



Management's Discussion and Analysis
and Financial Statements
June 30, 2017 **and 2016**

Coal County Healthcare Authority

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Independent Auditor's Report

Board of Trustees
Coal County Healthcare Authority
Coalgate, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Coal County Healthcare Authority (Authority), as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority'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 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 Authority'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 Authority'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coal County Healthcare Authority as of June 30, 2017 **and 2016**, and results of operations, changes in its financial position and its cash flows 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 on pages 3 through 6 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 27, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Oklahoma City, Oklahoma
November 27, 2017

This discussion and analysis of the financial performance of Coal County Healthcare Authority (Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended June 30, 2017, 2016 and 2015. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's net position decreased by \$109,224 or 2% in 2017 compared to an increase of \$643,852 or 16% in 2016.
- The Authority reported operating losses of \$740,864 and \$148,959 in 2017 and 2016. During 2017, operating loss increased by \$591,905 or 397% compared to 2016 and operating loss decreased by \$324,106 or 69% in 2016 compared to 2015.
- Net nonoperating income decreased by \$161,171 or 20% in 2017 compared to 2016 and decreased by \$157,058 or 17% in 2016 compared to 2015.

Using This Annual Report

The Authority's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority'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 revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority'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 Authority'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 Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This 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 Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Authority's net position decreased by \$109,224 or 2% in 2017 and increased by \$643,852 or 16% in 2016 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

	2017	2016	2015
Assets			
Current assets	\$ 3,988,656	\$ 3,881,522	\$ 3,894,985
Capital assets, net	1,415,031	1,591,579	1,017,813
Other noncurrent assets	65,113	65,113	68,324
Total assets	\$ 5,468,800	\$ 5,538,214	\$ 4,981,122
Liabilities			
Current liabilities	\$ 667,164	\$ 562,189	\$ 731,745
Long-term debt, less current maturities	288,717	353,882	271,086
Total liabilities	955,881	916,071	1,002,831
Net Position			
Net investment in capital assets	960,501	1,078,645	637,221
Unrestricted	3,552,418	3,543,498	3,341,070
Total net position	4,512,919	4,622,143	3,978,291
Total liabilities and net position	\$ 5,468,800	\$ 5,538,214	\$ 4,981,122

Assets, Liabilities and Net Position

The Authority's assets decreased by \$69,414 or 1% in 2017 and increased by \$557,092 or 11% in 2016. Capital assets decreased \$176,548 or 11% in 2017 due to depreciation expense being greater than the purchase of equipment and increased \$573,766 or 56% in 2016 due to the purchase of equipment. Cash and cash equivalents decreased \$651,053 or 31% in 2017 due to a decrease in receipts from operating activities and increased \$934,835 or 82% in 2016 due to an increase in receipts from operating activities. Patient and resident receivables increased \$369,137 or 27% in 2017 due to an increase in services provided at year end and decreased \$395,873 or 22% in 2016 due to an increase in cash collected from patients and residents. The Authority's liabilities increased by \$39,810 or 4% in 2017 and decreased by \$86,760 or 9% in 2016.

Table 2: Operating Results and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues			
Net patient and resident service revenue	\$ 7,976,849	\$ 8,227,646	\$ 7,658,328
Other revenue	529,678	533,440	450,902
Total operating revenues	<u>8,506,527</u>	<u>8,761,086</u>	<u>8,109,230</u>
Operating Expenses			
Nursing services	3,687,688	3,968,695	3,846,626
Other professional services	1,644,926	1,422,284	1,410,891
General services	951,786	943,855	892,709
Administrative services	2,529,116	2,190,707	2,123,533
Depreciation and amortization	433,875	384,504	308,536
Total operating expenses	<u>9,247,391</u>	<u>8,910,045</u>	<u>8,582,295</u>
Operating Losses	<u>(740,864)</u>	<u>(148,959)</u>	<u>(473,065)</u>
Nonoperating Revenues (Expenses)			
Sales tax	650,899	811,346	966,603
Investment income	1,442	8,551	548
Interest expense	(20,701)	(25,019)	(18,295)
Noncapital contributions	-	5,000	-
Gain (loss) of disposal of capital assets	-	(7,067)	1,013
Total nonoperating revenues (expenses)	<u>631,640</u>	<u>792,811</u>	<u>949,869</u>
Revenues in Excess of (Less than) Expenses	(109,224)	643,852	476,804
Net Position, Beginning of Year	<u>4,622,143</u>	<u>3,978,291</u>	<u>3,501,487</u>
Net Position, End of Year	<u>\$ 4,512,919</u>	<u>\$ 4,622,143</u>	<u>\$ 3,978,291</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services. The operating loss for 2017 increased by \$591,905 or 397% as compared to 2016 and operating loss decreased in 2016 by \$324,106 or 69% compared to 2015.

The primary components of the increased operating loss are:

- An decrease in patient revenue, net of uncollectible accounts, of \$250,797 or 3% as compared to an increase in 2016 of \$569,318 or 7% as compared to 2015. The decrease in 2017 is attributed to a decrease in services provided by the Authority. The increase in 2016 is attributed to the increased services provided by the Authority.

- An increase in other professional services of \$222,642 or 16% as compared to an increase in 2016 of \$11,393 or 1% as compared to 2015. The increase in 2017 is attributed to additional cost for the behavior health program.
- An increase in administrative services of \$338,409 or 15% as compared to an increase in 2016 of \$67,174 or 3% compared to 2015. The increase in 2017 is attributed to increased cost of employee benefits and repairs and maintenance of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of sales tax revenue and interest expense. Sales tax revenues decreased in 2017 by \$160,447 or 20% and by \$155,257 or 16% in 2016. The interest expense decreased in 2017 by \$4,318 or 17% and increased \$6,724 or 37% in 2016.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. The principal changes in the Authority's cash flows were as follows:

- Net cash from operating activities decreased in 2017 by \$1,524,658 and increased by \$438,093 in 2016.
- Net cash from noncapital financing activities decreased in 2017 by \$336,203 and increased by \$179,697 in 2016.
- Net cash used for capital and capital related financing activities decreased in 2017 by \$282,082 and increased by \$228,753 in 2016.

Capital Assets

At the end of 2017 and 2016, the Authority had \$1,415,031 and \$1,591,579 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets costing \$257,327 and \$975,108 during 2017 and 2016. Included with in these amounts are leased new capital assets costing \$108,000 and \$309,627 during 2017 and 2016.

Debt

At June 30, 2017 **and 2016**, the Authority had \$454,530 and \$512,934, respectively, in capital lease obligations outstanding as detailed in Note 6. As discussed above the Authority incurred \$108,000 and \$309,627 in capital lease obligations for the years ending June 30, 2017 **and 2016**.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-927-2327.

Coal County Healthcare Authority
 Statements of Net Position
 June 30, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,425,840	\$ 2,076,893
Receivables		
Patient and resident, net of estimated uncollectibles of approximately \$748,000 in 2017 and \$672,000 in 2016	1,756,959	1,387,822
Estimated third-party payor settlements	484,786	154,729
Sales tax	83,881	68,263
Other	66,792	61,768
Supplies	170,398	132,047
Total current assets	3,988,656	3,881,522
Capital Assets		
Capital assets not being depreciated	124,063	124,063
Capital assets being depreciated, net	1,290,968	1,467,516
Total capital assets	1,415,031	1,591,579
Other Assets	65,113	65,113
Total assets	\$ 5,468,800	\$ 5,538,214
Liabilities and Net Position		
Current Liabilities		
Current portion of long-term debt	\$ 165,813	\$ 159,052
Accounts payable		
Trade	236,053	176,090
Accrued expenses		
Salaries and wages	252,298	218,673
Deposits from residents	13,000	8,374
Total current liabilities	667,164	562,189
Long-Term Debt, Less Current Maturities	288,717	353,882
Total liabilities	955,881	916,071
Net Position		
Net investment in capital assets	960,501	1,078,645
Unrestricted	3,552,418	3,543,498
Total net position	4,512,919	4,622,143
Total liabilities and net position	\$ 5,468,800	\$ 5,538,214

Coal County Healthcare Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient and resident service revenue, net of provision for bad debts of \$644,570 in 2017 and \$445,903 in 2016	\$ 7,976,849	\$ 8,227,646
Other revenue	529,678	533,440
Total operating revenues	8,506,527	8,761,086
Operating Expenses		
Nursing services	3,687,688	3,968,695
Other professional services	1,644,926	1,422,284
General services	951,786	943,855
Administrative services	2,529,116	2,190,707
Depreciation and amortization	433,875	384,504
Total operating expenses	9,247,391	8,910,045
Operating Loss	(740,864)	(148,959)
Nonoperating Revenues (Expenses)		
Sales tax	650,899	811,346
Investment income	1,442	8,551
Interest expense	(20,701)	(25,019)
Noncapital contributions	-	5,000
Loss on disposal of capital assets	-	(7,067)
Total nonoperating revenues (expenses)	631,640	792,811
Revenues in Excess of (Less than) Expenses	(109,224)	643,852
Net Position, Beginning of Year	4,622,143	3,978,291
Net Position, End of Year	\$ 4,512,919	\$ 4,622,143

Coal County Healthcare Authority
 Statements of Cash Flows
 Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients and residents	\$ 7,282,281	\$ 8,771,948
Other receipts and payments, net	524,654	538,952
Payments to suppliers and contractors	(3,769,392)	(4,340,287)
Payments to and behalf of employees	(4,988,887)	(4,397,299)
Net Cash from (used for) Operating Activities	(951,344)	573,314
Noncapital Financing Activities		
Proceeds from sales tax	635,281	966,494
Repayment of short-term obligation	-	(10)
Noncapital contributions	-	5,000
Net Cash from Noncapital Financing Activities	635,281	971,484
Capital and Capital Related Financing Activities		
Purchase of property and equipment	(149,327)	(425,980)
Principal payments on capital lease obligations	(166,404)	(167,515)
Interest paid on debt obligations	(20,701)	(25,019)
Net Cash used for Capital and Capital Related Financing Activities	(336,432)	(618,514)
Investing Activities		
Investment income	1,442	8,551
Net Change in Cash and Cash Equivalents	(651,053)	934,835
Cash and Cash Equivalents, Beginning of Year	2,076,893	1,142,058
Cash and Cash Equivalents, End of Year	\$ 1,425,840	\$ 2,076,893

Coal County Healthcare Authority
 Statements of Cash Flows
 Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Loss to Net Cash from (used for)		
Operating Activities		
Operating loss	\$ (740,864)	\$ (148,959)
Adjustments to reconcile operating loss to net cash from (used for) operating activities		
Provision for bad debt	644,570	445,903
Depreciation and amortization	433,875	384,504
Changes in assets and liabilities		
Patient and resident receivables	(1,013,707)	(50,030)
Other receivables	(5,024)	5,512
Supplies	(38,351)	8,198
Prepaid expenses	-	3,211
Accounts payable	59,963	(262,430)
Accrued expenses	33,625	38,976
Deposits from residents	4,626	4,362
Estimated third-party settlements	(330,057)	144,067
Net Cash from (used for) Operating Activities	\$ (951,344)	\$ 573,314
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangements	\$ 108,000	\$ 309,627
Transfer of construction in progress to other receivables	\$ -	\$ (239,500)

During the year ending June 30, 2016, the Authority terminated a lease agreement, which resulted in a reduction of long-term debt of \$9,770, the retirement of capital assets with a net book value of \$6,122, and a gain on disposal of capital assets of \$3,648.

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Coal County Healthcare Authority (Authority) 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 Authority are described below.

Reporting Entity

The Authority is a public trust created on April 1, 2013, under the provisions of Title 60, Oklahoma Statutes, the Oklahoma Trust Act, and other applicable laws and statutes of the State of Oklahoma. The Authority's activity is the operation a 20 bed critical access hospital and a 75 bed nursing home facility to provide quality medical, surgical, hospital, and nursing care services for the residents of Coal County. The Authority has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 115. The Board of Trustees exercises governing oversight responsibility for the Authority which includes such duties as budget review, and management of the facilities.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority 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 Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB 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 Authority 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 Authority.

Blended Component Units

Coal County General Hospital Holding Company (Holding Company), Coal County General Hospital, Inc. (Hospital) and Coal County Extended Care, Inc. (Nursing Home) have been included as blended component units because the Authority is financially accountable for the Holding Company, Hospital and Nursing Home. Since the Hospital, Nursing Home and Holding Company perform health care related functions exclusively for the Authority, the Holding Company, Hospital and Nursing Home are included as blended component units of the Authority. The financial statements include only the financial activity of the Holding Company, Hospital, and Nursing Home, collectively referred to as the Authority. Financial statements of the Holding Company, Hospital, and Nursing Home can be obtained by contacting the Authority's Chief Financial Officer.

Income Taxes

The Hospital is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). In addition, the Hospital is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Hospital has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS. The Holding Company and Nursing Home are being treated as tax exempt and have applied for tax exempt status subsequent to year end with the Internal Revenue Service (IRS).

The Holding Company, Hospital and Nursing Home believe that they have appropriate support for any tax positions taken affecting their annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Holding Company, Hospital and Nursing Home would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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 accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets and liabilities 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 attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. The Authority had no restricted, expendable net position at June 30, 2017 and 2016.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority had no restricted, nonexpendable net position at June 30, 2017 and 2016.

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 Authority'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.

The net patient service revenue for the years ended June 30, 2017 and 2016 decreased approximately \$307,000 and approximately \$24,000 for changes in estimates related to allowances of collectability on patient receivables and final third party payor settlements which are no longer necessary as a result of final settlements.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patients and residents and third-party payor obligations. Patient and resident receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and residents and third-party payors. Management reviews patient and resident 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 and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Sales Tax

Effective April 1, 2013, the citizens of Coal County, Oklahoma, approved a 1% sales tax with no expiration date for the support of the Authority. The Authority received approximately 7% of its financial support from county appropriations related to sales tax in 2017 and 8% in 2016. These funds were used for operations, maintenance, and improvement of the Authority and its facilities.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Capital Assets

Property and equipment acquisitions in excess of \$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 and improvements	5-50 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 expenses. 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 restricted net position.

Investment in Joint Ventures

Joint ventures in which the Authority has less than 20% ownership are stated at cost and dividends are recorded as investment income in the financial statements.

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient and Resident Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident 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 Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately \$76,000 and \$111,000 for the years ended June 30, 2017 and 2016. Total direct and indirect costs related to these foregone charges were approximately \$47,000 and \$68,000 at June 30, 2017 and 2016, based on an average ratio of cost to gross charges.

Grants and Contributions

From time to time, the Authority receives grants as well as contributions from individuals and private organizations. Revenues 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will be equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records receipts to net patient service revenue. The Authority received \$58,768 and \$53,983 during the years ended June 30, 2017 and 2016.

Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Note 2 - Net Patient and Resident Service Revenue

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

Coal County General Hospital, Inc.

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended **June 30, 2015**.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge or established fee schedules.

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

Coal County Extended Care, Inc.

Medicare: Inpatient skilled care rendered to Medicare program beneficiaries are paid at prospectively determined rates.

Medicaid: Medicaid services are paid at prospectively determined rates.

Other carriers: The Nursing Home has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Nursing Home under these agreements includes prospectively determined rates and discounts from established charges.

Concentration of gross charges by major payor were as follows for the years ended June 30, 2017 and 2016:

	2017	2016
Medicare	62%	60%
Medicaid	20%	22%
Blue Cross and other commercial payors	8%	8%
Self pay and other	10%	10%
	100%	100%

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.

Note 3 - Deposits

The carrying amounts of deposits as of June 30, 2017 and 2016 are as follows:

	2017	2016
Carrying Amount		
Cash and deposits	\$ 1,425,840	\$ 2,076,893

Deposits are reported in the following statement of net position captions:

	2017	2016
Cash and cash equivalents	\$ 1,425,840	\$ 2,076,893

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. State statutes require that investments be made only in U.S. government obligations and that all bank balances are protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance or bonds.

As of June 30, 2017 and 2016, \$1,296,643 of the Authority's bank balance of \$1,546,643 and \$1,936,277 of the Authority's bank balance of \$2,186,277 were as follows:

	2017	2016
Insured (FDIC)	\$ 250,000	\$ 250,000
Uninsured and uncollateralized	-	36,277
Uninsured and collateral held by pledging bank's trust department in the Authority's name	1,296,643	1,900,000
Total	\$ 1,546,643	\$ 2,186,277

Investment Income

Investment income on cash and cash equivalents consists primarily of interest income for the years ended June 30, 2017 and 2016.

Note 4 - Capital Assets

Capital asset additions, transfers, retirements, and balances for the year ended June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Transfers and Retirements	Balance June 30, 2017
Capital assets not being depreciated				
Land	\$ 124,063	\$ -	\$ -	\$ 124,063
Capital assets being depreciated				
Building and building improvements	\$ 2,682,676	\$ 71,994	\$ 17,593	\$ 2,772,263
Equipment	3,385,983	77,333	(17,593)	3,445,723
Equipment under capital obligations	991,489	108,000	(95,581)	1,003,908
Total capital assets being depreciated	7,060,148	\$ 257,327	\$ (95,581)	7,221,894
Less accumulated depreciation for				
Building and building improvements	(2,525,646)	\$ (32,451)	\$ (5,656)	(2,563,753)
Equipment	(2,591,605)	(215,849)	5,656	(2,801,798)
Equipment under capital obligations	(475,381)	(185,575)	95,581	(565,375)
Total accumulated depreciation	(5,592,632)	\$ (433,875)	\$ 95,581	(5,930,926)
Net capital assets being depreciated	\$ 1,467,516			\$ 1,290,968
Capital assets, net	\$ 1,591,579			\$ 1,415,031

Coal County Healthcare Authority
Notes to Financial Statements
June 30, 2017 **and** 2016

Capital asset additions, transfers, retirements, and balances for the year ended **June 30, 2016** are as follows:

	Balance June 30, 2015	Additions	Transfers and Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 124,063	\$ -	\$ -	\$ 124,063
Total capital assets not being depreciated	<u>\$ 124,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,063</u>
Capital assets being depreciated				
Building and building improvements	\$ 2,682,676	\$ -	\$ -	\$ 2,682,676
Equipment	2,720,502	665,481	-	3,385,983
Equipment under capital obligations	<u>1,079,127</u>	<u>309,627</u>	<u>(397,265)</u>	<u>991,489</u>
Total capital assets being depreciated	<u>6,482,305</u>	<u>\$ 975,108</u>	<u>\$ (397,265)</u>	<u>7,060,148</u>
Less accumulated depreciation for				
Building and building improvements	(2,497,833)	\$ (27,813)	\$ -	(2,525,646)
Equipment	(2,413,526)	(178,079)	-	(2,591,605)
Equipment under capital obligations	<u>(677,196)</u>	<u>(178,612)</u>	<u>380,427</u>	<u>(475,381)</u>
Total accumulated depreciation	<u>(5,588,555)</u>	<u>\$ (384,504)</u>	<u>\$ 380,427</u>	<u>(5,592,632)</u>
Net capital assets being depreciated	<u>\$ 893,750</u>			<u>\$ 1,467,516</u>
Capital assets, net	<u>\$ 1,017,813</u>			<u>\$ 1,591,579</u>

Note 5 - Lease Obligations

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2017 **and** 2016 for all operating leases was approximately \$89,000 and \$90,000. The capitalized leased assets consist of:

	2017	2016
Major Movable Equipment	\$ 1,003,908	\$ 991,489
Less Accumulated Amortization	<u>(565,375)</u>	<u>(475,381)</u>
	<u>\$ 438,533</u>	<u>\$ 516,108</u>

Minimum future lease payments for operating leases agreements are as follows:

Year Ending June 30,	Operating Leases
2018	\$ 21,905
2019	20,291
2020	17,673
2021	13,196
Total minimum lease payments	\$ 73,065

For future maturities of capital leases, see Note 6.

Note 6 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2017 and 2016 is as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Capital lease obligations (1)	\$ 512,934	\$ 108,000	\$ (166,404)	\$ 454,530	\$ 165,813
	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Capital lease obligations (1)	\$ 380,592	\$ 309,627	\$ (177,285)	\$ 512,934	\$ 159,052

(1) Capital leases with various interest rates from 3.33% to 3.65%, collateralized by associated equipment, with varying maturity dates from October 2017 through October 2022.

Long-term debt maturities are as follows:

Year Ending June 30,	Long-Term Debt		Total
	Principal	Interest	
2018	\$ 165,813	\$ 13,324	\$ 179,137
2019	130,242	7,938	138,180
2020	112,229	3,526	115,755
2021	19,419	1,246	20,665
2022	20,074	591	20,665
2023	6,753	33	6,786
Total	\$ 454,530	\$ 26,658	\$ 481,188

Note 7 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients and residents, most of who are insured under third-party payor agreements. The mix of receivables for third party payors, patients and residents at June 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	60%	51%
Medicaid	8%	8%
Commercial and other third-party payors	9%	14%
Patients and residents	23%	27%
	100%	100%

Note 8 - Contingencies

Risk Management

The Authority 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.

Malpractice Insurance

The Authority has professional liability insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. In addition the Authority also maintains an umbrella policy subject to a limit of \$1 million per claim and annual aggregate limit of \$3 million under an occurrence based policy.

Litigations, Claims, and Disputes

The Authority 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 Authority.

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 and resident services.

Note 9 - Condensed Combining Information

The following summarized combining information for the Hospital, Nursing Home, and Holding Company, which have been presented as blended component units, as of and for the year ended June 30, 2017:

The Authority does not have any assets, liabilities or operations.

Statement of net position as of June 30, 2017:

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Eliminations	Total
Assets					
Current assets	\$ 3,996,062	\$ 620,140	\$ -	\$ (627,546)	\$ 3,988,656
Capital assets, net	1,079,100	99,543	236,388	-	1,415,031
Other noncurrent assets	31,780	33,333	-	-	65,113
Total assets	\$ 5,106,942	\$ 753,016	\$ 236,388	\$ (627,546)	\$ 5,468,800
Liabilities					
Current liabilities	\$ 438,083	\$ 856,627	\$ -	\$ (627,546)	\$ 667,164
Long-term debt, less current maturities	288,717	-	-	-	288,717
Total liabilities	726,800	856,627	-	(627,546)	955,881
Net Position					
Net investment in capital assets	629,289	94,824	236,388	-	960,501
Unrestricted	3,750,853	(198,435)	-	-	3,552,418
Total net position	4,380,142	(103,611)	236,388	-	4,512,919
Total liabilities and net position	\$ 5,106,942	\$ 753,016	\$ 236,388	\$ (627,546)	\$ 5,468,800

Operating results and changes in net position for the year ended June 30, 2017:

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total
Operating Revenues				
Net patient service revenue	\$ 4,746,017	\$ 3,230,832	\$ -	\$ 7,976,849
Other revenue	88,585	441,093	-	529,678
Total operating revenues	4,834,602	3,671,925	-	8,506,527
Operating Expenses				
Depreciation	367,927	38,836	27,112	433,875
Other operating expenses	5,124,910	3,688,606	-	8,813,516
Total operating expenses	5,492,837	3,727,442	27,112	9,247,391
Operating Loss	(658,235)	(55,517)	(27,112)	(740,864)
Nonoperating Revenues	631,923	(283)	-	631,640
Revenues in Excess of (Less Than) Expenses	(26,312)	(55,800)	(27,112)	(109,224)
Net Position, Beginning of Year	4,406,454	(47,811)	263,500	4,622,143
Net Position, End of Year	\$ 4,380,142	\$ (103,611)	\$ 236,388	\$ 4,512,919

Coal County Healthcare Authority
Notes to Financial Statements
June 30, 2017 and 2016

Cash flows for the year ended June 30, 2017:

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total
Net cash used for operating activities	\$ (854,309)	\$ (97,035)	\$ -	\$ (951,344)
Net cash from noncapital financing activities	635,281	-	-	635,281
Net cash used for capital and related financing activities	(269,399)	(67,033)	-	(336,432)
Net cash from investing activities	1,317	125	-	1,442
Net change in cash and cash equivalents	(487,110)	(163,943)	-	(651,053)
Cash and cash equivalents, beginning of year	1,743,733	333,160	-	2,076,893
Cash and cash equivalents, end of year	\$ 1,256,623	\$ 169,217	\$ -	\$ 1,425,840

The following summarized combining information for the Hospital, Nursing Home, and Holding Company, which have been presented as blended component units, as of and for the year ended **June 30, 2016**:

The Authority does not have any assets, liabilities or operations.

Statement of net position as of **June 30, 2016**:

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Eliminations	Total
Assets					
Current assets	\$ 3,822,868	\$ 618,901	\$ -	\$ (560,247)	\$ 3,881,522
Capital assets, net	1,249,458	78,621	263,500	-	1,591,579
Other noncurrent assets	31,780	33,333	-	-	65,113
Total assets	\$ 5,104,106	\$ 730,855	\$ 263,500	\$ (560,247)	\$ 5,538,214
Liabilities					
Current liabilities	\$ 348,489	\$ 773,947	\$ -	\$ (560,247)	\$ 562,189
Long-term debt, less current maturities	349,163	4,719	-	-	353,882
Total liabilities	697,652	778,666	-	(560,247)	916,071
Net Position					
Net investment in capital assets	748,110	67,035	263,500	-	1,078,645
Unrestricted	3,658,344	(114,846)	-	-	3,543,498
Total net position	4,406,454	(47,811)	263,500	-	4,622,143
Total liabilities and net position	\$ 5,104,106	\$ 730,855	\$ 263,500	\$ (560,247)	\$ 5,538,214

Coal County Healthcare Authority
Notes to Financial Statements
June 30, 2017 and 2016

Operating results and changes in net position for the year ended **June 30, 2016**:

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total
Operating Revenues				
Net patient and resident service revenue	\$ 4,890,766	\$ 3,336,880	\$ -	\$ 8,227,646
Other revenue	108,410	425,030	-	533,440
Total operating revenues	4,999,176	3,761,910	-	8,761,086
Operating Expenses				
Depreciation	324,490	32,202	27,812	384,504
Other operating expenses	4,842,841	3,682,700	-	8,525,541
Total operating expenses	5,167,331	3,714,902	27,812	8,910,045
Operating Income (Loss)	(168,155)	47,008	(27,812)	(148,959)
Nonoperating Revenues	787,213	5,598	-	792,811
Revenues in Excess of (Less Than) Expenses	619,058	52,606	(27,812)	643,852
Net Position, Beginning of Year	3,787,396	(100,417)	291,312	3,978,291
Net Position, End of Year	\$ 4,406,454	\$ (47,811)	\$ 263,500	\$ 4,622,143

Cash flows for the year ended **June 30, 2016**:

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total
Net cash from operating activities	\$ 303,141	\$ 270,173	\$ -	\$ 573,314
Net cash from noncapital financing activities	971,484	-	-	971,484
Net cash used for capital and related financing activities	(577,384)	(41,130)	-	(618,514)
Net cash from investing activities	2,306	6,245	-	8,551
Net change in cash and cash equivalents	699,547	235,288	-	934,835
Cash and cash equivalents, beginning of year	1,044,186	97,872	-	1,142,058
Cash and cash equivalents, end of year	\$ 1,743,733	\$ 333,160	\$ -	\$ 2,076,893



Supplementary Information
June 30, 2017 **and 2016**

Coal County Healthcare Authority



Independent Auditor's Report on Supplementary Information

Board of Trustees
Coal County Healthcare Authority
Coalgate, Oklahoma

Our report on our audits of the basic financial statements of the Coal County Healthcare Authority as of and for the years ended June 30, 2017 **and 2016**, and our report thereon dated November 27, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 through 2. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining schedules of statements of net position information, combining schedules of revenues, expenses, and changes in net position information, and schedules of net patient and resident service revenue, other operating revenue, and operating expenses are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
November 27, 2017

What inspires you, inspires us. | eidebailly.com

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Coal County Healthcare Authority
Combining Schedule – Statement of Net Position Information
June 30, 2017

	<u>Coal County General Hospital</u>	<u>Coal County Extended Care</u>	<u>Coal County Holding Company</u>	<u>Reclassifications or Eliminations</u>	<u>Combined Total</u>
Assets					
Current Assets					
Cash and cash equivalents	\$ 1,256,623	\$ 169,217	\$ -	\$ -	\$ 1,425,840
Receivables					
Patient and resident, net of estimated uncollectibles	1,316,303	440,656	-	-	1,756,959
Estimated third-party payor settlements	484,786	-	-	-	484,786
Sales tax	83,881	-	-	-	83,881
Other	60,442	6,350	-	-	66,792
Supplies	166,481	3,917	-	-	170,398
Due from related party	627,546	-	-	(627,546)	-
Total current assets	3,996,062	620,140	-	(627,546)	3,988,656
Capital Assets, Net	1,079,100	99,543	236,388	-	1,415,031
Other Assets	31,780	33,333	-	-	65,113
Total assets	<u>\$ 5,106,942</u>	<u>\$ 753,016</u>	<u>\$ 236,388</u>	<u>\$ (627,546)</u>	<u>\$ 5,468,800</u>

	<u>Coal County General Hospital</u>	<u>Coal County Extended Care</u>	<u>Coal County Holding Company</u>	<u>Reclassifications or Eliminations</u>	<u>Combined Total</u>
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ 161,094	\$ 4,719	\$ -	\$ -	\$ 165,813
Accounts payable	122,451	113,602	-	-	236,053
Accrued liabilities	154,538	97,760	-	-	252,298
Deposits from residents	-	13,000	-	-	13,000
Due to related party	-	627,546	-	(627,546)	-
Total current liabilities	438,083	856,627	-	(627,546)	667,164
Long-Term Debt, Net	288,717	-	-	-	288,717
Total liabilities	726,800	856,627	-	(627,546)	955,881
Net Position					
Net investment in capital assets	629,289	94,824	236,388	-	960,501
Unrestricted	3,750,853	(198,435)	-	-	3,552,418
Total net position	4,380,142	(103,611)	236,388	-	4,512,919
Total liabilities and net position	<u>\$ 5,106,942</u>	<u>\$ 753,016</u>	<u>\$ 236,388</u>	<u>\$ (627,546)</u>	<u>\$ 5,468,800</u>

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Coal County Healthcare Authority
Combining Schedule – Statement of Net Position Information
June 30, 2016

	<u>Coal County General Hospital</u>	<u>Coal County Extended Care</u>	<u>Coal County Holding Company</u>	<u>Reclassifications or Eliminations</u>	<u>Combined Total</u>
Assets					
Current Assets					
Cash and cash equivalents	\$ 1,743,733	\$ 333,160	\$ -	\$ -	\$ 2,076,893
Receivables					
Patient and resident, net of estimated uncollectibles	1,106,631	281,191	-	-	1,387,822
Estimated third-party payor settlements	154,729	-	-	-	154,729
Sales tax	68,263	-	-	-	68,263
Other	61,768	-	-	-	61,768
Supplies	127,497	4,550	-	-	132,047
Due from related party	560,247	-	-	(560,247)	-
Total current assets	3,822,868	618,901	-	(560,247)	3,881,522
Capital Assets, Net	1,249,458	78,621	263,500	-	1,591,579
Other Assets	31,780	33,333	-	-	65,113
Total assets	\$ 5,104,106	\$ 730,855	\$ 263,500	\$ (560,247)	\$ 5,538,214

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Reclassifications or Eliminations	Combined Total
Liabilities and Net Position					
Current Liabilities					
Current portion of long-term debt	\$ 152,185	\$ 6,867	\$ -	\$ -	\$ 159,052
Accounts payable	62,459	113,631	-	-	176,090
Accrued liabilities	133,845	84,828	-	-	218,673
Deposits from residents	-	8,374	-	-	8,374
Due to related party	-	560,247	-	(560,247)	-
Total current liabilities	348,489	773,947	-	(560,247)	562,189
Long-Term Debt, Net	349,163	4,719	-	-	353,882
Total liabilities	697,652	778,666	-	(560,247)	916,071
Net Position					
Net investment in capital assets	748,110	67,035	263,500	-	1,078,645
Unrestricted	3,658,344	(114,846)	-	-	3,543,498
Total net position	4,406,454	(47,811)	263,500	-	4,622,143
Total liabilities and net position	\$ 5,104,106	\$ 730,855	\$ 263,500	\$ (560,247)	\$ 5,538,214

Coal County Healthcare Authority
Combining Schedule –Statement of Revenues, Expenses and Changes in Net Position Information
Year Ended June 30, 2017

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Reclassifications or Eliminations	Combined Total
Operating Revenues					
Net patient and resident service revenue	\$ 4,746,017	\$ 3,230,832	\$ -	\$ -	\$ 7,976,849
Other revenues	88,585	441,093	-	-	529,678
Total operating revenues	<u>4,834,602</u>	<u>3,671,925</u>	<u>-</u>	<u>-</u>	<u>8,506,527</u>
Operating Expenses					
Nursing services	1,869,166	1,818,522	-	-	3,687,688
Other professional services	1,368,958	275,968	-	-	1,644,926
General services	396,916	554,870	-	-	951,786
Administrative services	1,489,870	1,039,246	-	-	2,529,116
Depreciation and amortization	367,927	38,836	27,112	-	433,875
Total operating expenses	<u>5,492,837</u>	<u>3,727,442</u>	<u>27,112</u>	<u>-</u>	<u>9,247,391</u>
Operating Loss	<u>(658,235)</u>	<u>(55,517)</u>	<u>(27,112)</u>	<u>-</u>	<u>(740,864)</u>
Nonoperating Revenues (Expenses)					
Sales tax	650,899	-	-	-	650,899
Investment income	1,317	125	-	-	1,442
Interest expense	(20,293)	(408)	-	-	(20,701)
Total nonoperating revenues (expenses)	<u>631,923</u>	<u>(283)</u>	<u>-</u>	<u>-</u>	<u>631,640</u>
Expenses in Excess of Revenues	(26,312)	(55,800)	(27,112)	-	(109,224)
Net Position, Beginning of Year	<u>4,406,454</u>	<u>(47,811)</u>	<u>263,500</u>	<u>-</u>	<u>4,622,143</u>
Net Position, End of Year	<u>\$ 4,380,142</u>	<u>\$ (103,611)</u>	<u>\$ 236,388</u>	<u>\$ -</u>	<u>\$ 4,512,919</u>

Coal County Healthcare Authority
Combining Schedule –Statement of Revenues, Expenses and Changes in Net Position Information
Year Ended **June 30, 2016**

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Reclassifications or Eliminations	Combined Total
Operating Revenues					
Net patient and resident service revenue	\$ 4,890,766	\$ 3,336,880	\$ -	\$ -	\$ 8,227,646
Other revenues	108,410	425,030	-	-	533,440
Total operating revenues	<u>4,999,176</u>	<u>3,761,910</u>	<u>-</u>	<u>-</u>	<u>8,761,086</u>
Operating Expenses					
Nursing services	2,017,766	1,950,929	-	-	3,968,695
Other professional services	1,130,086	292,198	-	-	1,422,284
General services	401,101	542,754	-	-	943,855
Administrative services	1,293,888	896,819	-	-	2,190,707
Depreciation and amortization	324,490	32,202	27,812	-	384,504
Total operating expenses	<u>5,167,331</u>	<u>3,714,902</u>	<u>27,812</u>	<u>-</u>	<u>8,910,045</u>
Operating Loss	<u>(168,155)</u>	<u>47,008</u>	<u>(27,812)</u>	<u>-</u>	<u>(148,959)</u>
Nonoperating Revenues (Expenses)					
Sales tax	811,346	-	-	-	811,346
Investment income	2,306	6,245	-	-	8,551
Interest expense	(24,372)	(647)	-	-	(25,019)
Noncapital contributions	5,000	-	-	-	5,000
Loss on disposal of capital assets	(7,067)	-	-	-	(7,067)
Total nonoperating revenues (expenses)	<u>787,213</u>	<u>5,598</u>	<u>-</u>	<u>-</u>	<u>792,811</u>
Revenues in Excess of (Less Than) Expenses	619,058	52,606	(27,812)	-	643,852
Net Position, Beginning of Year	<u>3,787,396</u>	<u>(100,417)</u>	<u>291,312</u>	<u>-</u>	<u>3,978,291</u>
Net Position, End of Year	<u>\$ 4,406,454</u>	<u>\$ (47,811)</u>	<u>\$ 263,500</u>	<u>\$ -</u>	<u>\$ 4,622,143</u>

Coal County Healthcare Authority
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2017 and 2016

	2017	2016
Daily Patient Services		
Medical and surgical	\$ 4,666,196	\$ 5,110,681
Swing bed	291,900	320,700
	4,958,096	5,431,381
Other Nursing Services		
Central service supplies	187,572	292,972
Emergency services	621,253	592,945
	808,825	885,917
Other Professional Services		
Ultrasound	426,625	543,255
Intravenous therapy	135,303	161,499
Respiratory therapy	8,784	6,227
Laboratory	3,223,346	2,001,929
Pharmacy	1,040,653	1,279,170
Physical therapy	413,945	480,574
Radiology	2,489,085	2,418,080
Pain management	-	367,257
Behavioral health	650,729	-
	8,388,470	7,257,991
Charity Care	(76,229)	(110,583)
Total patient and resident service revenue	14,079,162	13,464,706
Reductions from Revenue		
Contractual adjustments	(5,457,743)	(4,791,157)
Bad debt expense	(644,570)	(445,903)
	(6,102,313)	(5,237,060)
Net Patient and Resident Service Revenue	\$ 7,976,849	\$ 8,227,646

Coal County Healthcare Authority
Schedules of Other Operating Revenue
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Other Revenue		
Focus on Excellence	\$ 394,737	355,866
Miscellaneous	<u>134,941</u>	<u>177,574</u>
Total Other Revenue	<u>\$ 529,678</u>	<u>\$ 533,440</u>

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	2017		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 2,113,039	\$ 923,525	\$ 3,036,564
Emergency services	123,885	527,239	651,124
	<u>\$ 2,236,924</u>	<u>\$ 1,450,764</u>	<u>\$ 3,687,688</u>
Other Professional Services			
Ultrasound	\$ 17,939	\$ 19,137	\$ 37,076
Intravenous therapy	-	9,786	9,786
Respiratory therapy	16,169	19,031	35,200
Laboratory	294,114	545,648	839,762
Pharmacy	70,201	169,536	239,737
Physical therapy	52,835	122,779	175,614
Radiology	154,797	39,843	194,640
Pain management	-	-	-
Behavioral health	68,788	44,323	113,111
	<u>\$ 674,843</u>	<u>\$ 970,083</u>	<u>\$ 1,644,926</u>
General Services			
Dietary	\$ 189,461	\$ 245,931	\$ 435,392
Housekeeping	198,664	55,938	254,602
Medical records	92,622	16,451	109,073
Plant operations	123,069	29,650	152,719
	<u>\$ 603,816</u>	<u>\$ 347,970</u>	<u>\$ 951,786</u>
Administrative Services			
Administrative and office	\$ 658,512	\$ 1,022,187	\$ 1,680,699
Employee benefits	848,417	-	848,417
	<u>\$ 1,506,929</u>	<u>\$ 1,022,187</u>	<u>\$ 2,529,116</u>
Depreciation and Amortization	<u>\$ -</u>	<u>\$ 433,875</u>	<u>\$ 433,875</u>

Coal County Healthcare Authority
Schedules of Operating Expenses
Years Ended June 30, 2017 **and** 2016

2016		
Salaries	Other	Total
\$ 1,766,958	\$ 1,532,854	\$ 3,299,812
142,092	526,791	668,883
\$ 1,909,050	\$ 2,059,645	\$ 3,968,695
\$ 12,233	\$ 25,104	\$ 37,337
-	15,357	15,357
7,443	15,170	22,613
298,190	342,972	641,162
76,881	185,331	262,212
53,553	133,150	186,703
158,615	47,080	205,695
8,303	42,902	51,205
-	-	-
\$ 615,218	\$ 807,066	\$ 1,422,284
\$ 191,283	\$ 248,745	\$ 440,028
178,094	60,421	238,515
98,204	20,185	118,389
114,397	32,526	146,923
\$ 581,978	\$ 361,877	\$ 943,855
\$ 602,783	\$ 860,678	\$ 1,463,461
727,246	-	727,246
\$ 1,330,029	\$ 860,678	\$ 2,190,707
\$ -	\$ 384,504	\$ 384,504



**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
Coal County Healthcare Authority
Coalgate, Oklahoma

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 the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Coal County Healthcare Authority (Authority) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority’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 Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’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 have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses: 2017-A through 2017-C.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency: 2017-D.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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*.

Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Oklahoma City, Oklahoma
November 27, 2017

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

Material Weakness

2017-A Segregation of Duties

Criteria: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

Condition: During the course of our engagement, we noted that the Authority has limited staff completing incompatible accounting functions due to the size of the entity.

Cause: A limited number of office personnel prevent a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Auditor's Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Views of Responsible Officials: Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

2017-B Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: This weakness is due to the limited resources in the financial reporting process due to budgetary constraints. In addition, there is no established review processes.

Effect: The effect of this condition is that yearend financial reporting is prepared by a party outside of the Authority. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to interim financial statements.

Auditor's Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Views of Responsible Officials: Given the size of the Authority, we do not think it would be cost-effective to fully cure this deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

2017-C Cost Report Estimate

Criteria: Accountings standards require an entity to estimate the Medicare cost report settlement in order to fairly state the financial position as of year-end.

Condition: During the current year, the Authority recorded an estimate for the Medicare cost report settlement for the current year. However, the estimate was different from the filed cost report.

Effect: This resulted in a material adjusting journal entry to properly state the current year settlement.

Cause: The current year cost report settlement was not properly estimated at year end which resulted in a material journal entry to the financial statements.

Auditor's Recommendation: It is recommended the Hospital implement a system that provides adequate controls over estimating cost report settlements.

Views of Responsible Officials: Management will assess the need to purchase estimating software to more accurately reflect the Medicare Cost Report Settlements. The key to the assessment will be weighing cost versus the financial benefit of this purchase.

Significant Deficiency

2017-D Bad Debt and Contractual Allowances

Criteria: Accountings standards require an entity to estimate an allowance on the collectability of receivables. The allowance should be based on historical data and current reimbursement rates.

Condition: The allowance calculations were not properly estimated during the year.

Effect: Interim financial statements may not be properly stated. An audit adjustment was made to the allowance accounts.

Cause: Historical collections are not reviewed and considered in determining the potential impact on contractual adjustments or bad debt write-offs.

Auditor's Recommendation: We recommend that management develop an estimate based on historical collections and adjustments. The allowance accounts should be reviewed each month as well for reasonableness in relation to the accounts receivable and revenue.

Views of Responsible Officials: Management will develop an estimate based on historical collection percentages.