/a Pioneer Memorial Hospital
Heppner, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Morrow County Health District d/b/a Pioneer Memorial Hospital (the "District"), as of the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

WIPFLI LLP

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Morrow County Health District d/b/a Pioneer Memorial Hospital, as of June 30, 2017 and 2016, and the reflective changes in net position and 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 pages 6 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 is presented for purposes of additional analysis, and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

WIPFLI LLP

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance. We have also issued our report dated September 25, 2017, on the compliance of Morrow County Health District d/b/a Pioneer Memorial Hospital with Oregon laws and regulations.

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 September 25, 2017, on our consideration of the District's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Wipfli LLP

Wipfli LLP

By:

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

September 25, 2017
Spokane, Washington

Morrow County Health District
d/b/a Pioneer Memorial Hospital
Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016

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

The District is a governmental entity and a political subdivision of the State of Oregon. The District was created by Order of the County Court of the State of Oregon for Morrow County on September 2, 1994. A public vote established the original tax base of $485,000 on November 8, 1994. The District commenced providing services on July 1, 1995. Services include the 21-bed acute care hospital, swing bed skilled and nonskilled nursing, emergency room, ambulance, home health, hospice, three rural health clinics, and related ancillary services (lab, radiology, therapies, etc.) associated with these services.

A five-member Board of Directors governs the District. The members of the Board are elected for a term of four years. Elections are staggered so no more than 60 percent of the Board is up for election at one time. The Board is required to elect a chairman and vice-chairman/secretary. One of their duties is to hire an administrator. The Board delegates the day-to-day operations of the District to the administrator.

The District is a municipal government entity. As such, the District levies, and the county collects property taxes from property owners within the health district. This tax revenue is used to support the purposes of the District, which is to provide health care to the citizens. Tax support represents approximately 17 percent of District receipts.

The Government Accounting Standards Board (GASB) prescribes the financial reporting of the Hospital. 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.

Financial Highlights

⇒ The District's net position had an increase of $705,913 to $5,193,141 in 2017, from $4,487,228 in 2016.

⇒ Gross patient revenue increased by $488,692 or 5% in 2017 and $428,517 or 5% in 2016; however, net patient revenue increased by 9% and 4% in 2017 and 2016, respectively.

⇒ Net patient accounts receivable decreased from $2,003,920 in 2016 to $1,063,137 in 2017.

⇒ Net nonpatient revenue, including property taxes, increased by $470,982 or 21% in 2017 and increased by $100,541 or 5% in 2016.

⇒ The District's total overall operating expenses increased by $934,943 and $524,204, or 9% and 6% in 2017 and 2016, respectively.

⇒ Capital asset expenditures, including construction in progress, were $711,407 this year. The largest costs were associated with the purchase of the Windwave Building on Main St, in Heppner for home health and hospice services. Other major purchases included the final payments on two ambulances, one for Heppner and one for Boardman; nurse call and communication system for the Hospital; ultrasound unit and bone density system for radiology; and a hematology analyzer for the laboratory.

⇒ The District voters approved a five-year levy that began in fiscal year 2010 and generated over $1,942,984 in tax revenue. The voters approved a new five-year operating levy in May 2014 that generated $465,408 in the first year 2014-2015, $579,073 in 2015-2016, and $684,053 in 2016-2017 with an estimated five-year total of $2,455,000 in tax revenue.

Using This Annual Report

Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position

One of the most important questions asked about the District's finances is, "is the District as a whole better or worse off as a result of the year's activities?" The statements of net position on page 15 and the statements of revenue, expenses, and changes in net position on page 17 report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's net position is the difference between its assets and liabilities reported on the statement of net position.

These two statements report the District's net position and annual changes to it. You can think of the District's net position as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

Statements of Cash Flows

The final required statement is the statement of cash flows on page 18. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

The District's Net Assets

The District's net position is the difference between its assets and liabilities reported in the statements of net position on page 15. The District's net position increased by $705,913, $427,181, and $294,247 in 2017, 2016, and 2015, respectively as reported in Table 1.

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

Table 1: Assets, Liabilities, and Net Position
(In Thousands)

				2017-2016		2016-2015	
	2017	2016	2015	$ Change	% Change	$ Change	% Change
Assets:							
Current assets	$ 5,151	$ 4,873	$ 4,520	$ 278	5.70 %	$ 353	7.81 %
Other noncurrent assets, including capital	2,354	2,204	2,480	150	6.81 %	(276)	-11.13 %
Total assets	$ 7,505	$ 7,077	$ 7,000	$ 428	6.05 %	$ 77	1.10 %
Liabilities:							
Long-term debt outstanding	$ 1,384	$ 1,545	$ 1,683	$ (161)	-10.42 %	$ (138)	-8.20 %
Other current and noncurrent liabilities	928	1,045	1,257	(117)	-11.20 %	(212)	-16.87 %
Total liabilities	$ 2,312	$ 2,590	$ 2,940	$ (278)	-10.73 %	$ (350)	-11.90 %
Net position:							
Unrestricted	$ 4,008	$ 3,610	$ 2,990	$ 398	11.02 %	$ 620	20.74 %
Net investment in capital assets	780	573	744	207	36.13 %	(171)	-22.98 %
Restricted, expendable net position	405	304	326	101	33.22 %	(22)	-6.75 %
Total net position	$ 5,193	$ 4,487	$ 4,060	$ 706	15.73 %	$ 427	10.52 %

Operating Results and Changes in the District's Net Position

The District's net position increased by $705,913, $427,181, and $294,247 in 2017, 2016, and 2015, respectively as reported in Table 2.

Table 2: Statement of Revenue and Expenses
(In Thousands)

				2017-2016		2016-2015	
	2017	2016	2015	$ Change	% Change	$ Change	% Change
Operating revenue:							
Patient service revenue	$ 8,857	$ 8,118	$ 7,568	$ 739	9.10 %	$ 550	7.27 %
Other operating income	570	372	473	198	53.23 %	(101)	-21.35 %
Total operating revenue	9,427	8,490	8,041	937	11.04 %	449	5.58 %
Operating Expenses:							
Salaries and benefits	7,326	6,666	6,430	660	9.90 %	236	3.67 %
Depreciation and amortization	561	529	572	32	6.05 %	(43)	-7.52 %
Supplies	919	952	892	(33)	-3.47 %	60	6.73 %
Other operating expenses	2,011	1,736	1,464	275	15.84 %	272	18.58 %
Total operating expenses	10,817	9,883	9,358	934	9.45 %	525	5.61 %
Operating loss	(1,390)	(1,393)	(1,317)	3	-0.22 %	(76)	5.77 %
Nonoperating revenue (expense):							
Property tax revenue	1,943	1,749	1,476	194	11.09 %	273	18.50 %
Interest earnings	25	19	11	6	31.58 %	8	72.73 %
Interest expense	(73)	(76)	(84)	3	-3.95 %	8	-9.52 %
Donations and noncapital grants	93	14	30	79	564.29 %	(16)	-53.33 %
Gain on sale of assets	2	-	-	2	201.00 %	-	0.00 %
Other	106	114	178	(8)	-7.02 %	(64)	-35.96 %
Total nonoperating revenue, net	2,096	1,820	1,611	276	15.16 %	209	12.97 %
Increase in net position, excess of revenue and gains over expenses	706	427	294	279	65.34 %	133	45.24 %
Net position, beginning of year	4,487	4,060	3,766	427	10.52 %	294	7.81 %
Net position, end of year	$ 5,193	$ 4,487	$ 4,060	$ 706	15.73 %	$ 427	10.52 %

Operating Results and Changes in the District's Net Position (Continued)

Operating Losses

The overall operating loss decreased by $3,413 in 2017 and $76,022 in 2016. The increases in operating expenses directly contributed to the increased loss over last year. Operating expenses increased this year above average due to the addition of seven full-time equivalent employees spread across 11 departments. The largest increase was due to the hiring of a new mid-level provider, medical assistant, and care coordinator at the Pioneer Memorial Clinic and the addition of a part-time marketing coordinator and part time quality coordinator for the District. The District also had higher costs in 2017 for the recruitment costs or management personnel and the provider, as well as higher temporary staffing costs for relief and interim coverage.

Nonoperating Revenue and Expenses

Primarily due to increased property tax revenue, the District's overall net nonoperating revenue increased by $275,319 and $208,956 or 15% and 13% in 2017 and 2016, respectively.

Grants, Contributions, and Endowments

In 2017, the District received $150,000 in grant funding. The largest grant, in the amount of $150,000, was from Columbia River Enterprise Zone (CREZ) for the expansion project at the Irrigon Medical Clinic.

The largest sources of contract revenue were from Morrow County for the Ione Community Clinic, from state-level school based health center funding of $60,000, and the Willow Creek Valley Assisted Living Corporation for management and accounting services.

Donations received in fiscal year 2017 totaled $51,248 and were from various community donors as memorials or for a specific purpose or service of the District. The largest donations were from the Pioneer Memorial Hospital Foundation of $30,000, used towards the purchase of a new ultrasound unit for the hospital, and Good Shepherd Medical Center of $15,000, for Emergency Medical Services staff training.

The District's Cash Flows

The increase in cash and cash equivalents from 2016 to 2017 was 51%, while there was a 16% decrease from 2015 to 2016. Detailed cash flows from the District's activities are outlined on page 18 and 19 in the statement of cash flows.

Capital Asset and Debt Administration

Capital Assets

Capital asset expenditures, including construction in progress, were $711,407 this year. The largest costs were associated with the purchase of the Windwave Building on Main St, in Heppner for home health and hospice services. Other major purchases included the final payments on two ambulances, one for Heppner and one for Boardman; nurse call and communication system for the Hospital; ultrasound unit and bone density system for radiology; and a hematology analyzer for the laboratory.

Debt

In August 2016, the District borrowed $197,000 from the Bank of Eastern Oregon to purchase a hematology analyzer at the hospital and replacement ambulances for the Heppner and Boardman service areas. The term of the loan is five years and the interest rate is 3.75%.

In January 2016, the District borrowed $80,000 from the Morrow County Equity Fund, through GEODC, to purchase the Pioneer Annex building, adjacent to the hospital campus in Heppner. The term of the loan is five years and the interest rate is 1.5%.

General Risks Affecting Health Care Entities and the District

Nationwide as well as state wide, healthcare services, hospitals, and providers continue to be in the spotlight, often times being blamed for the high cost of the delivery of healthcare services. The general question remains on whether Congress can come together with the President to put together a plan that is generally acceptable to both sides of the aisle to repeal and replace Obamacare. At this time, it generally seems that while the effort is not dead to find a solution, there are other more pressing issues that need to be addressed such as the escalating war efforts and keeping the government running after December 15 by raising the debt limit.

The main issue on the State level is the large hole in the Medicaid budget, the passage of the HB 2391 Hospital tax bill and then the subsequent placing of six sections of the bill on the track for a vote of the people. If this was to happen and the vote passed, the hospital tax would remain in effect but would not generate enough money to fill the gap left by the six sections that were voted on. This would mean that unless the legislature had another funding source to cover the gap, the Medicaid program would run out of money early. The legislature would then have to decide how or what to cut until more money was found (i.e. limit enrollment, limit or remove some covered services to enrollees, and cut payments to providers/hospitals.) The legislature also put a cap reimbursement for hospital services at no more than 200% of Medicare rates for in network and 185% for out of network providers for caring for OEBB and PEBB members. This will go into effect in 2019 for A & B hospitals.

General Risks Affecting Health Care Entities and the District (Continued)

The IRS is now beginning to enforce and fine tax-exempt hospitals under the 501(r) rules dealing with requirements for conducting community health needs assessments and having compliant financial assistance and emergency medical policies in place. MCHD recently submitted requested information to the IRS, with the help from an attorney who wrote the regulations pertaining to this section of the IRS code, for fiscal year ending June 30, 2015. Based upon the IRS review letter, the District continues to qualify for exemption from federal income tax for the rules in effect during 2015. There were further changes from the Affordable Care Act that were effective in fiscal year 2017. The District made the required changes to policies and contracts for compliance and the new versions were approved and posted to the District's website prior to the end of fiscal year 2017.

MCHD remains a member/provider with EOCCO (Eastern Oregon Coordinated Care Organization) with Morrow County currently showing 2,512 members, which is a decrease of 20 members since January 1, 2016. There are currently 2,505 Moda Medicare Advantage members in Morrow County, which is a decrease of 211 members since September 2016. Irrigon Medical Clinic and Pioneer Memorial Clinic are both certified Rural Health Clinics and are rated as Tier 4 Patient-Centered Primary Care Homes, which is up one tier from 2016. Ione Community Clinic, a school based health clinic and Rural Health Clinic, is also rated as a Tier 1 Primary Care Home.

Recruitment

We have recruited Dr. Gayle Johnston to our Medical Staff. She will be working in the Irrigon Medical Clinic once she gets her Oregon License, which is anticipated to be around the middle of October. At the current time, it is anticipated that once the Irrigon Medical Clinic addition is built, another mid-level may also be recruited to this clinic due to the growing population on the north end of the county. In addition, a Respiratory Therapist has been added part time, which will bring additional revenue to the District in the upcoming year. Mid-levels, Betty Hamill and Amanda Fabian, recruited in 2016, are settling in and in most cases are kept busy with a full schedule during office hours.

Future Needs of the District

The continued funding at both the state and federal levels need to be kept as well as the Critical Access Hospital cost based funding status if Pioneer Memorial and the Health District are to remain healthy and independent. The District must also begin putting together strategy to ensure passage of another five (5) year tax levy that is up for voter approval in 2018-2019. Currently, the District is in the beginning stages with the architect to prepare bid documents for the Irrigon Medical Clinic expansion project as well as looking at debt capacity, financing options in order to update our existing Pioneer Memorial Clinic and Pioneer Memorial Hospital in Heppner, which will allow the district to capture additional dollars from Medicare and Medicaid programs because of the Critical Access Hospital status. The additional space will allow new services to be brought to the District as well as add staff efficiencies and allow for a better patient experience as well as improved provider satisfaction.

Overall, the current strategies adopted by the board are on the right track to continue growth for Morrow County Health District in 2017-2018.

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 Pioneer Memorial Hospital, PO Box 9, 564 East Pioneer Drive, Heppner, OR 97836 or call 541-676-2925.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Statements of Net Position

Years Ended June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents:		
Cash and cash equivalents	$ 2,658,442	$ 1,771,369
Board-designated cash - Capital fund	72,425	29,425
Restricted cash and cash equivalents	404,821	304,479
Receivables:		
Patient accounts - Net	1,063,137	2,003,920
Taxes	59,850	44,227
Third-party settlements	519,905	316,400
Other	57,951	42,461
Inventories	260,848	251,673
Prepaid expenses	53,519	109,226
Total current assets	5,150,898	4,873,180
Noncurrent assets:		
Land	55,203	48,723
Construction in progress	70,584	75,407
Depreciable capital assets - Net	2,228,255	2,079,967
Total noncurrent assets	2,354,042	2,204,097
TOTAL ASSETS	$ 7,504,940	$ 7,077,277

See accompanying notes to financial statements.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Statements of Net Position (Continued)

Years Ended June 30, 2017 and 2016

Liabilities and Net Position	2017	2016
Current liabilities:		
Current maturities of long-term debt	$ 231,155	$ 182,264
Accounts payable	209,334	198,171
Accrued compensation and related liabilities	119,580	313,094
Compensated absences	297,394	315,787
Accrued interest payable	4,013	4,675
Unearned revenue	66,244	30,870
Total current liabilities	927,720	1,044,861
Long-term debt, less current maturities	1,384,079	1,545,188
Total liabilities	2,311,799	2,590,049
Net position:		
Net investment in capital assets	780,290	572,940
Restricted:		
For debt service	87,743	87,743
By donors	73,343	104,107
By grant and service contracts	243,735	112,629
Unrestricted	4,008,030	3,609,809
Total net position	5,193,141	4,487,228
TOTAL LIABILITIES AND NET POSITION	$ 7,504,940	$ 7,077,277

See accompanying notes to financial statements.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Statements of Revenue, Expenses and Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Revenue:		
Net patient service revenue	$ 8,857,424	$ 8,117,878
Other operating income	570,413	371,603
Total operating revenue	9,427,837	8,489,481
Operating expenses:		
Salaries and wages	5,734,481	5,212,880
Employee benefits	1,591,806	1,453,341
Professional fees	452,053	451,922
Supplies	918,889	951,974
Purchased services - Utilities	148,473	132,719
Purchased services - Other	774,583	648,681
Insurance	102,921	99,989
Other	532,786	402,111
Depreciation and amortization	561,462	528,894
Total operating expenses	10,817,454	9,882,511
Loss from operations	(1,389,617)	(1,393,030)
Nonoperating revenue (expenses):		
Property tax revenue	1,942,984	1,749,104
Interest earnings	24,509	19,208
Interest expense	(73,520)	(76,667)
Noncapital grants, contributions, and donations	93,380	14,379
Gain on sale of assets	1,875	-
Other	106,302	114,187
Total nonoperating revenue - Net	2,095,530	1,820,211
Excess of revenue over expenses	705,913	427,181
Net position - Beginning of year	4,487,228	4,060,047
Net position - End of year	$ 5,193,141	$ 4,487,228

See accompanying notes to financial statements.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Receipts from and on behalf or patients	$ 9,594,702	$ 7,423,573
Receipts from other operating revenue	574,674	334,572
Payments to employees	(7,533,209)	(6,668,382)
Payments to suppliers, contractors, and others	(2,876,995)	(2,865,576)
Net cash used in operating activities	(240,828)	(1,775,813)
Cash flows from noncapital financing activities:		
Taxation for operations	1,918,670	1,738,366
Cash received from contributions	93,380	14,379
Other	130,616	124,925
Net cash provided by noncapital financing activities	2,142,666	1,877,670
Cash flows from capital and related financing activities:		
Proceeds from sale of assets	1,875	-
Proceeds from issuance of long-term debt	197,000	80,000
Principal payments on capital debt	(309,218)	(240,156)
Interest paid on capital debt	(74,182)	(77,046)
Purchase of capital assets	(711,407)	(253,563)
Net cash used in capital and related financing activities	(895,932)	(490,765)
Cash flows provided by investing activities - Interest received	24,509	19,214
Net increase (decrease) in cash and cash equivalents	1,030,415	(369,694)
Cash and cash equivalents - Beginning of year	2,105,273	2,474,967
Cash and cash equivalents - End of year	$ 3,135,688	$ 2,105,273

See accompanying notes to financial statements.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Statement of Cash Flows *(Continued)*

Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	$ (1,389,617)	$ (1,393,030)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Provision for bad debts	198,840	66,289
Depreciation and amortization	561,462	528,894
Changes in operating assets and liabilities:		
Receivables:		
Patient accounts - Net	741,943	(633,260)
Third-party settlements	(203,505)	(127,334)
Other accounts receivable	(31,113)	25,336
Inventories	(9,175)	(46,446)
Prepaid expenses	55,707	(7,132)
Accounts payable	6,178	(124,602)
Accrued compensation and related liabilities	(193,514)	25,487
Compensated absences	(13,408)	(27,648)
Unearned revenue	35,374	(62,367)
Total adjustments	1,148,789	(382,783)
Net cash used in operating activities	$ (240,828)	$ (1,775,813)

See accompanying notes to financial statements.

Morrow County Health District
d/b/a Pioneer Memorial Hospital
Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Morrow County Health District d/b/a Pioneer Memorial Hospital (the "District") owns and operates a 21-bed acute care hospital. The District also owns and operates three medical clinics located in Heppner, Irrigon, and Ione, Oregon. The District provides healthcare services to patients primarily in the Morrow County area. The services provided include acute care hospital, swing bed, medical clinic, emergency room, home health, hospice, ambulance, and 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.

Basis of Accounting

The District uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. 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 accounting principles generally accepted in the United States (GAAP).

Use of Estimates

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

Cash and Cash Equivalents

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

Note 1: Summary of Significant Accounting Policies (Continued)

Patient and Residents Accounts Receivable and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and allowances for doubtful accounts, which reflect management's best estimate of the amounts that won't be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of net patient revenue and a credit to a contractual allowance. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a reduction of net patient revenue and a credit to a valuation allowance.

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

Note 1: Summary of Significant Accounting Policies (Continued)

Property Taxes

The District received approximately 17.99% and 17.70% of its financial support from property taxes in the years ended June 30, 2017 and 2016, respectively.

Property taxes are levied by the District and collected by the Morrow 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. Taxes levied are recorded as nonoperating revenue. The taxes are levied on July 1st each year and are intended to finance the District's activities of the same fiscal year. Amounts levied are based on assessed property values as of September 30th each year. On November 4, 2008, the District voters approved a five-year special operating levy, which began in fiscal year 2010. District voters approved another five-year special operating levy that began in fiscal year 2015.

The funds used to support operations were $1,942,984 and $1,749,104 for the years ended June 30, 2017 and 2016, respectively.

Inventories

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

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents includes certain cash and other assets whose use is limited under debt instruments, donors, and by grant and service contracts.

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation

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 estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

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

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

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets.

Asset Impairment

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

Compensated Absences

The District's employees earn vacation days in varying rates depending on years of service and the number of hours worked. The District has a policy, which requires an employee to cash out vacation hours, if the employee maintains a balance over 320 hours in their accrual bank. Vacation benefits are a vested benefit and payable upon separation from the District. Employees also earn sick leave benefits based on a standard accrual rate times the number of hours worked. Employees may accumulate sick leave up to a maximum of 960 hours. Sick time is not a vested benefit and employees are not paid for accumulated sick time when they separate from the District.

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences (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. Therefore, current operating funds classified as current assets are used to liquidate these liabilities.

Net Position

Net position of the District is classified in three components: (1) Net investment in capital assets consists 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 including borrowings on lines of credit net of unspent borrowings held by trustee; (2) Restricted expendable net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District; and (3) Unrestricted net position is remaining net position that does not meet the definitions above. When the District has both restricted and unrestricted resources available to finance particular program/activities, it is the District's policy to use restricted resources before unrestricted resources.

Operating Revenue and Expenses

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

Excess of Revenue Over Expenses

The statements of revenue, expenses, and changes in net position include the classification excess of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets which are excluded from the operating indicator include unrealized gains and losses on investments and contributions of long-lived assets including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets.

Note 1: Summary of Significant Accounting Policies (Continued)

Net Patient Revenue

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. 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.

For uninsured patients, the District recognizes revenue on the basis of its standard rates for services provided. 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 significant 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 (financial assistance) policy without charge or according to a sliding scale based on income. The District maintains records to identify and monitor the level of charity care (financial assistance) 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.

Advertising Costs

Advertising costs are expensed as incurred.

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

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

Electronic Health Record (EHR) Incentive Payments

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

Amounts recognized under the Medicare and Medicaid EHR incentive programs are based on management's best estimates, which are based in part on cost report data that is subject to audit by fiscal intermediaries, accordingly, amounts recognized are subject to change. In addition, the District's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

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

The District has deferred the payment received under the Medicare EHR program. The unearned revenue is being amortized and recognized as revenue over three to five years, which is the period the software and equipment would have been depreciated and cost reimbursed through the cost report.

Reclassifications

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

Note 2: Cash and Cash Equivalents

The District maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to $250,000. At June 30, 2017, the District exceeded the insured limits. However, this excess is collateralized with securities held by the pledging financial institution's trust department or agent not in the depositor's name.

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

- All public funds held by the bank depository or

- 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 maintains their investments in the State of Oregon Local Government Investment Pool (LGIP), which is an alternate investment vehicle offered to participants that by law are made the custodian of, or have control of, any public funds. The investments are booked at fair value and are the same as the value of the pool shares. The LGIP investments are governed by a written investment policy that is reviewed annually by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund Board is comprised of members of local government and private investment professionals, who are appointed by the Governor of the State of Oregon.

The LGIP is not rated by any national rating service. 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 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.

Note 2: Cash and Cash Equivalents (Continued)

Custodial credit risk - The risk that in an event of a bank failure, the District's deposits may not be returned to it. ORS 295.0002 provides for funds deposited in excess of $250,000 to be held only in a depository qualified by the Oregon Public Funds Collateralization Program (PFCP). The Districts deposits are held by a depository qualified under PFCP for the years ending June 30, 2017 and 2016.

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

	2017	2016
Demand deposits	$ 1,017,608	$ 2,104,523
Petty Cash	750	750
Local Government Investment Pool	2,117,330	-
Total cash and cash equivalents	$ 3,135,688	$ 2,105,273

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

	2017	2016
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 2,658,442	$ 1,771,369
Board-designated cash - Capital fund	72,425	29,425
Restricted cash and cash equivalents		
Restricted by debt instrument, Bank of Eastern Oregon	19,155	19,155
Restricted by debt instrument, USDA reserve fund	68,588	68,588
Restricted by donors	73,343	104,107
Restricted by grant and service contracts	243,735	112,629
Total restricted cash and cash equivalents	404,821	$ 304,479
Total cash and cash equivalents	$ 3,135,688	$ 2,105,273

Note 3: Reimbursement Arrangements With Third-Party Payors

The District provides services to patients under contractual agreements with the Medicare and Medicaid programs. Differences between gross 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 $6,373,000 and $6,167,000 for the years ended June 30, 2017 and 2016, respectively.

Medicare

The District's hospital is designated as a CAH. As a CAH, the District's inpatient and outpatient services provided to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District's clinics are certified as rural health clinics (RHCs). As RHCs, services provided to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The Medicare program's administrative procedures preclude final determination of amounts due to the District for such services until three years after the District's cost reports are audited or otherwise reviewed and settled upon by the Medicare intermediary. The District's Medicare cost reports have been audited through the year ended June 30, 2015.

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

Medicaid

As a CAH, inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. Medicaid reimburses RHC's on a prospective rate that is based on historical cost without any cost report settlement at year-end. The District's Medicaid cost reports have been audited through the year ended June 30, 2015.

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.

Electronic Health Record Incentive Funding

The District amortized $32,030 and $32,667 of unearned revenue from the Medicare EHR incentive program for the years ended June 30, 2017 and 2016,respectively. These amounts are included in other operating revenue in the accompanying statements of revenue, expenses, and changes in net position. As of June 30, 2017, unearned revenue from the Medicare EHR incentive payments totaled $64,738. There are no outstanding receivables from Medicare and Medicaid for EHR incentive payments.

Medicaid EHR incentive payments are received by the District over four years. The District recognizes the first of its Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent payments will be issued when meaningful use is demonstrated under Medicare. Medicaid incentive payments totaled $0 and $42,602 for the years ended June 30, 2017 and 2016, respectively.

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

Laws and Regulations

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

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

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

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

Note 4: Patient Accounts - Net

Patient accounts receivable consisted of the following at June 30:

	2017	2016
Receivable from patients and their insurance carriers	$ 785,186	$ 1,583,957
Receivable from Medicare	365,432	705,094
Receivable from Medicaid	187,544	169,869
Total patient accounts receivable	1,338,162	2,458,920
Less - Contractual adjustments	125,025	306,000
Less - Allowance for uncollectible amounts	150,000	149,000
Patient accounts receivable - Net	$ 1,063,137	$ 2,003,920

The District's allowance for doubtful accounts for self-pay patients was approximately 36% of self-pay accounts receivable at June 30, 2016 and 2017. In addition, the District's self-pay write-offs increased approximately $133,000 from $66,289 for fiscal year June 30, 2016 to $198,840 for fiscal year 2017. Both decreases were the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2015, which were not experienced in fiscal year 2016. The District has not changed its charity care or uninsured discount policies during fiscal years 2015 or 2016. The District does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Note 5: Capital Assets

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

	Balance June 30, 2016	Additions/ Transfers	Retirements	Balance June 30, 2017
Nondepreciable capital assets:				
Land	$ 48,723	$ 6,480	$ -	$ 55,203
Construction in progress	75,407	(4,823)	-	70,584
Total nondepreciable capital assets	124,130	1,657	-	125,787
Depreciable assets:				
Land improvements	35,605	-	-	35,605
Buildings and improvements	4,011,779	168,917	(18,618)	4,162,078
Software	350,305	-	-	350,305
Equipment	4,761,122	540,833	(212,533)	5,089,422
Total depreciable capital assets	9,158,811	709,750	(231,151)	9,637,410
Total capital assets before depreciation	9,282,941	711,407	(231,151)	9,763,197
Less - Accumulated depreciation:				
Land improvements	28,883	1,634	-	30,517
Buildings and improvements	2,964,708	167,004	(18,618)	3,113,094
Software	457,939	104,239	-	562,178
Equipment	3,627,314	288,585	(212,533)	3,703,366
Total accumulated depreciation	7,078,844	561,462	(231,151)	7,409,155
Capital assets - Net	$ 2,204,097	$ 149,945	$ -	$ 2,354,042

Note 5: Capital Assets (Continued)

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

	Balance June 30, 2015	Additions/ Transfers	Deletions	Balance June 30, 2016
Nondepreciable capital assets:				
Land	$ 43,923	$ 4,800	$ -	$ 48,723
Construction in progress	53,417	21,989	-	75,406
Total nondepreciable capital assets	97,340	26,789	-	124,129
Depreciable assets:				
Land improvements	35,605	-	-	35,605
Buildings and improvements	3,852,827	162,703	(3,746)	4,011,784
Software	350,305	-	-	350,305
Equipment	4,697,049	64,071	-	4,761,120
Total depreciable capital assets	8,935,786	226,774	(3,746)	9,158,814
Total capital assets before depreciation	9,033,126	253,563	(3,746)	9,282,943
Less - Accumulated depreciation:				
Land improvements	27,249	1,635	-	28,884
Buildings and improvements	2,807,456	160,998	(3,746)	2,964,708
Software	350,305	107,634	-	457,939
Equipment	3,368,688	258,627	-	3,627,315
Total accumulated depreciation	6,553,698	528,894	(3,746)	7,078,846
Capital assets - Net	$ 2,479,428	$ (275,331)	$ -	$ 2,204,097

Note 6: Long-Term Debt Obligations

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

	Balance July 1, 2016	Transfers/ Additions	Retirements	Balance June 30, 2017	Amounts Due Within One Year
USDA Loan	$ 1,008,192	$ -	$ (81,565)	$ 926,627	$ 23,967
Bank of Eastern Oregon Revenue Bonds	96,295	-	(54,813)	41,482	37,079
Greater E. Oregon Devel. Corp Morrow County Remodel Loan	71,315	-	(27,839)	43,476	25,965
Bank of Eastern Oregon Remodel	309,126	-	(46,882)	262,244	38,795
Bank of Eastern Oregon Equipment/Amb Loan	101,322	-	(40,837)	60,485	42,384
Greater E. Oregon Devel. Corp Morrow County IMC Loan	67,679	-	(10,001)	57,678	9,422
Greater E. Oregon Devel. Corp Morrow County Annex Loan	73,523	-	(16,937)	56,586	15,877
Bank of Eastern Oregon Amb/Lab Loan	-	197,000	(30,344)	166,656	37,666
Total long-term debt	$ 1,727,452	$ 197,000	$ (309,218)	$ 1,615,234	$ 231,155

Note 6: Long-Term Debt Obligations (Continued)

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

	Balance July 1, 2015	Transfers/ Additions	Retirements	Balance June 30, 2016	Amounts Due Within One Year
USDA Loan	$ 1,027,270	$ -	$ (19,078)	$ 1,008,192	$ 20,086
Bank of Eastern Oregon Revenue Bonds	152,239	-	(55,944)	96,295	34,274
Columbia Basin Loan	48,000	-	(48,000)	-	-
Greater E. Oregon Devel. Corp Morrow County Remodel Loan	96,743	-	(25,428)	71,315	25,686
Bank of Eastern Oregon Remodel	346,030	-	(36,904)	309,126	36,426
Bank of Eastern Oregon Equipment/Amb Loan	140,613	-	(39,291)	101,322	40,951
Greater E. Oregon Devel. Corp Morrow County IMC Loan	76,713	-	(9,034)	67,679	9,220
Greater E. Oregon Devel. Corp Morrow County Annex Loan	-	80,000	(6,477)	73,523	15,621
Total long-term debt	$ 1,887,608	$ 80,000	$ (240,156)	$ 1,727,452	$ 182,264

Note 6: Long-Term Debt Obligations (Continued)

Long-Term Debt

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

- Rural Housing Service, United States Department of Agriculture (USDA), note dated August 2002, due in monthly payments of $5,622, including interest at 4.75% through 2042. Collateralized by the District's gross receipts and all present and future contract rights, accounts receivable, and general intangibles arising in connection with the facility.

- Bank of Eastern Oregon - Revenue Bonds dated September 1, 2003, due in monthly payments of $3,193, including interest at 5.00% through 2021. Collateralized by the District's gross receipts, property tax revenue, and all District assets, excluding Pioneer Memorial Hospital.

- Columbia Basin Electric Cooperative, Inc. - Note dated February 2, 2011, due in monthly installments of $6,000, including 0.00% interest through 2016. Collateralized by the equipment purchased together with proceeds thereof. Paid in full during 2016.

- Greater Eastern Oregon Development Corporation (GEODC) - Note dated February 25, 2009, due in monthly payments of $2,190, including interest at 1.00% through 2019. Collateralized by general revenue, including property tax revenue. GEODC debt is junior and subordinated to USDA loan and Bank of Eastern Oregon revenue bonds.

- Bank of Eastern Oregon - Note dated February 27, 2009, due in monthly payments of $4,150, including interest at 4.50% through 2023. Collateralized by the District's gross receipts, property tax revenue, and all District assets, excluding Pioneer Memorial Hospital.

- GEODC - Note dated May 7, 2013, due in monthly payments of $874, including interest at 2.00% through 2023. Collateralized by the purchased equipment.

- Bank of Eastern Oregon - Note dated November 25, 2013, due in monthly payments of $3,661, including interest at 3.75% through 2018. Collateralized by inventory, accounts, equipment, and general intangibles.

- GEODC - Note dated January 12, 2016, due in monthly payments of $1,385, including interest at 1.5% through 2021. Collateralized by purchase of building and land.

- Bank of Eastern Oregon - Note dated August 16, 2016, due in monthly payments of $3,606.02, including interest of 3.75% through 2021. Collateralized by the purchased equipment.

Note 6: Long-Term Debt Obligations (Continued)

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

Year Ending	Bonds and Notes Payable		
June 30,	Principal	Interest	Total
2018	$ 231,155	$ 65,012	$ 296,167
2019	170,554	57,365	227,919
2020	135,552	52,093	187,645
2021	132,397	46,896	179,293
2022	92,758	42,181	134,939
2023-2027	225,602	171,276	396,878
2028-2032	212,134	125,186	337,320
2033-2037	268,875	68,445	337,320
2038-2040	146,207	8,393	154,600
Totals	$ 1,615,234	$ 636,847	$ 2,252,081

Note 7: Net Patient Service Revenue

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

	2017	2016
Gross patient service revenue:		
Inpatient services	$ 1,816,629	$ 1,879,641
Outpatient services	7,698,945	7,147,241
Totals	9,515,574	9,026,882
Less:		
Contractural adjustments	459,310	842,715
Provision for bad debt	198,840	66,289
Net patient service revenue	$ 8,857,424	$ 8,117,878

Note 7: Net Patient Service Revenue (Continued)

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

	2017	2016
Medicare	46 %	49 %
Medicaid	21 %	20 %
Other third-party payors	29 %	26 %
Self Pay	4 %	5 %
Totals	100 %	100 %

Note 8: Charity Care

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

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

Gross charges related to patients under the District's charity care policy were $58,757 in 2017 and $57,973 in 2016. The estimated cost of providing this care was approximately $70,000 and $54,000 in 2017 and 2016, respectively, calculated by multiplying the ratio of cost to gross charges for the District times the gross uncompensated charges associated with providing the charity care.

Note 9: Employee Benefits and Employee Retirement Plans

The District offers post retirement benefits through AIG VALIC.

Pension plan 401(a) - The District established a defined contribution retirement plan, Morrow County Health District Retirement Plan, on July 1, 1998, 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 working more than 20 hours per week who are over the age of 18. The District contributes a flat percentage based on profit margin, but no less than 5% of employee earnings. Pension plan expense was $238,660 and $227,970 for the years ended June 30, 2017 and 2016, respectively.

Note 9: Employee Benefits and Employee Retirement Plans (Continued)

Deferred compensation plan 457 - 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 several financial institutions. Effective January 1, 1997, these assets can only be used by federal law to meet its obligations under the plan. Net plan activity was $(176,240) and $77,762 (including rollover contributions) with funds on deposit of $1,848,047 and $2,024,287 for the years ended June 30, 2017 and 2016, respectively.

Retirement benefits 403(b) - The District has a tax sheltered annuity (TSA) plan under Section 403(b) of the IRC that is available to substantially all employees. Employees are eligible for participation in the plan immediately after being hired. The plan allows the participant to make voluntary contributions. Employee annuity contributions are 100% vested. Total employee contributions and transfers to the plan during the year were $26,376 and $20,434 for the years ended June 30, 2017 and 2016, respectively.

The following is a summary for all post retirement plan activity for the years ended June 30:

Plan	Value July 1, 2016	Additions	Interest Earned	Gain	Distributions/ Adjustments	Value June 30, 2017
401(a)	$ 2,208,720	$ 238,660	$ 22,387	$ 200,936	$ (375,930)	$ 2,294,773
457	2,024,287	185,565	23,462	163,426	(548,693)	1,848,047
403(b)	596,092	26,376	9,108	31,165	(193,049)	469,692

Plan	Value July 1, 2015	Additions	Interest Earned	Gain	Distributions/ Adjustments	Value June 30, 2015
401(a)	$ 2,095,340	$ 227,970	$ 22,501	$ (23,195)	$ (113,896)	$ 2,208,720
457	1,946,525	146,451	25,691	(25,740)	(68,640)	2,024,287
403(b)	579,361	20,434	10,169	(9,600)	(4,272)	596,092

Note 10: 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.

Coverage is provided in two policies - a primary policy with $1,000,000 for each medical incident, $5,000,000 limit aggregate, and an excess policy with $4,000,000 limits in excess of $1,000,000 for a total of $5,000,000 per occurrence and $9,000,000 aggregate.

Note 10: Risk Management (Continued)

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

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

Note 11: Concentration of Credit Risk

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

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

	2017	2016
Medicare	27 %	40 %
Medicaid	14 %	16 %
Other third-party payors	28 %	27 %
Self Pay	31 %	17 %
Totals	100 %	100 %

Note 12: Subsequent Events

Subsequent events have been evaluated through the date the financial statements were available to be issued.

Supplementary Information

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Schedule of Patient Service Revenue

Year Ended June 30, 2017

	Hospital		Heppner Clinic	Irrigon Clinic	Ione Clinic	Heppner Ambulance	Boardman Ambulance	Irrigon Ambulance	Ione Ambulance	Home Health	Hospice	Total
	Inpatient	Outpatient										
Daily patient services:												
Medical - Surgical	$ 436,819	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 436,819
Swing bed program	712,100	-	-	-	-	-	-	-	-	-	-	712,100
Total daily patient services	1,148,919	-	-	-	-	-	-	-	-	-	-	1,148,919
Ancillary services:												
Clinic services	-	-	1,125,892	689,933	102,492	-	-	-	-	-	-	1,918,317
Home health	-	-	-	-	-	-	-	-	-	249,282	-	249,282
Hospice	-	-	-	-	-	-	-	-	-	-	156,995	156,995
Emergency room	131,562	1,003,988	-	-	-	-	-	-	-	-	-	1,135,550
Radiology	18,938	448,321	-	-	-	-	-	-	-	-	-	467,259
CT scan	21,702	373,579	-	-	-	-	-	-	-	-	-	395,281
Laboratory	95,497	1,599,926	-	-	-	-	-	-	-	-	-	1,695,423
Electrocardiography	3,939	42,320	-	-	-	-	-	-	-	-	-	46,259
Respiratory therapy	26,270	15,173	-	-	-	-	-	-	-	-	-	41,443
Supplies and other	31,328	77,028	-	-	-	-	-	-	-	-	-	108,356
Pharmacy	241,561	646,091	-	-	-	-	-	-	-	-	-	887,652
Physical therapy	96,913	2,554	-	-	-	-	-	-	-	-	-	99,467
Procedure	-	107,141	-	-	-	-	-	-	-	-	-	107,141
Ambulance	-	-	-	-	-	394,167	379,067	274,921	10,075	-	-	1,058,230
Total ancillary services	667,710	4,316,121	1,125,892	689,933	102,492	394,167	379,067	274,921	10,075	249,282	156,995	8,366,655
Gross patient service revenue	1,816,629	4,316,121	1,125,892	689,933	102,492	394,167	379,067	274,921	10,075	249,282	156,995	9,515,574
Medicare adjustments	1,077,676	(743,419)	62,541	24,551	2,093	-	-	-	-	(38,756)	(2,042)	382,644
Medicaid adjustments	(15,853)	(362,391)	42,736	117,375	19,304	-	-	-	-	(10,383)	-	(209,212)
Commercial adjustments	(3,159)	(214,232)	(115,914)	(105,954)	(20,815)	11,965	-	-	-	(2,044)	(109)	(450,262)
Miscellaneous administrative adjustments	(6,721)	(56,191)	(52,328)	(6,351)	(2,044)	-	-	-	-	(88)	-	(123,723)
Charity care	(14,140)	(38,613)	(4,438)	(1,383)	(183)	-	-	-	-	-	-	(58,757)
Provision for bad debt	(47,313)	(112,412)	(16,095)	(21,393)	(1,430)	-	-	-	-	-	(197)	(198,840)
Total revenue deductions	990,490	(1,527,258)	(83,498)	6,845	(3,075)	11,965	-	-	-	(51,271)	(2,348)	(658,150)
Net patient service revenue	$ 2,807,119	$ 2,788,863	$ 1,042,394	$ 696,778	$ 99,417	$ 406,132	$ 379,067	$ 274,921	$ 10,075	$ 198,011	$ 154,647	$ 8,857,424

See Independent Auditor's Report.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Schedule of Operating Expenses and Interest Expense

Year Ended June 30, 2017

	Personal Services	Materials, Services, and Interest	Subtotal	Depreciation and Amortization	Total
Administration	$ 355,366	$ 441,743	$ 797,109	$ 12,271	$ 809,380
Accounting services	287,891	52,437	340,328	-	340,328
Business office	329,421	65,655	395,076	-	395,076
Information systems	109,274	302,771	412,045	126,318	538,363
Dietary	134,818	72,949	207,767	116	207,883
Laundry	20,402	8,602	29,004	752	29,756
Housekeeping	80,500	16,320	96,820	-	96,820
Plant and maintenance	156,517	166,267	322,784	164,913	487,697
Central supply	51,422	22,204	73,626	-	73,626
Acute care	892,256	96,054	988,310	23,051	1,011,361
Pharmacy	36,044	301,017	337,061	-	337,061
Laboratory	369,441	318,037	687,478	35,644	723,122
IV Therapy	-	3,001	3,001	-	3,001
Radiology	203,527	103,338	306,865	15,441	322,306
CT Scan	12,509	115,260	127,769	-	127,769
Electrocardiography	4,487	3,650	8,137	965	9,102
Respiratory therapy	8,629	749	9,378	-	9,378
Emergency room	565,750	346,782	912,532	4,205	916,737
Medical records	42,865	23,646	66,511	-	66,511
Physical therapy	-	20,358	20,358	3,803	24,161
Swing bed	343,608	2,093	345,701	-	345,701
Swing bed NF	317,250	23,194	340,444	4,575	345,019
Procedure	5,501	1,170	6,671	2,284	8,955
Heppner ambulance	174,191	45,525	219,716	36,133	255,849
Subtotals	4,501,669	2,552,822	7,054,491	430,471	7,484,962
Home health	294,985	68,573	363,558	6,525	370,083
Hospice	202,710	44,983	247,693	4,692	252,385
Heppner clinic	1,185,082	138,987	1,324,069	22,363	1,346,432
Irrigon clinic	603,606	82,206	685,812	33,625	719,437
Ione clinic	84,368	31,495	115,863	3,398	119,261
Boardman ambulance	275,111	50,672	325,783	24,860	350,643
Irrigon ambulance	167,066	29,648	196,714	33,738	230,452
Ione ambulance	6,383	3,236	9,619	1,790	11,409
Lexington ambulance	5,307	603	5,910	-	5,910
Totals	$ 7,326,287	$ 3,003,225	$ 10,329,512	$ 561,462	$ 10,890,974

See Independent Auditor's Report.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Schedule of Resources and Expenditures - Budget and Actual

Year Ended June 30, 2017

	Filed Budget	Budget Amendents	Final Budget	Acutal on a Budgetary Basis	Variance Favorable (Unfavorable)
Resources:					
Net patient service revenue	$ 8,911,265	$ -	$ 8,911,265	$ 8,857,424	$ (53,841)
Property/other taxes	1,784,552	-	1,784,552	1,942,984	158,432
Grants/contributions/other	607,801	-	607,801	771,970	164,169
Interest	16,650	-	16,650	24,509	7,859
Operating/capital loans	197,394	-	197,394	197,000	(394)
Total resources	$ 11,517,662	$ -	$ 11,517,662	$ 11,793,887	$ 276,225
Expenditures:					
Personal services	$ 7,571,308	$ -	$ 7,571,308	$ 7,326,287	$ 245,021
Materials and services	2,972,789	-	2,972,789	3,003,225	(30,436)
Net capital outlay	541,494	-	541,494	711,407	(169,913)
Debt service	323,167	-	323,167	309,218	13,949
Total expenditures	$ 11,408,758	$ -	$ 11,408,758	$ 11,350,137	$ 58,621

Excess of resources over expenditures - Budgetary	$ 443,750
Reconcilation of statutory operating expenditures to GAAP basis operating expenses:	
Add: Purchase of equipment	711,407
Add: Long-term debt and capital leases principal reductions	309,218
Less: Short-term notes payable	197,000
Less: Depreciation and amortization	561,462
Total effects of reconciliation	262,163
Excess of revenue over expenses - GAAP	705,913
Net position - Beginning of year	4,487,228
Net position - End of year	$ 5,193,141

See Independent Auditor's Report.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Schedule of Property Tax Transactions and Outstanding Balances

Year Ended June 30, 2017

Fiscal Year	Property Taxes Receivable July 1, 2016	Current Levy as Extended by Assessor	Discount Allowed	Corrections and Adjustments	Interest	Cash Collections	Property Taxes Receivable June 30, 2017
2016-2017	$ -	$ 2,012,116	$ (50,648)	$ (25,986)	$ 1,452	$ (1,902,170)	$ 34,764
2015-2016	23,821	-	-	(1,050)	727	(9,784)	13,714
2014-2015	10,039	-	-	-	563	(3,390)	7,212
2013-2014	6,877	-	-	-	953	(4,121)	3,709
2012-2013	2,868	-	-	(34)	986	(3,696)	124
2011-2012	235	-	-	(39)	78	(187)	87
2010-2011	143	-	-	(33)	59	(126)	43
Prior	244	-	-	(33)	-	(14)	197
Total	$ 44,227	$ 2,012,116	$ (50,648)	$ (27,175)	$ 4,818	$ (1,923,488)	$ 59,850

See Independent Auditor's Report.

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Schedule of Future Debt Service Requirements

Year Ended June 30, 2017

Maturing During Year Ending June 30,	USDA Hospital Remodel		Bank of Eastern Oregon Revenue Bonds		Bank of Eastern Oregon Remodel Loan		Bank of Eastern Oregon Equipment/Amb Loan		GEODC/ Morrow County Hospital Remodel		GEODC/ Morrow County Irrigon Clinic Remodel		GEODC/ Morrow County Annex Loan		Bank of Eastern Oregon Amb/Lab Loan		Long-Term Debt Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 23,967	$ 43,497	$ 37,079	$ 1,232	$ 38,794	$ 11,007	$ 42,384	$ 1,545	$ 25,965	$ 316	$ 9,422	$ 1,068	$ 15,878	$ 740	$ 37,666	$ 5,607	$ 231,155	$ 65,012
2019	25,130	42,334	4,403	23	40,577	9,225	18,101	170	17,511	66	9,612	877	16,117	500	39,103	4,170	170,554	57,365
2020	26,350	41,114	-	-	42,441	7,361	-	-	-	-	9,806	683	16,361	257	40,594	2,678	135,552	52,093
2021	27,629	39,835	-	-	44,391	5,411	-	-	-	-	10,004	485	8,230	36	42,143	1,129	132,397	46,896
2022	28,971	38,493	-	-	46,430	3,372	-	-	-	-	10,206	283	-	-	7,151	33	92,758	42,181
2023-2027	167,366	169,954	-	-	49,609	1,243	-	-	-	-	8,627	79	-	-	-	-	225,602	171,276
2028-2032	212,134	125,186	-	-	-	-	-	-	-	-	-	-	-	-	-	-	212,134	125,186
2033-2037	268,875	68,445	-	-	-	-	-	-	-	-	-	-	-	-	-	-	268,875	68,445
2038-2040	146,207	8,393	-	-	-	-	-	-	-	-	-	-	-	-	-	-	146,207	8,393
Totals	$ 926,629	$ 577,251	$ 41,482	$ 1,255	$ 262,242	$ 37,619	$ 60,485	$ 1,715	$ 43,476	$ 382	$ 57,677	$ 3,475	$ 56,586	$ 1,533	$ 166,657	$ 13,617	$ 1,615,234	$ 636,847

WIPFLI LLP

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

Board of Trustees
Morrow County Health District
d/b/a Pioneer Memorial Hospital
Heppner, Oregon

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Morrow County Health District d/b/a Pioneer Memorial Hospital (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 25, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 the attention by those charged with governance.

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

WIPFLI LLP

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 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.

Wipfli LLP

Wipfli LLP

September 25, 2017
Spokane, Washington

WIPFLI LLP

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

Morrow County Health District
d/b/a Pioneer Memorial Hospital
Heppner, Oregon

We have audited the accompanying financial statements of Morrow County Health District d/b/a Pioneer Memorial Hospital (the "District") as of and for the year ended June 30, 2017, and have issued our report thereon dated September 25, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Minimum Standards for Audits of Oregon Municipal Corporations*, prescribed by the Secretary of State. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance

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

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

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

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

Additional commentary regarding our test results are listed on the following 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:

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

September 25, 2017

Spokane, Washington

Morrow County Health District
d/b/a Pioneer Memorial Hospital

Audit Comments and Disclosures Required by State Regulations

June 30, 2017 and 2016

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, 2017 and 2016, the District did not maintain any uncollateralized deposits and, therefore, appears to be in compliance with collateral requirements.

Indebtedness

The District, during 2017 and 2016, 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.

Budget and Oregon Local Budget Law Compliance

The budget documents related to Morrow County Health District for 2015, 2016, and 2017 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 years ended June 30, 2017 and 2016, 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.

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, 2017 and 2016, is adequate. The District does review insurance coverage annually with its insurance agent.

Audit Comments and Disclosures Required by State Regulations (Continued)

June 30, 2017 and 2016

Programs Funded From Outside Sources

During the year ended June 30, 2017, the District complied in all material respects, with laws, regulations, contracts and grants pertaining to programs funded from outside sources. Additional comments may be noted in our Independent Auditor's Report and 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* on pages 4 - 5 of this report.

Investment of Public Funds

The District appears to have complied with legal provisions regarding investment of public funds.

Public Contracts and Purchasing

Pursuant to ORS Chapter 279, the District has followed procedures of obtaining bids and cost estimates prior to the acquisition of property and equipment to insure that such improvements and equipment are acquired at the lowest reasonable cost. The District was in substantial compliance with the provisions of ORS Chapter 279 during the years ended June 30, 2017 and 2016.

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. The District appears to be in compliance with all applicable grant requirements.