



Financial Statements
June 30, 2015 and 2014

Harney County Health District

Harney County Health District

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June 30, 2015 and 2014

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Directory of Officials

Elected

Board of Directors:

Dan Brown, Board Chair
Shana Withee, Treasurer
Susan Doverspike, Secretary
Ann Vloedman
Sharon Davis
Rhonda Karges
Vacant

Appointed

Administrator:

Dan Grigg, CEO

Mailing Address

District:

Harney District Hospital
557 W. Washington
Burns, OR 97720



Independent Auditor's Report

The Board of Directors
Harney County Health District
Burns, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Harney County Health District (the District) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 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 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2015 and 2014, and the respective changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 31 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The schedule of property taxes and combining financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of property taxes and combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of property taxes and combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report November 16, 2015 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 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.



For Eide Bailly LLP
Boise, Idaho
November 16, 2015



Harney District Hospital

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Management's Discussion and Analysis Fiscal year ending June 30, 2015 and 2014

Management of Harney County Health District provides this Discussion and Analysis of the annual financial statements. This narrative and overview is for the fiscal year ending June 30, 2015 and 2014. Please consider this information in conjunction with the District's financial statements, which follow this section.

Using This Financial Report

Management's Discussion and Analysis introduces the financial statements, provides analysis of past events and information on management's plans for the coming year. The basic financial statements consist of the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows. These statements will be briefly summarized in this report.

The District uses three independently balanced funds to account for all operations. The Operating Fund accounts for the operation of the Hospital and Family Care Clinic. This fund has almost all of the activity and most of the resources of Harney County Health District. The Medical Office Building Fund accounts for the operation of the Hotchkiss Building which houses the Family Care Clinic and HDH Physical Therapy. The Capital Trust Fund accounts for the funds given to the hospital by the Hotchkiss Trust. This trust is not owned by the Health District and is managed by US Bank. The earnings from the trust are used to assist in paying down the mortgage on the Medical Office Building. The results of these three funds are combined to create the financial statements of the Health District.

Notes to the financial statements provide additional information regarding the financial condition of the District. Management's philosophy is to provide extensive, transparent financial information that demonstrates the current financial health of the Health District.

Detailed Financial Analysis

	<u>2015</u>	<u>2014</u>	<u>As Restated 2013</u>
Current and other assets	\$ 8,011,635	\$ 6,859,558	\$ 5,340,410
Capital assets	<u>15,300,700</u>	<u>16,701,392</u>	<u>15,988,213</u>
Total assets	<u>23,312,335</u>	<u>23,560,950</u>	<u>21,328,623</u>
Current liabilities	2,338,081	2,377,257	1,940,576
Long-term liabilities	<u>16,926,398</u>	<u>17,791,514</u>	<u>17,019,434</u>
Total liabilities	<u>19,264,479</u>	<u>20,168,771</u>	<u>18,960,010</u>
Deferred inflow of resources	<u>647,975</u>	<u>1,279,950</u>	<u>-</u>
Invested in capital assets, net of related debt	(2,521,214)	(1,905,533)	(1,508,105)
Restricted	-	48,483	47,428
Unrestricted	<u>5,921,095</u>	<u>3,969,279</u>	<u>3,829,290</u>
Total net position	<u>\$ 3,399,881</u>	<u>\$ 2,112,229</u>	<u>\$ 2,368,613</u>

Assets: Total assets decreased by \$248,615 from the prior year. Current assets increased significantly due to cash on hand increasing by \$1.7 million. Capital assets decreased due to the current year's depreciation totaling \$1,722,343 which is a non-cash accounting expense. Capital assets purchased during the fiscal year include a new ambulance (\$133,000), an upgrade to digital x-ray (\$95,000), a new coagulation lab analyzer (\$25,000), a new server (\$10,000), and a surgical hysteroscopy scope (\$13,000).

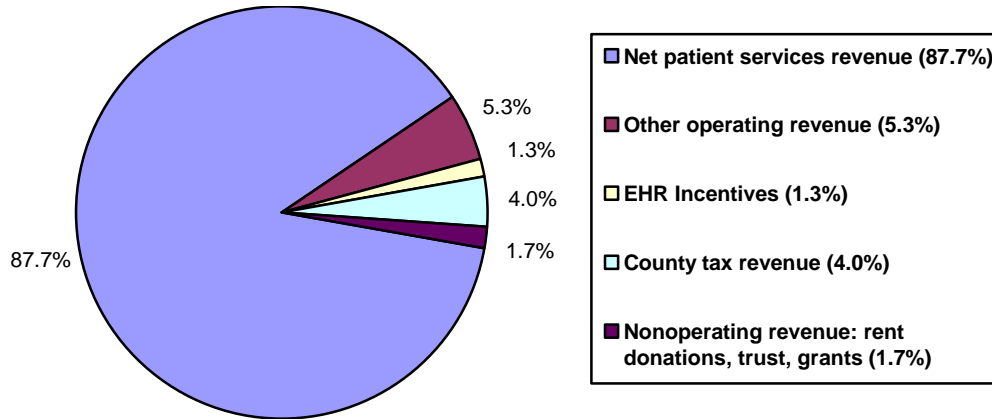
Liabilities and Deferred Inflow of Resources: Total liabilities decreased by \$904,292. The District paid \$470,976 in principal on debt and \$314,035 in capital lease payments during the fiscal year. "Deferred Inflow of Resources," in the amount of \$647,975, represents the remaining amount of the Medicare Health Information Technology Incentive Revenue that is being recognized over the five year life of the Paragon EHR asset. The amount decreased significantly from the prior year due to an adjustment to the EHR incentive receivable.

Net Position: The district has an Operating Fund Balance of \$4,115,388 and a Medical Office Fund balance of (\$715,507) for a net fund balance of \$3,399,881. The large negative fund balance for the Medical Office Building is due to depreciation (non-cash expense) and interest expense on MOB debt. The Capital Trust Fund does not have a fund balance because all earnings are transferred to the MOB Fund which covered 25% of MOB expenses for the year.

Harney County Health District
Management's Discussion and Analysis
June 30, 2015 and 2014

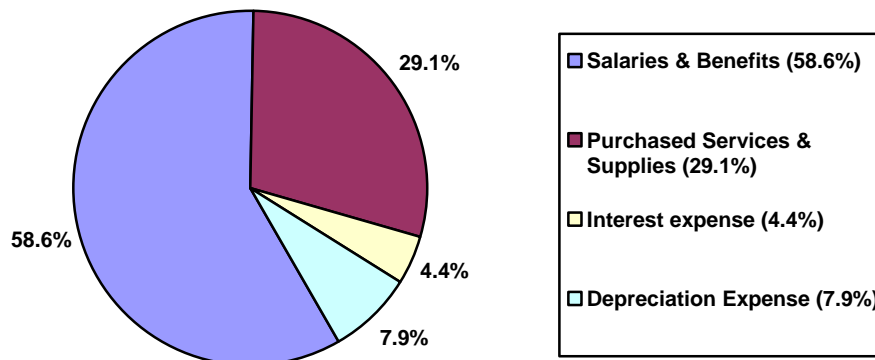
	2015	2014	As Restated 2013
Operating Revenues			
Net patient service revenues	\$ 20,243,587	\$ 17,651,564	\$ 16,139,089
Electronic health record incentive revenue	309,967	335,889	392,743
Other operating revenues	1,220,477	855,664	328,037
Total operating revenues	<u>21,774,031</u>	<u>18,843,117</u>	<u>16,859,869</u>
Operating Expenses			
Salaries and wages	9,841,831	8,918,460	7,891,960
Employee benefits	2,930,154	2,716,725	2,291,191
Purchased services and supplies	6,354,682	6,201,298	5,695,763
Depreciation	1,722,343	1,425,164	1,588,548
Total operating expenses	<u>20,849,010</u>	<u>19,261,647</u>	<u>17,467,462</u>
Operating Income (Loss)	<u>925,021</u>	<u>(418,530)</u>	<u>(607,593)</u>
Non-Operating Revenues (Expenses)			
Property taxes	924,603	912,420	901,118
Interest income	12,030	8,637	12,505
Gain (loss) on disposal of fixed assets	-	(46,461)	-
Rental income	101,163	94,866	122,269
Trust income	45,321	44,623	41,954
Non-operating grant revenue	114,366	100,880	42,272
Interest expense	(951,383)	(976,534)	(912,169)
Non-operating revenues, net	<u>246,100</u>	<u>138,431</u>	<u>207,949</u>
Excess (Deficit) of Revenue Over Expenses Before Capital Grants and Contributions	1,171,121	(280,099)	(399,644)
Capital Grants and Contributions	<u>116,531</u>	<u>23,715</u>	<u>16,299</u>
Change in Net Position	1,287,652	(256,384)	(383,345)
Net Position, Beginning of Year - As Restated	<u>2,112,229</u>	<u>2,368,613</u>	<u>2,751,958</u>
Net Position, End of Year	<u>\$ 3,399,881</u>	<u>\$ 2,112,229</u>	<u>\$ 2,368,613</u>

Revenues:



The primary source of revenues is from District operations which accounts for 94.3% of revenue consisting of \$20,243,587 in net patient revenues, \$309,967 in Medicaid Electronic Health Records Incentives, and \$1,220,477 in other operating revenues. Non-operating revenues include county property taxes of \$924,603 (4.0% of total revenue), rental income of \$101,163, interest income of \$12,030, grant revenues of \$114,366, and Hotchkiss Trust income of \$45,321.

Expenses:



Virtually all expenses (87.7%) are generated by District operations. Employee salaries and benefits account for over half of all hospital expenditures totaling \$12,771,985, a 9.8% increase over prior year. Purchased services and supplies accounted for \$6,354,682, a 2.5% increase from the prior year. Interest expense for the hospital building and equipment totaled \$951,383, a 2.6% decrease from the prior year. Depreciation expense (a non-cash expense) totaled \$1,722,343, an increase of 20% from the prior year.

Fiscal Year 2015 Accomplishments

In 2015, the District focused efforts toward creating health value by increasing access to services and looking for opportunities to improve the health of our community. To that goal, we recruited new healthcare providers that will help us to strengthen our ability to provide access to care locally. Two new family care physicians were hired to begin in July and October 2015. Both physicians will provide obstetrical care. In addition, the District contracted with a psychiatrist to provide one day per week tele-psychiatry services to an underserved group in the community and hired a full-time behaviorist that will begin in July who will work to build a program to integrate mental health into the ambulatory setting. The primary goal of the mental health integration in the clinic is to help patients manage behaviors that have a direct impact on their health.

The District hired a full-time general surgeon in January. For many years, the surgery department had utilized locum general surgeons to fill the 24/7 coverage schedule. While the department had success in the locum model, it was recognized that a dedicated surgeon would provide consistency for the patients and play a key role in building a more robust surgical program. During the year, the surgery department also added urological procedures and increased the number of gynecological procedures provided compared to the prior year.

In addition to the new providers, the District conducted a thorough search for a new Chief Executive Officer to replace the retiring CEO. Dan Grigg was selected among 40+ candidates to replace Jim Bishop as the new leader of the organization starting July 2015.

The District worked on many improvement initiatives around the discharge follow-up process to reduce readmissions, the staff onboarding process as well as safety and quality programs. The staff has worked on improving workflows in the Paragon electronic health record system and was able to attest for Stage 2 Meaningful Use in November 2014, an indicator of high-level usage and compliance with a number of quality measures that qualified the District for a significant bonus in addition to the expected reimbursement from Medicare.

In fiscal year 2015, the District had a solid growth in cash and a rare bottom line profit. The work that has been accomplished in getting the Rural Health Clinic and Primary Care Medical Home designations, adding providers, and expanding surgical and outreach services has allowed the District to offer more health care services locally and has been beneficial the District financially which, in turn, has allowed the District to better meet the health care needs of Harney County residents.

Management's Plans for the Coming Fiscal Year

The District will have new leadership in the coming year. The new CEO, Dan Grigg with a strong background in quality improvement, will bring a fresh perspective to District operations. Management's focus will be on encouraging a culture that protects and promotes the health-related interests of our patients by strengthening employee engagement in continuously improving processes that create value for the patients.

Along with onboarding a new CEO, the District will also be hiring and onboarding a new Chief Nursing Officer to replace the retired CNO, a Clinic Director, and two new physicians. In regards to streamlining the onboarding process for all staff, the District will be implementing a new HRIS system that will integrate recruiting, onboarding, benefit administration, the performance appraisal process and payroll.

In the coming fiscal year, the District will be partnering with an architect to evaluate options of the Medical Office Building space for functionality in accommodating team-based care as well as adequately housing the additional physicians, mental health, the surgery clinic and visiting specialists.

Management's goals are to focus on improving quality, expanding services, developing staff, and paying down high-interest debt. While there are a number of projects planned for the next year, management is confident that these initiatives will improve the District's ability to provide vital services to the community we serve for many years to come.

Questions regarding the Financial Audit can be directed to:

- | | | |
|-------------------|-------------------------|----------|
| • Dan Grigg | Chief Executive Officer | 573-8329 |
| • Catherine White | Chief Financial Officer | 573-5187 |
| • Eide Bailly LLP | Auditors | |

Harney County Health District
 Statements of Net Position
 June 30, 2015 and 2014

	2015	2014
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ (77,415)	\$ 107,489
Investments in external investment pool	2,958,796	1,055,604
Receivables		
Patient, net of estimated uncollectibles of \$547,232 in 2015 and \$656,043 in 2014	3,179,657	3,198,025
Property taxes	104,976	117,143
Other	120,862	65,804
Estimated third-party payor settlements	414,572	1,179,295
Supplies	302,448	292,715
Prepaid expenses	439,990	303,643
Total current assets	7,443,886	6,319,718
Noncurrent Investments in External Investment Pool		
Board designated for capital improvement	2,919	3,024
USDA debt reserve fund	500,656	484,629
Total noncurrent investments in external investment pool	503,575	487,653
Capital Assets		
Non-depreciable assets	243,652	110,538
Depreciable assets, net of accumulated depreciation	15,057,048	16,590,854
Total capital assets, net of accumulated depreciation	15,300,700	16,701,392
Other Assets		
Notes receivable	64,174	52,187
Total other assets	64,174	52,187
	\$ 23,312,335	\$ 23,560,950

Harney County Health District
 Statements of Net Position
 June 30, 2015 and 2014

	2015	2014
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of capital leases	\$ 389,809	\$ 342,044
Current maturities of long-term debt	505,707	473,367
Accounts payable		
Trade	196,600	347,147
Accrued expenses		
Salaries and wages	276,323	390,499
Paid time off	415,731	424,438
Interest	71,939	75,027
Employee benefit plans	314,621	258,658
Payroll taxes	167,351	66,077
	2,338,081	2,377,257
Long-Term Liabilities		
Capital leases, less current maturities	948,611	1,310,411
Long-term debt, less current maturities	15,977,787	16,481,103
	16,926,398	17,791,514
	19,264,479	20,168,771
Deferred Inflow of Resources		
Electronic health record incentives	647,975	1,279,950
Net Position		
Net investment in capital assets	(2,521,214)	(1,905,533)
Restricted expendable	-	48,483
Unrestricted	5,921,095	3,969,279
	3,399,881	2,112,229
	\$ 23,312,335	\$ 23,560,950

Harney County Health District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$1,600,257 in 2015 and \$1,488,678 in 2014	\$ 20,243,587	\$ 17,651,564
Electronic health record incentive revenue	309,967	335,889
Other operating revenues	1,220,477	855,664
	21,774,031	18,843,117
Operating Expenses		
Salaries and wages	9,841,831	8,918,460
Employee benefits	2,930,154	2,716,725
Purchased services and supplies	6,354,682	6,201,298
Depreciation	1,722,343	1,425,164
	20,849,010	19,261,647
Operating Income (Loss)	925,021	(418,530)
Non-Operating Revenues (Expenses)		
Property taxes	924,603	912,420
Interest income	12,030	8,637
Loss on disposal of fixed assets	-	(46,461)
Rental income	101,163	94,866
Trust income	45,321	44,623
Non-operating grant revenue	114,366	100,880
Interest expense	(951,383)	(976,534)
	246,100	138,431
Excess (Deficit) of Revenue Over Expenses Before Capital Grants and Contributions	1,171,121	(280,099)
Capital Grants and Contributions		
Capital contribution revenue	116,531	23,715
	116,531	23,715
Change in Net Position	1,287,652	(256,384)
Net Position, Beginning of Year	2,112,229	2,368,613
Net Position, End of Year	\$ 3,399,881	\$ 2,112,229

Harney County Health District
 Statements of Cash Flows
 Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 21,026,678	\$ 16,401,998
Receipts from other operating revenues	843,411	2,417,292
Payments to and on behalf of employees	(12,736,281)	(11,538,910)
Payments to suppliers, contractors and others	(6,651,309)	(6,217,946)
	2,482,499	1,062,434
Net Cash from Operating Activities		
Non-Capital Financing Activities		
Receipts from taxation	936,770	915,495
Receipts from contributions	116,531	23,715
Receipts from non-operating grants	114,366	100,880
Proceeds from trust	45,321	44,623
	1,212,988	1,084,713
Net Cash from Non-Capital Financing Activities		
Capital and Related Financing Activities		
Purchase of capital assets	(321,651)	(534,411)
Proceeds from the sale of capital assets	-	1,500
Principal payments on capital lease obligations	(314,035)	(98,420)
Principal payments on long-term debt	(470,976)	(442,866)
Interest paid	(954,471)	(979,485)
	(2,061,133)	(2,053,682)
Net Cash used for Capital and Related Financing Activities		
Investing Activities		
Receipts from rental properties	101,163	94,866
Issuance of notes receivable	(49,940)	(2,795)
Cash received for notes receivable	36,603	66,987
Interest on investments	12,030	8,637
	99,856	167,695
Net Cash from Investing Activities		
Net Change in Cash and Cash Equivalents	1,734,210	261,160
Cash and Cash Equivalents, Beginning of Year	1,650,746	1,389,586
Cash and Cash Equivalents, End of Year	\$ 3,384,956	\$ 1,650,746

Harney County Health District
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents in current assets	\$ (77,415)	\$ 107,489
Investments in external investment pool	2,958,796	1,055,604
Noncurrent investments in external investment pool	503,575	487,653
Total cash and cash equivalents	\$ 3,384,956	\$ 1,650,746
Reconciliation of operating income to net cash from operating activities		
Operating income (loss)	\$ 925,021	\$ (418,530)
Adjustments to reconcile operating loss to net cash from operating activities		
Forgiveness of employee notes receivable	1,350	5,816
Depreciation	1,722,343	1,425,164
Provision for bad debts	(1,600,257)	(1,488,678)
Deferred inflow of resources	(631,975)	1,279,950
Changes in operating assets and liabilities		
Receivables		
Patient accounts	1,618,625	1,165,782
Other	(55,058)	(54,211)
Estimated third-party payor settlements	764,723	(926,670)
Inventories	(9,733)	(25,171)
Prepaid expenses	(136,347)	(2,123)
Accounts payable		
Trade	(150,547)	10,646
Accrued expenses		
Salaries and wages	(114,176)	57,046
Paid time off	(8,707)	(8,972)
Employee benefit plans	55,963	28,709
Payroll taxes	101,274	13,676
Net Cash from Operating Activities	\$ 2,482,499	\$ 1,062,434
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Equipment financed through capital lease arrangement	\$ -	\$ 1,651,893
Notes receivable forgiven	\$ 1,350	\$ 5,816

Note 1 - Description of Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Harney County Health District (the District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

The District is a 25-bed acute care hospital in Burns, Oregon. The District provides health care services to patients in the Harney County, Oregon market.

The District operates under the laws of the State of Oregon for Oregon municipal corporations. On March 27, 1990 the formation of a health district was approved by Harney County voters in accordance with ORS 440.320. Effective July 1, 1990 all property was deeded to the health district from Harney County and Harney County Hospital began operations as Harney District Hospital. The District is supported by a permanent tax base in the amount of \$1.9314 per \$1,000 of assessed value of all taxable property within the District which was approved by voters on May 21, 1996. The District is governed by an elected seven-member Board of Directors. As organized, the District is exempt from payment of federal and state income tax.

For financial purposes, the District has included all funds, organizations, account groups, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria. All District assets, liabilities, and financial transactions are included in these financial statements.

Following is a summary of significant accounting policies utilized by the District in preparation of the accompanying financial statements.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements have been presented in conformity with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

Basis of Presentation

The statement of net position displays the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. Restricted expendable net position at June 30, 2015 and 2014 totaled \$0 and \$48,483, respectively.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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.

Budgetary Information

The District adopts an annual budget in accordance with Oregon statutes. The budget is adopted on a basis consistent with generally accepted accounting principles. The legal level of budgetary control (i.e. the level at which expenses may not legally exceed appropriations) is at the fund level. Appropriations, except remaining project appropriations and encumbrances, lapse at the end of the fiscal year.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the District considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Noncurrent Investments in External Investment Pool

Noncurrent cash and investments include expendable assets restricted by the United States Department of Agriculture (USDA) debt reserve fund, and internally designated assets set aside by the Board of Directors for future capital replacements. The USDA debt reserve fund, in accordance with the District's agreement with the USDA, is only to be used for emergency purposes with prior authorization from USDA – Rural Development, for the entire life of the loan. The Board of Directors retains control of the assets designated for future capital replacements, and the Board may at its discretion subsequently use them for other purposes.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors.

Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Property Tax Revenue and Receivable

Property taxes are levied by the District and collected by the Harney County Treasurer for operations. Taxes estimated to be collectible are recorded as receivables and revenue in the year of the levy. Property taxes are levied by Harney County, Oregon (the County) on the District's behalf on July 1 and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of October 1. Property tax balances due to the County after May 15 are considered delinquent.

Supplies

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

Investment in External Investment Pool and Investment Income

The District is invested in the Local Government Investment Pool (LGIP), which is included in the Oregon Short-Term Fund (OSTF). The OSTF is an external investment pool, as defined in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The OSTF is not registered with the U.S. Securities and Exchange Commission as an investment company. Fair value of the LGIP is calculated at the same value as the number of pool shares owned. Investments in the Short-Term Fund are governed by ORS 294.135, Oregon Investment Council, and portfolio guidelines issued by the Oregon Short-Term Fund Board. The LGIP exchanges shares at \$1.00 per share; an investment in the LGIP is neither insured nor guaranteed by the FDIC or any other government agency. Although the LGIP seeks to maintain the net asset value of share investments at \$1.00 per share, it is possible to lose money by investing in the pool.

Noncurrent investments in external investment pool consist of funds restricted in accordance with bond indenture agreements and funds internally designated by the Board for future capital asset acquisitions. Investments that are available for obligations classified as current liabilities are reported in current assets.

Chapter 294 of the Oregon Revised Statutes authorizes municipal governments to invest their funds in a variety of investments including federal, state, and local government debt obligations; time deposit accounts, certificates of deposit, and savings accounts in qualified public depositories; the State of Oregon local government investment pool; and certain other investments. The District's investment policy specifies that investments will be limited to demand deposits with approved institutions, the Oregon Local Government Investment Pool, direct obligations of the United States and obligations guaranteed by the United States, and certificates of deposit with Oregon banks.

Capital Assets

Capital asset acquisitions and expenditures exceeding \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Buildings	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as expendable restricted net position. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Notes Receivable

The District issues notes to physicians as part of its recruitment process. Notes are repayable over a minimum of a six month period to a maximum of a three-year period and do not bear interest. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven.

Deferred Inflows of Resources

The District reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to future periods. The District will not recognize the related revenues until a future event occurs. The deferred outflows of resources reported in the financial statements are unavailable Electronic Health Record Incentive (EHR) payments revenue. EHR incentive payments are being recognized as revenue in accordance with the straight line depreciation of the electronic health record assets.

Accrued Expenses for Paid Time Off

During the year ended June 30, 1992, the District adopted a policy to provide paid time off benefits to eligible employees. The benefits can be classified into two types, Paid Time Off (PTO) and Extended Illness Bank (EIB) however, EIB does not vest and no liability has been accrued. PTO and EIB do not accrue against hours paid for overtime or stand-by. Accumulated PTO and EIB hours may begin to be utilized after the first 90 days of employment and are paid at the employee's current straight time rate.

Operating Revenues and Expenses

The District's statements of revenues and expenses and changes in net position distinguish 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. Non-exchange revenues, including revenues from property tax assessments, 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. Non-operating expenses consist primarily of financing costs.

Net Patient Service Revenues

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

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. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments are available for the next two years. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The District recognizes EHR incentive payments as revenue when there is reasonable assurance that the District will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

During the year ended June 30, 2015, the District received \$827,203 in lump sum incentive payments from Medicare related to EHR. The District recorded unavailable revenue, a deferred inflow of resources, for the entire amount less current year and prior year amortizations.

The District is recognizing revenue ratably over five years. As a result, the District recognized revenue of \$157,534 and \$21,694 and for the years ended June 30, 2015 and 2014 respectively by amortizing the deferred revenue into electronic health record incentive revenue. The District has unavailable revenue, a deferred inflow of resources, related to the EHR incentive payments of \$647,975 remaining at June 30, 2015.

During the year ended June 30, 2015, the District received \$78,549 as a lump sum incentive payment from Medicaid related to EHR. The District met the requirements to recognize the revenue during the year ended June 30, 2015, and as a result the entire balance was recognized as electronic health record incentive revenue.

Risk Management Insurance

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

Subsequent Events

The District has evaluated subsequent events through November 16, 2015, the date which the financial statements were available to be issued.

Note 2 - Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The District is licensed as a Critical Access Hospital (CAH). The District is reimbursed for most acute care services at cost plus one percent with final settlement determined after submission of annual cost reports by the District and are subject to audits thereof by the Medicare intermediary. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2012. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the District's Medicare cost report, or rates as established by the Medicaid program. The District is reimbursed at a tentative rate with final settlement determined by the program based on the District's final Medicaid cost report. The District's final Medicaid settlements have been processed through the year ended June 30, 2012.

The District has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 40% and 28% of the District's net patient service revenue for the year ended June 30, 2015 and 45% and 21% for the year ended June 30, 2014. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased \$160,203 and \$105,000 for the year ended June 30, 2015 and 2014, respectively due to changes in estimates resulting from final cost report settlements.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the District may incur a liability for a claims overpayment at a future date. The District is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the District's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the District and CMS.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2015 and 2014 is as follows:

	2015	2014
Patient service revenue	\$ 26,828,922	\$ 24,064,390
Contractual adjustments		
Medicare	(1,812,580)	(1,962,895)
Medicaid	(2,502,070)	(1,107,378)
Other	(670,428)	(1,853,875)
Provision for bad debts	(1,600,257)	(1,488,678)
Net patient service revenue	\$ 20,243,587	\$ 17,651,564

Note 3 - Deposits, Investments, and Investment Income

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk. The District had bank balances at June 30, 2015 and 2014 as follows:

	2015	2014
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized by securities held by the pledging financial institution in the financial institution's name	153,461	175,826
Total	\$ 403,461	\$ 425,826
Carrying value	\$ (77,415)	\$ 107,489

Investments in External Investment Pool

The District's investments are reported at fair value, as discussed in Note 1. At June 30, 2015 and 2014, the LGIP was not rated by an independent rating agency. The District's investments in LGIP at June 30, 2015 and 2014 and related maturities were as follows:

	Maturities	2015	2014
Oregon State Local Government Investment Pool	Daily	\$ 3,462,371	\$ 1,543,257

Interest Rate Risk

State Statutes generally limit investment maturities to 18 months, or the date of anticipated use of the funds. The District does not have a formal policy in place that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District matches investment maturities with anticipated cash flow requirements.

Credit Risk

State Statutes limit the investment in bonds issued by the State of Oregon and its political subdivisions to bonds with one of the three highest credit ratings of a nationally recognized rating. State Statutes limit the investment in bonds issued by the States of California, Idaho, and Washington and political subdivisions of those states to bonds with one of the two highest credit ratings of a nationally recognized rating. The District does not have a formal policy in place that further limits credit risk. The Oregon Local Government Investment Pool does not have a rating. The Investment Pool invests as defined by State Statute.

Concentration of Credit Risk

The District does not have a formal policy in place limiting the amount that may be invested with any one bank or institution.

Summary of Carrying Amounts

The carrying amounts of the District's deposits and investments shown above are included in the balance sheets at June 30, 2015 and 2014 as follows:

	2015	2014
Included in the following balance sheet captions		
Cash and cash equivalents	\$ (77,415)	\$ 107,489
Investments in external investment pool	2,958,796	1,055,604
Board designated for capital improvement	2,919	3,024
USDA debt reserve fund	500,656	484,629
Total	\$ 3,384,956	\$ 1,650,746

Note 4 - Capital Assets

Capital asset additions, transfers from construction in progress, retirements and balances for year ended June 30, 2015 are as follows:

	Balance June 30, 2014	Additions / Transfers	Deletions	Balance June 30, 2015
Non-Depreciable Assets				
Land	\$ 110,538	\$ -	\$ -	\$ 110,538
Construction in progress	-	133,114	-	133,114
Total non-depreciable assets	110,538	133,114	-	243,652
Depreciable Assets				
Buildings	22,030,251	-	-	22,030,251
Equipment	8,482,400	188,537	-	8,670,937
Total depreciable assets	30,512,651	188,537	-	30,701,188
Less Accumulated Depreciation	13,921,797	1,722,343	-	15,644,140
Total Capital Assets, Net	\$ 16,701,392	\$ (1,400,692)	\$ -	\$ 15,300,700

Harney County Health District
Notes to Financial Statements
June 30, 2015 and 2014

Capital assets additions, transfers from construction in progress, retirements and balances for year ended June 30, 2014 are as follows:

	Balance June 30, 2013	Additions / Transfers	Deletions	Balance June 30, 2014
Non-Depreciable Assets				
Land	\$ 110,538	\$ -	\$ -	\$ 110,538
Depreciable Assets				
Buildings	22,068,360	25,200	(63,309)	22,030,251
Equipment	6,498,599	2,161,104	(177,303)	8,482,400
Total depreciable assets	28,566,959	2,186,304	(240,612)	30,512,651
Less Accumulated Depreciation	12,689,284	1,425,164	(192,651)	13,921,797
Total Capital Assets, Net	<u>\$ 15,988,213</u>	<u>\$ 761,140</u>	<u>\$ (47,961)</u>	<u>\$ 16,701,392</u>

Note 5 - Lease Obligations

The District leases certain equipment under noncancelable long-term lease agreements. The capitalized leased assets consist of:

	2015	2014
Equipment Surgery	\$ 101,746	\$ 101,746
Equipment Information Technology	1,550,145	1,550,145
Major movable equipment	97,700	97,700
Office equipment	24,000	24,000
Less accumulated amortization	(454,052)	(280,833)
	<u>\$ 1,319,539</u>	<u>\$ 1,492,758</u>

Minimum future lease payments for the capital leases are as follows:

<u>Year Ending June 30,</u>				
2016		\$	478,437	
2017			453,708	
2018			453,708	
2019			126,697	
2020			-	<u>-</u>
Total minimum lease payments			1,512,550	
Less interest			(174,130)	<u>(174,130)</u>
Present value of minimum lease payments			\$ 1,338,420	<u><u>\$ 1,338,420</u></u>

Note 6 - Long-Term Debt

A schedule of changes in the District's long-term liabilities for the year ended June 30, 2015 is as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>
Bank of Eastern Oregon	\$ 3,439,739	\$ -	\$ (134,575)	\$ 3,305,164
State of Oregon Economic and Community Development	3,276,443	-	(126,399)	3,150,044
US Department of Agriculture	8,628,288	-	(125,002)	8,503,286
US Bank	<u>1,610,000</u>	<u>-</u>	<u>(85,000)</u>	<u>1,525,000</u>
Total	<u><u>\$ 16,954,470</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (470,976)</u></u>	<u><u>\$ 16,483,494</u></u>

Harney County Health District
Notes to Financial Statements
June 30, 2015 and 2014

A schedule of changes in the District's long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
Bank of Eastern Oregon	\$ 3,562,033	\$ -	\$ (122,294)	\$ 3,439,739
State of Oregon Economic and Community Development	3,397,019	-	(120,576)	3,276,443
US Department of Agriculture	8,748,284	-	(119,996)	8,628,288
US Bank	1,690,000	-	(80,000)	1,610,000
Total	\$ 17,397,336	\$ -	\$ (442,866)	\$ 16,954,470

The terms and due dates of the District's long-term debt at June 30, 2015 are as follows:

Note payable to Bank of Eastern Oregon, due in monthly installments of \$30,473, including interest at 6.750%, through July 2029. The note is collateralized by the hospital building. Outstanding balance of the note payable at June 30, 2015 and 2014 was \$3,305,164 and \$3,439,739, respectively.

Note payable to the State of Oregon Economic and Community Development Department, due in annual principal installments of amounts ranging from \$66,000 to \$253,000, and semi-annual variable rate interest payments, ranging from 4.000% to 4.375%, through December 2031. The note is collateralized by the hospital building. Outstanding balance of the note payable at June 30, 2015 and 2014 was \$3,150,044 and \$3,276,443, respectively.

Revenue bond payable to the United States Department of Agriculture, due in annual installments of \$54,350, including interest at 4.500%, through June 2049. The District has pledged tax revenue for satisfaction of the annual debt service requirement. Outstanding balance of the revenue bond payable at June 30, 2015 and 2014 was \$937,196 and \$948,846, respectively.

Revenue bond payable to the United States Department of Agriculture, due in annual installments of \$466,111, including interest at 4.125%, through June 2049. The District has pledged tax revenue for satisfaction of the annual debt service requirement. Outstanding balance of the revenue bond payable at June 30, 2015 and 2014 was \$7,455,978 and \$7,556,055, respectively.

Revenue bond payable to the United States Department of Agriculture, due in annual installments of \$18,519, including interest at 4.250%, through July 2021. The bond is collateralized by digital mammography, emergency medical services, and swing bed equipment. Outstanding balance of the revenue bond payable at June 30, 2015 and 2014 was \$110,112 and \$123,387, respectively.

Note payable to US Bank, due in annual principal installments of amounts ranging from \$10,000 to \$20,000, and semi-annual variable rate interest payments ranging from 5.616% to 5.850%, through January 2019. The note is collateralized by building and land. Outstanding balance on the note payable at June 30, 2015 and 2014 was \$75,000 and \$90,000, respectively.

Note payable to US Bank, due in annual principal installments of amounts ranging from \$30,000 to \$140,000 and semi-annual variable interest rate payments ranging from 8.066% to 8.125%, through January 2027. The note is collateralized by building. Outstanding balance on the note payable at June 30, 2015 and 2014 was \$1,140,000 and \$1,195,000, respectively.

Note payable to US Bank, due in annual principal installments of amounts ranging from \$10,000 to \$35,000 and semi-annual variable interest rate payments ranging from 6.030% to 6.100%, through January 2027. The note is collateralized by building. Outstanding balance on the note payable at June 30, 2015 and 2014 was \$310,000 and \$325,000, respectively.

Pledged Revenues

The District has pledged future general revenues for satisfaction of the \$9 million revenue bonds issued in June 2009. Proceeds from the bonds were used for construction of the hospital building. Principal and interest on the bonds are payable through June 2049. Annual principal and interest on the bonds are expected to require 2 percent of revenues. Principal and interest paid for the current year was \$466,111. Revenues totaled \$23,331,775 for the year. At year end, pledged future revenues totaled \$15,844,703, which was the amount of the remaining principal and interest on the bonds.

The District has also pledged future general revenues for satisfaction of the \$148 thousand revenue bond issued in July 2012. Proceeds from the bonds were used to acquire equipment. Principal and interest on the bonds are payable through July 2021. Annual principal and interest on the bond is expected to require less than 1 percent of revenues. Principal and interest paid for the current year was \$18,519. Revenues totaled \$23,331,775 for the year. At year end, pledged future revenues totaled \$129,633, which was the amount of the remaining principal and interest on the bonds.

Future anticipated schedule of long-term debt payments for all long-term debt, at anticipated amounts, are as follows:

Years Ending June 30,	Principal	Interest	Total
2016	\$ 505,707	\$ 750,362	\$ 1,256,069
2017	536,183	743,641	1,279,824
2018	563,729	735,884	1,299,613
2019	587,312	728,099	1,315,411
2020	1,316,811	1,087,670	2,404,481
2021-2025	3,643,629	3,323,667	6,967,296
2026-2030	3,296,005	2,759,717	6,055,722
2031-2035	1,166,420	1,164,135	2,330,555
2036-2040	1,430,539	900,016	2,330,555
2041-2045	1,754,521	576,034	2,330,555
2046-2050	1,682,638	178,737	1,861,375
Total	<u>\$ 16,483,494</u>	<u>\$ 12,947,962</u>	<u>\$ 29,431,456</u>

Note 7 - Pension Plans

The District contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the District's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying district employees hired after August 29, 2003. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS account, but any future member contributions are deposited into the member's IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post-employment healthcare benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under Oregon Revised Statute Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to PERS, P.O. Box 23700, Tigard, OR, 97281-3700 or by calling 503-598-7377.

Funding Policies

Members of PERS are required to contribute 6.00% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The District is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for both years ended June 30, 2015 and 2014 was 8.43%. The contribution requirements for plan members are established by ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Costs

The District's contributions to PERS for the years ending June 30, 2015 and 2014 were \$526,591 and \$490,541, respectively, which equaled the required contributions for the year.

Note 8 - Concentrations of Credit Risk

The District grants credit without collateral to its patient, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2015 and 2014 was as follows:

	2015	2014
Medicare	24%	22%
Medicaid	21%	23%
Commercial insurance and other third party payors	30%	22%
Patients	25%	33%
	100%	100%

Note 9 - Contingencies

Malpractice Insurance

The District holds its professional liability insurance coverage with Hudson Insurance Group. The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policy. If there are unreported incidents which result in a malpractice claim in the current year, such claims will be covered in the year the claim is reported to the insurance carrier only if the District purchases claims-made insurance in that year or the District purchases “tail” insurance to cover the claims incurred before, but reported to the insurance carrier after, cancellation or expiration of the claims-made policy.

The current malpractice insurance provides \$2,000,000 per claim of primary coverage with \$5,000,000 aggregate limit. 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.

Litigations, Claims, and Disputes

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 10 - Transfers

Fund	Transfers In	Transfers Out
Medical Office Building Sub-Fund	\$ 45,321	\$ -
Capital Trust Sub-Fund	-	(45,321)
	\$ 45,321	\$ (45,321)

The earnings in the capital trust fund are restricted by the trust for district capital purchases. After the construction of the medical office building, trust income has been used to pay the debt for this construction. The transfer from the operating fund was made to meet the debt payment requirements.



Supplementary Information
June 30, 2015 and 2014

Harney County Health District

Harney County Health District
Schedule of Resources and Expenditures – Budget vs. Actual – District Operating Fund
Year Ended June 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
Resources			
Net working capital, beginning of year	\$ 2,136,792	\$ 3,938,950	\$ 1,802,158
Net operating revenue	21,081,872	21,774,031	692,159
Property taxes	930,000	924,603	(5,397)
Grants/contributions/other non-operating	238,644	332,060	93,416
Interest	9,996	12,030	2,034
	<u>\$ 24,397,304</u>	<u>26,981,674</u>	<u>\$ 2,584,370</u>
 Expenditures			
Personnel services	\$ 12,673,704	12,771,985	\$ (98,281)
Materials and services	5,949,248	6,354,682	(405,434)
Capital outlay	458,300	188,537	269,763
Debt service	2,259,905	1,215,110	1,044,795
Net working capital, end of year	3,056,147	6,029,434	2,973,287
	<u>\$ 24,397,304</u>	<u>26,559,748</u>	<u>\$ 3,784,130</u>
Resources Less Than Expenditures		<u>421,926</u>	
 Reconciliation of Statutory Operating Expenditures to GAAP Basis Operating Expenses			
Add net working capital, end of year		6,029,434	
Add capital asset additions		188,537	
Add long-term debt principal reductions		377,716	
Less net working capital, beginning of year		(3,938,950)	
Less depreciation and amortization		(1,658,733)	
		<u>998,004</u>	
Change in Net Position		1,419,930	
Net Position, Beginning of Year		<u>2,695,458</u>	
Net Position, End of Year		<u>\$ 4,115,388</u>	

Harney County Health District

Schedule of Resources and Expenditures – Budget vs. Actual – Medical Office Building (Sub-Fund of the Operating Fund)

Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Resources			
Net working capital, beginning of year	\$ 79,202	\$ 30,329	\$ (48,873)
Transfers from other funds	195,938	45,321	(150,617)
	<u>\$ 275,140</u>	<u>75,650</u>	<u>\$ (199,490)</u>
Expenditures			
Debt service	\$ 181,508	173,989	\$ 7,519
Net working capital, end of year	93,632	(108,339)	(201,971)
	<u>\$ 275,140</u>	<u>65,650</u>	<u>\$ (194,452)</u>
Resources In Excess of Expenditures		<u>10,000</u>	
Reconciliation of Statutory Operating Expenditures to GAAP Basis Operating Expenses			
Add net working capital, end of year		(108,339)	
Add long-term debt principal reductions		60,000	
Less net working capital, beginning of year		(30,329)	
Less depreciation and amortization		(63,610)	
		<u>(142,278)</u>	
Change in Net Position		(132,278)	
Net Position, Beginning of Year		<u>(583,229)</u>	
Net Position, End of Year		<u>\$ (715,507)</u>	

Harney County Health District

Schedule of Resources and Expenditures – Budget vs. Actual – Capital Trust Fund (Sub-Fund of the Operating Fund)

Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Resources			
Trust income	<u>\$ 45,938</u>	\$ 45,321	<u>\$ (617)</u>
Expenditures			
Transfers to other funds	<u>\$ 45,938</u>	<u>45,321</u>	<u>\$ 617</u>
Resources In Excess of Expenditures		<u>-</u>	
Change in Net Position		-	
Net Position, Beginning of Year		<u>-</u>	
Net Position, End of Year		<u>\$ -</u>	

Harney County Health District
Schedule of Property Tax Transactions and Outstanding Balances
Year Ended June 30, 2015

Fiscal Year	Uncollected Taxes June 30, 2014	2013-14 Assessment	(Abatements) and Adjustments	Interest Collected	Discounts	Total Amount Collected	Uncollected Taxes June 30, 2015
2014-15	\$ -	\$ 936,999	\$ (497)	\$ 1,179	\$ (23,272)	\$ (870,061)	\$ 44,348
2013-14	50,598	-	(165)	2,605	(1)	(24,154)	28,883
2012-13	31,829	-	(168)	3,760	(1)	(16,997)	18,423
2011-12	22,358	-	(164)	5,284	(1)	(16,143)	11,334
2010-11	9,732	-	(162)	5,055	(1)	(13,704)	920
2009-10	1,385	-	(156)	853	(1)	(1,515)	566
2008-09	1,207	-	(129)	985	-	(1,594)	469
2007-08	12	-	-	-	-	1	13
2006-07	11	-	-	-	-	(1)	10
2005-06	11	-	-	-	-	(1)	10
Total	\$ 117,143	\$ 936,999	\$ (1,441)	\$ 19,721	\$ (23,277)	\$ (944,169)	\$ 104,976

Harney County Health District
 Statements of Net Position – Combining
 June 30, 2015

	<u>Operating</u>	<u>Capital Trust</u>	<u>Medical Office Building</u>	<u>Total</u>
Assets				
Current Assets				
Cash and investments	\$ 30,924	\$ -	\$ (108,339)	\$ (77,415)
Investments	2,958,796	-	-	2,958,796
Receivables				
Patient, net of estimated uncollectibles of \$808,778	3,179,657	-	-	3,179,657
Property taxes	104,976	-	-	104,976
Other	120,862	-	-	120,862
Estimated third-party payor settlements	414,572	-	-	414,572
Supplies	302,448	-	-	302,448
Prepaid expenses	439,990	-	-	439,990
Total current assets	<u>7,552,225</u>	<u>-</u>	<u>(108,339)</u>	<u>7,443,886</u>
Noncurrent Investments in External Investment Pool				
Board designated for capital improvement	2,919	-	-	2,919
USDA debt reserve fund	500,656	-	-	500,656
Noncurrent investments in external investment pool	<u>503,575</u>	<u>-</u>	<u>-</u>	<u>503,575</u>
Capital Assets				
Non-depreciable assets	243,652	-	-	243,652
Depreciable assets, net of accumulated depreciation	14,214,216	-	842,832	15,057,048
Total capital assets, net of accumulated depreciation	<u>14,457,868</u>	<u>-</u>	<u>842,832</u>	<u>15,300,700</u>
Other Assets				
Notes receivable	64,174	-	-	64,174
	<u>\$ 22,577,842</u>	<u>\$ -</u>	<u>\$ 734,493</u>	<u>\$ 23,312,335</u>

Harney County Health District
 Statements of Net Position – Combining
 June 30, 2015

	<u>Operating</u>	<u>Capital Trust</u>	<u>Medical Office Building</u>	<u>Total</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of capital leases	\$ 389,809	\$ -	\$ -	\$ 389,809
Current maturities of long-term debt	425,707	-	80,000	505,707
Accounts payable	196,600	-	-	196,600
Accrued expenses				
Salaries and wages	276,323	-	-	276,323
Paid time off	415,731	-	-	415,731
Interest	71,939	-	-	71,939
Employee benefit plans	314,621	-	-	314,621
Payroll taxes	167,351	-	-	167,351
Total current liabilities	<u>2,258,081</u>	<u>-</u>	<u>80,000</u>	<u>2,338,081</u>
Long-Term Liabilities				
Capital leases, less current maturities	948,611	-	-	948,611
Long-term debt, less current maturities	14,607,787	-	1,370,000	15,977,787
Total long-term liabilities	<u>15,556,398</u>	<u>-</u>	<u>1,370,000</u>	<u>16,926,398</u>
Total liabilities	<u>17,814,479</u>	<u>-</u>	<u>1,450,000</u>	<u>19,264,479</u>
Deferred Inflow of Resources				
Electronic health record incentives	647,975	-	-	647,975
Net Position				
Net investment in capital assets	(1,914,046)	-	(607,168)	(2,521,214)
Unrestricted	6,029,434	-	(108,339)	5,921,095
Total net position	<u>4,115,388</u>	<u>-</u>	<u>(715,507)</u>	<u>3,399,881</u>
	<u>\$ 22,577,842</u>	<u>\$ -</u>	<u>\$ 734,493</u>	<u>\$ 23,312,335</u>

Harney County Health District
 Statements of Net Position – Combining
 June 30, 2014

	<u>Operating</u>	<u>Capital Trust</u>	<u>Medical Office Building</u>	<u>Total</u>
Assets				
Current Assets				
Cash and investments	\$ 77,160	\$ -	\$ 30,329	\$ 107,489
Investments	1,055,604	-	-	1,055,604
Receivables				
Patient, net of estimated uncollectibles of \$808,778	3,198,025	-	-	3,198,025
Property taxes	117,143	-	-	117,143
Other	65,804	-	-	65,804
Estimated third-party payor settlements	1,179,295	-	-	1,179,295
Supplies	292,715	-	-	292,715
Prepaid expenses	303,643	-	-	303,643
	<u>6,289,389</u>	<u>-</u>	<u>30,329</u>	<u>6,319,718</u>
Noncurrent Investments in External Investment Pool				
Board designated for capital improvement	3,024	-	-	3,024
USDA debt reserve fund	484,629	-	-	484,629
	<u>487,653</u>	<u>-</u>	<u>-</u>	<u>487,653</u>
Capital Assets				
Non-depreciable assets	110,538	-	-	110,538
Depreciable assets, net of accumulated depreciation	15,684,412	-	906,442	16,590,854
	<u>15,794,950</u>	<u>-</u>	<u>906,442</u>	<u>16,701,392</u>
Other Assets				
Notes receivable	52,187	-	-	52,187
	<u>\$ 22,624,179</u>	<u>\$ -</u>	<u>\$ 936,771</u>	<u>\$ 23,560,950</u>

Harney County Health District
 Statements of Net Position – Combining
 June 30, 2014

	<u>Operating</u>	<u>Capital Trust</u>	<u>Medical Office Building</u>	<u>Total</u>
Liabilities and Net Position				
Current liabilities				
Current maturities of capital leases	\$ 342,044	\$ -	\$ -	\$ 342,044
Current maturities of long-term debt	403,367	-	70,000	473,367
Accounts payable	347,147	-	-	347,147
Accrued expenses				
Salaries and wages	390,499	-	-	390,499
Paid time off	424,438	-	-	424,438
Interest	75,027	-	-	75,027
Employee benefit plans	258,658	-	-	258,658
Payroll taxes	66,077	-	-	66,077
Total current liabilities	<u>2,307,257</u>	<u>-</u>	<u>70,000</u>	<u>2,377,257</u>
Long-term liabilities				
Capital leases, less current maturities	1,310,411	-	-	1,310,411
Long-term debt, less current maturities	15,031,103	-	1,450,000	16,481,103
Total long-term liabilities	<u>16,341,514</u>	<u>-</u>	<u>1,450,000</u>	<u>17,791,514</u>
Total liabilities	<u>18,648,771</u>	<u>-</u>	<u>1,520,000</u>	<u>20,168,771</u>
Deferred Inflow of Resources				
Electronic health record incentives	1,279,950	-	-	1,279,950
Net Position				
Net investment in capital assets	(1,291,975)	-	(613,558)	(1,905,533)
Restricted	48,483	-	-	48,483
Unrestricted	3,938,950	-	30,329	3,969,279
Total net position	<u>2,695,458</u>	<u>-</u>	<u>(583,229)</u>	<u>2,112,229</u>
	<u>\$ 22,624,179</u>	<u>\$ -</u>	<u>\$ 936,771</u>	<u>\$ 23,560,950</u>

Harney County Health District
 Statements of Revenues and Expenses and Changes in Net Position – Combining
 Year Ended June 30, 2015

	Operating	Capital Trust	Medical Office Building	Total
Operating Revenues				
Net patient revenue	\$ 20,243,587	\$ -	\$ -	\$ 20,243,587
Electronic health record incentive revenue	309,967	-	-	309,967
Other operating revenues	1,220,477	-	-	1,220,477
Total operating revenues	<u>21,774,031</u>	<u>-</u>	<u>-</u>	<u>21,774,031</u>
Operating Expenses				
Salaries and wages	9,841,831	-	-	9,841,831
Employee benefits	2,930,154	-	-	2,930,154
Purchased services and supplies	6,354,682	-	-	6,354,682
Depreciation	1,658,733	-	63,610	1,722,343
Total operating expenses	<u>20,785,400</u>	<u>-</u>	<u>63,610</u>	<u>20,849,010</u>
Operating Income (Loss)	<u>988,631</u>	<u>-</u>	<u>(63,610)</u>	<u>925,021</u>
Other Income (Expense)				
Tax revenue	924,603	-	-	924,603
Interest income	12,030	-	-	12,030
Gain on disposal of fixed assets	-	-	-	-
Rental income	101,163	-	-	101,163
Trust income	-	45,321	-	45,321
Non-operating grant revenue	114,366	-	-	114,366
Transfers from other funds	-	-	45,321	45,321
Transfers to other funds	-	(45,321)	-	(45,321)
Interest expense	(837,394)	-	(113,989)	(951,383)
Other income (expense), net	<u>314,768</u>	<u>-</u>	<u>(68,668)</u>	<u>246,100</u>
Excess (Deficit) of Revenue Over Expenses Before Capital Grants and Contributions	<u>1,303,399</u>	<u>-</u>	<u>(132,278)</u>	<u>1,171,121</u>
Capital Grants and Contributions				
Capital contribution revenue	116,531	-	-	116,531
Total capital grants and contributions	<u>116,531</u>	<u>-</u>	<u>-</u>	<u>116,531</u>
Change in Net Position	1,419,930	-	(132,278)	1,287,652
Net Position, Beginning of Year	<u>2,695,458</u>	<u>-</u>	<u>(583,229)</u>	<u>2,112,229</u>
Net Position, End of Year	<u>\$ 4,115,388</u>	<u>\$ -</u>	<u>\$ (715,507)</u>	<u>\$ 3,399,881</u>

Harney County Health District
 Statements of Revenues and Expenses and Changes in Net Position – Combining
 Year Ended June 30, 2014

	Operating	Capital Trust	Medical Office Building	Total
Operating Revenues				
Net patient revenue	\$ 17,651,564	\$ -	\$ -	\$ 17,651,564
Electronic health record incentive revenue	335,889	-	-	335,889
Other operating revenues	855,664	-	-	855,664
Total operating revenues	<u>18,843,117</u>	<u>-</u>	<u>-</u>	<u>18,843,117</u>
Operating Expenses				
Salaries and wages	8,918,460	-	-	8,918,460
Employee benefits	2,716,725	-	-	2,716,725
Purchased services and supplies	6,201,298	-	-	6,201,298
Depreciation	1,361,554	-	63,610	1,425,164
Total operating expenses	<u>19,198,037</u>	<u>-</u>	<u>63,610</u>	<u>19,261,647</u>
Operating Loss	<u>(354,920)</u>	<u>-</u>	<u>(63,610)</u>	<u>(418,530)</u>
Other Income (Expense)				
Tax revenue	912,420	-	-	912,420
Interest income	8,635	-	2	8,637
Gain on disposal of fixed assets	(46,461)	-	-	(46,461)
Rental income	89,566	-	5,300	94,866
Trust income	-	44,623	-	44,623
Non-operating grant revenue	100,880	-	-	100,880
Transfers from other funds	-	-	219,623	219,623
Transfers to other funds	(175,000)	(44,623)	-	(219,623)
Interest expense	(857,445)	-	(119,089)	(976,534)
Other income, net	<u>32,595</u>	<u>-</u>	<u>105,836</u>	<u>138,431</u>
Excess (Deficit) of Revenue Over Expenses Before Capital Grants and Contributions	<u>(322,325)</u>	<u>-</u>	<u>42,226</u>	<u>(280,099)</u>
Capital Grants and Contributions				
Capital grant revenue	-	-	-	-
Capital contribution revenue	23,715	-	-	23,715
Total capital grants and contributions	<u>23,715</u>	<u>-</u>	<u>-</u>	<u>23,715</u>
Change in Net Position	(298,610)	-	42,226	(256,384)
Net Position, Beginning of Year	<u>2,994,068</u>	<u>-</u>	<u>(625,455)</u>	<u>2,368,613</u>
Net Position, End of Year	<u>\$ 2,695,458</u>	<u>\$ -</u>	<u>\$ (583,229)</u>	<u>\$ 2,112,229</u>



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*

To the Board of Directors
Harney County Health District
Burns, Oregon

We have audited, 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, the financial statements of Harney County Health District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated November 16, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

- 2015-1 Report Preparation
- 2015-2 Audit Adjustments

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Boise, Idaho
November 16, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting: Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2015 – 1 Report Preparation

Condition – As auditors, we were requested to prepare the financial statements and footnotes thereby resulting in non-compliance with the auditing standard requirements as a material weakness. This circumstance is not unusual in an organization of this size, due to time constraints of management and costs associated with compliance of the standard. Statement of Auditing Standard AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*, changed and expanded the definition of a material weakness and significant deficiency. Due to these expanded definitions, management must be able to accurately prepare their own financial statements without assistance or adjustment by the auditor.

Criteria – The internal control structure should include procedures to ensure management is able to prepare their own financial statements.

Cause – The controls currently in place were not sufficient to ensure management is able to prepare their own financial statements.

Effect – As auditors, we were required to prepare the financial statements and footnotes.

Recommendation - Management and those charged with governance should annually review whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response – We agree with the findings and will implement the proper procedures to ensure this is managed correctly in the future. The following is a summary of our corrective action plan.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – We will annually review whether to accept the degree of risk associated with this condition.

Explanation of Disagreement – We concur with the finding.

Official Responsible for Ensuring Corrective Action – Chief Financial Officer.

Planned Completion for Corrective Action – This will be an ongoing annual decision prepared by Administration.

Plan to Monitor Completion of Corrective Action – The Board of Directors will annually review Administration's decision about whether to prepare the financial statements.

2015 – 2 Audit Adjustments

Condition- During the course of the audit, audit adjustments were proposed.

Criteria – The internal control structure should include procedures to ensure account balances are properly stated at year-end.

Cause – The controls currently in place were not sufficient to detect misstatements to various accounts.

Effect – The trial balance presented for audit was misstated.

Recommendation – Management should review the analysis for the allowance for doubtful accounts and contractual adjustments to ensure that the journal entries are accurate and allocated appropriately.

Management's Response – We agree with the findings and will implement the proper procedures to ensure this is managed correctly in the future. The following is a summary of our corrective action plan.

Corrective Action Plan (CAP)

Actions Planned in Response to Finding – Management will perform year-end reconciling procedures to ensure balance sheet accounts are properly stated at year-end.

Explanation of Disagreement – We concur with the finding.

Official Responsible for Ensuring Corrective Action – Chief Financial Officer.

Planned Completion for Corrective Action – Procedures to review for proper allowance estimates will be implemented prior to the year ended June 30, 2016.

Plan to Monitor Completion of Corrective Action – The Board of Directors will review the financial statements on a monthly basis.



Additional Required Reports
June 30, 2015

Harney County Health District

Audit Comments and Disclosures Required by State Regulations

Oregon Administrative Rules 162-10-0000 through 162-10-0320 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 Auditor’s Report Required by Oregon State Regulations

To the Board of Directors
 Harney County Health District
 Burns, Oregon

We have audited the basic financial statements of Harney County Health District (the District) as of and for the year ended June 30, 2015, and have issued our report thereon dated November 16, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Minimum Standards of Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

Compliance

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 grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-010-0000 through 162-010-0320, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statements amounts:

OAR	Section	Instances of Non-Compliance Identified
162-010-0000	Preface	Not Applicable
162-010-0010	Definitions	Not Applicable
162-010-0020	General Requirements	None noted
162-010-0030	Contracts	None noted
162-010-0050	Financial Statements	None noted
162-010-0115	Required Supplementary Information (RSI)	None noted
162-010-0120	Supplementary Financial Information	None noted
162-010-0130	Schedule of Revenues, Expenditures / Expenses, and Changes in Fund Balances / Net Position, Budget and Actual (Each Fund)	None noted
162-010-0140	Schedule of Accountability for Independently Elected Officials	Not Applicable
162-010-0150	Schedule of Property Tax Transactions or Acreage Assessments	None noted
162-010-0190	Other Financial or Statistical Information	Not Applicable
162-010-0200	Independent Auditor's Review of Fiscal Affairs	None noted
162-010-0230	Accounting Records and Internal Control	None noted
162-010-0240	Public Fund Deposits	None noted
162-010-0250	Indebtedness	Not Applicable
162-010-0260	Budget	Yes
162-010-0270	Insurance and Fidelity Bonds	Not Applicable
162-010-0280	Programs Funded from Outside Sources	Not Applicable
162-010-0295	Highway Funds	Not Applicable
162-010-0300	Investments	None noted
162-010-0310	Public Contracts and Purchasing	Not Applicable
162-010-0315	State School Fund	Not Applicable
162-010-0316	Public Charter Schools	Not Applicable
162-010-0320	Other Comments and Disclosures	Not Applicable

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 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, except that noted below.

- The District's expenditures exceeded appropriations for two of its five appropriations in the Operating Fund.
- The District's net working capital exceeded appropriations for the Medical Office Building Fund.

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 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.

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

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

- *2015-1 Report Preparation*
- *2015-2 Audit Adjustments*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State, in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



For Eide Bailly LLP
Boise Idaho
November 16, 2015