The Comanche County Hospital Authority

Independent Auditor's Reports and Financial Statements

June 30, 2017 and 2016

BKD LLP
CPAs & Advisors

The Comanche County Hospital Authority
June 30, 2017 and 2016

Contents

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Independent Auditor's Report

Board of Trustees
The Comanche County Hospital Authority
Lawton, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of The Comanche County Hospital Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017 and 2016, and the 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 and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Combining Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying combining information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 11, 2017, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
December 11, 2017

The Comanche County Hospital Authority
Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016

Introduction

This management's discussion and analysis of the financial performance of The Comanche County Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, dollar amounts are in thousands.

As described in *Note 1* to the financial statements, the Authority's financial statements include the operations of Comanche County Memorial Hospital (CCMH), McMahon-Tomlinson Nursing Center (MTNC) and Lawton Community Health Center (LCHC). As described in *Note 1* to the financial statements, effective February 28, 2017, the Authority terminated the sublease agreement with the Tillman County – City of Frederick Hospital Authority (Tillman). As a result of this sublease termination, as described in *Note 2* to the financial statements, the tables used in the management's discussion and analysis for the years ended June 30, 2016 and 2015, have been retroactively restated for the change in reporting entity.

Financial Highlights

- Capital assets, net decreased by $4,398 or 4% in 2017 and increased by $3,411 or 3% in 2016.
- Long-term debt increased by $1,384 or 1% in 2017 and decreased by $6,751 or 7% in 2016.
- The Authority reported operating income of $2,790 in 2017 and an operating loss of $1,516 in 2016.
- The Authority's net position increased by $2,379 or 3% in 2017 and decreased by $1,203 or 1% in 2016.
- Cash, cash equivalents and investments increased in 2017 by $3,660 or 7% and decreased in 2016 by $5,640 or 10%.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, 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 Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any health care organization's finances is, "Is the organization as a whole better or worse off as a result of the year's activities?" The balance sheet 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 deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that 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 it. The Authority's total net position—the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources reported in the balance sheet. The Authority's net position increased by $2,379 or 3% in 2017 and decreased by $1,203 or 1% in 2016 as shown in Table 1.

Table 1: Assets and Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources and Net Position

	2017	2016 (Restated – *Note 2*)	2015 (Restated – *Note 2*)
Assets			
Cash, cash equivalents and investments	$ 57,031	$ 53,371	$ 59,011
Patient accounts receivable, net	38,150	37,367	39,947
Other current assets	12,322	11,271	11,823
Capital assets, net	113,458	117,856	114,445
Other noncurrent assets	9,818	9,376	10,055
Total assets	230,779	229,241	235,281
Deferred Outflows of Resources	6,038	6,136	3,230
Total assets and deferred outflows of resources	$ 236,817	$ 235,377	$ 238,511
Liabilities			
Long-term debt, including current portion	$ 96,678	$ 95,294	$ 102,045
Other liabilities	60,550	62,828	57,962
Total liabilities	157,228	158,122	160,007
Deferred Inflows of Resources	60	105	151
Net Position			
Net investment in capital assets	30,018	37,759	45,068
Restricted – expendable for debt service	6,215	5,995	5,435
Unrestricted	43,296	33,396	27,850
Total net position	79,529	77,150	78,353
Total liabilities, deferred inflows of resources and net position	$ 236,817	$ 235,377	$ 238,511

Cash, cash equivalents and investments increased in 2017 compared to 2016 by $3,660 or 7% as the Authority continued to see strong cash flows from operations coupled with the incurrence of new debt to fund the completion of the emergency department renovation. Capital assets, net decreased in 2017 by $4,398 or 4% due to depreciation in the current year exceeding capital asset additions. Net pension liability increased in 2017 compared to 2016 by $1,964 or 10% due primarily to changes in actuarial assumptions in 2017.

Cash, cash equivalents and investments decreased in 2016 compared to 2015 by $5,640 or 10% as the Authority spent proceeds from the Series 2015 Revenue Bonds on the various construction projects during 2016. Capital assets, net increased in 2016 by $3,411 or 3% due to the various construction projects during 2016. Net pension liability increased in 2016 compared to 2015 by $4,042 or 26% due primarily to lower than expected investment returns on the defined benefit pension plan investments.

Operating Results and Changes in the Authority's Net Position

In 2017, the Authority's net position increased by $2,379 or 3%, as shown in Table 2, compared to the decrease in net position in 2016 of $1,203 or 1%.

Table 2: Operating Results and Changes in Net Position

	2017	2016 (Restated – *Note 2*)	2015 (Restated – *Note 2*)
Operating Revenues			
Net patient service revenue	$ 261,136	$ 246,127	$ 240,214
Grant revenue and other	9,239	11,212	9,092
Total operating revenues	270,375	257,339	249,306
Operating Expenses			
Salaries and wages and employee benefits	132,545	125,696	121,187
Purchased services and professional fees	58,542	60,532	55,277
Medical supplies and drugs	38,570	35,342	33,572
Depreciation and amortization	13,316	12,748	12,246
Other operating expenses	24,612	24,537	23,462
Total operating expenses	267,585	258,855	245,744
Operating Income (Loss)	2,790	(1,516)	3,562
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	1,011	663	672
Gain on investments in joint ventures	1,475	708	284
Investment income	69	616	437
Interest expense and other financing costs	(3,053)	(3,174)	(4,089)
Total nonoperating revenues (expenses)	(498)	(1,187)	(2,696)
Capital Grants and Gifts	87	1,500	-
Increase (Decrease) in Net Position	$ 2,379	$ (1,203)	$ 866

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services.

Operating results for 2017 increased by $4,306 compared to the operating loss in 2016 of $1,516. The primary components of the change in operating results are:

- An increase in net patient service revenue of $15,009 or 6%

- An increase in operating expenses of $8,730 or 3%, the primary components of which are:
    - An increase in salaries and wages and employee benefits of $6,849 or 5%
    - A decrease in purchased services and professional fees of $1,990 or 3%
    - An increase in medical supplies and drugs of $3,228 or 9%

Net patient service revenue increased in 2017 in conjunction with an increase of 10% in inpatient days.

Salaries and wages and employee benefits increased in 2017 by $6,849 or 5% in connection with the Authority's annual retention and recruitment efforts, particularly concerning registered nurses and physicians.

Purchased services and professional fees decreased by $1,990 or 3% primarily related to reductions in contract labor for registered nurses and locum physicians in conjunction with the Authority's retention and recruitment efforts.

Medical supplies and drugs increased in 2017 by $3,228 or 9% as a result of increases in patient volumes in conjunction with increases in the costs of certain surgical supplies and implants.

The operating results for 2016 decreased by $5,078 compared to the operating results in 2015 of $3,562. The primary components of the change in operating results are:

- An increase in net patient service revenue of $5,913 or 3%
- An increase in grant and other operating revenue of $2,120 or 23%
- An increase in operating expenses of $13,111 or 5%, the primary components of which are:
    - An increase in salaries and wages and employee benefits of $4,509 or 4%
    - An increase in purchased services and professional fees of $5,255 or 10%

Net patient service revenue increased in 2016 despite a decrease of 4% in inpatient days. The increase in outpatient and clinic volume offset the decrease in inpatient volume during the year ended June 30, 2016.

Grants and other operating revenues increased by $2,120 or 23% primarily due to a decrease in revenue associated with the Medicare Electronic Health Records Incentive Program of $720, offset by an increase in revenue recognized under the Medicare 340B Drug Pricing Program of $1,636. Grant revenue increased by $852 or 80% due to expanded services at LCHC.

Salaries and wages and employee benefits increased in 2016 by $4,509 or 4% in connection with the Authority's annual retention and recruitment efforts and additional salaries related to employed physicians.

The increase in purchased services and professional fees was primarily caused by an increase in contract labor for registered nurses in 2016 of $2,587 as well as an increase in purchased services of $2,604 related to oncology and cancer care services in 2016.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of investment income, gain on investments in joint ventures, noncapital grants and gifts and interest expense. The Authority's total debt in 2017 and 2016 exceeded cash and investments, and as a result, interest expense exceeded investment income.

The Authority's Cash Flows

Changes in the Authority's cash flows are generally consistent with changes in operating income (loss) and nonoperating revenues (expenses), with the exception of changes in capital assets, net and long-term debt discussed above.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017, the Authority had $113,458 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the accompanying financial statements. In 2017, the Authority acquired capital assets costing $8,252.

At the end of 2016, the Authority had $117,856 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the accompanying financial statements. In 2016, the Authority acquired capital assets costing $15,683.

Debt

At June 30, 2017 and 2016, the Authority had $96,678 and $95,294, respectively, in revenue bonds, notes payable and capital lease obligations outstanding as detailed in *Note 9* to the accompanying financial statements. During 2017, the Authority incurred $1,008 for a new capital lease obligation, incurred $4,000 for a new note payable and drew an additional $3,233 on an existing note payable. During 2016, the Authority incurred $159 for a new capital lease obligation. At June 30, 2017 and 2016, the Authority's debt rating was BB+.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers 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's administration by telephoning 580.355.8620.

The Comanche County Hospital Authority

Balance Sheets

June 30, 2017 and 2016

Assets and Deferred Outflows of Resources

	2017	2016 (Restated – *Note 2*)
Current Assets		
Cash and cash equivalents	$ 19,170,747	$ 16,162,298
Restricted cash and investments – current	6,408,402	6,192,911
Patient accounts receivable, net of allowance; 2017 – $44,113,000, 2016 – $44,908,000	38,150,325	37,366,573
Accrued investment income	99,785	70,854
Due from related parties	2,658,773	1,326,967
Supplies	5,415,310	5,837,553
Prepaid expenses and other	4,147,722	4,034,292
Total current assets	76,051,064	70,991,448
Noncurrent Cash and Investments		
Held by trustee for debt service	12,398,231	12,277,291
Held in escrow for capital acquisitions	-	1,279,946
	12,398,231	13,557,237
Less amount required to meet current obligations	6,408,402	6,192,911
	5,989,829	7,364,326
Other long-term investments	25,461,623	23,651,823
Total noncurrent cash and investments	31,451,452	31,016,149
Capital Assets, Net	113,458,277	117,856,448
Other Assets		
Investments in joint ventures	3,349,335	2,513,965
Goodwill	4,867,473	5,358,311
Other	1,601,436	1,504,219
Total other assets	9,818,244	9,376,495
Deferred Outflows of Resources	6,037,962	6,136,099
Total assets and deferred outflows of resources	$ 236,816,999	$ 235,376,639

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016 (Restated – *Note 2*)
Current Liabilities		
Current maturities of long-term debt	$ 7,396,455	$ 6,724,270
Accounts payable	19,136,857	21,360,776
Accrued expenses	13,780,710	14,426,128
Accrued interest payable	1,937,547	2,036,285
Due to related parties	1,855,185	2,813,720
Estimated amounts due to third-party payers	391,547	1,228,657
Total current liabilities	44,498,301	48,589,836
Long-Term Debt	89,281,346	88,569,740
Net Pension Liability	21,859,450	19,895,700
Other Long-Term Obligations	1,588,788	1,066,240
Total liabilities	157,227,885	158,121,516
Deferred Inflows of Resources	60,568	105,769
Net Position		
Net investment in capital assets	30,018,056	37,758,681
Restricted – expendable for debt service	6,214,569	5,994,891
Unrestricted	43,295,921	33,395,782
Total net position	79,528,546	77,149,354
Total liabilities, deferred inflows of resources and net position	$ 236,816,999	$ 235,376,639

The Comanche County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016 (Restated – *Note 2*)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – $51,174,070, 2016 – $46,098,095	$ 261,135,663	$ 246,126,775
Grant revenue	2,024,107	1,912,325
Other	7,214,425	9,299,965
Total operating revenues	270,374,195	257,339,065
Operating Expenses		
Salaries and wages	112,717,341	106,746,798
Employee benefits	19,827,177	18,949,265
Purchased services and professional fees	58,542,345	60,531,731
Medical supplies and drugs	38,570,340	35,341,919
Supplies and other	24,610,577	24,537,412
Depreciation and amortization	13,316,401	12,747,765
Total operating expenses	267,584,181	258,854,890
Operating Income (Loss)	2,790,014	(1,515,825)
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	1,010,585	662,792
Gain on investments in joint ventures	1,475,415	707,910
Investment income	68,746	615,737
Interest expense and other financing costs	(3,052,963)	(3,174,351)
Total nonoperating revenues (expenses)	(498,217)	(1,187,912)
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	2,291,797	(2,703,737)
Capital Grants and Gifts	87,395	1,500,070
Increase (Decrease) in Net Position	2,379,192	(1,203,667)
Net Position, Beginning of Year, as Restated	77,149,354	78,353,021
Net Position, End of Year	$ 79,528,546	$ 77,149,354

The Comanche County Hospital Authority

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	2017	2016 (Restated – *Note 2*)
Operating Activities		
Receipts from and on behalf of patients	$ 259,514,801	$ 247,434,972
Payments to suppliers and contractors	(125,464,181)	(118,951,232)
Payments to or on behalf of employees	(130,827,036)	(124,525,789)
Other receipts and payments, net	9,238,532	11,212,290
Net cash provided by operating activities	12,462,116	15,170,241
Noncapital Financing Activities		
Noncapital grants and gifts	1,010,585	662,792
Net cash provided by noncapital financing activities	1,010,585	662,792
Capital and Related Financing Activities		
Capital grants and gifts	87,395	1,500,070
Principal paid on long-term debt	(6,236,733)	(6,248,741)
Interest paid on long-term debt	(4,411,441)	(3,886,287)
Proceeds from issuance of long-term debt	7,232,891	-
Purchase of capital assets	(7,324,803)	(14,289,982)
Proceeds from sale of capital assets	159,373	58,305
Net cash used in capital and related financing activities	(10,493,318)	(22,866,635)
Investing Activities		
Interest on investments	488,532	547,043
Advances to and investments in joint ventures	640,045	777,182
Purchase of investments	(35,199,374)	(31,494,484)
Proceeds from disposition of investments	34,315,354	39,998,744
Net cash provided by investing activities	244,557	9,828,485
Change in Cash and Cash Equivalents	3,223,940	2,794,883
Cash and Cash Equivalents, Beginning of Year	22,355,209	19,560,326
Cash and Cash Equivalents, End of Year	$ 25,579,149	$ 22,355,209

	2017	2016 (Restated – *Note 2*)
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 19,170,747	$ 16,162,298
Cash and cash equivalents in noncurrent cash and investments		
Held by trustee for debt service	6,408,402	6,192,911
	$ 25,579,149	$ 22,355,209
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 2,790,014	$ (1,515,825)
Depreciation and amortization	13,316,401	12,747,765
Gain on disposal of capital assets	(195,485)	(5,453)
Provision for uncollectible accounts	51,174,070	46,098,095
Changes in assets and liabilities		
Patient and other accounts receivable, net	(51,957,822)	(43,517,395)
Supplies and prepaid expenses	308,813	709,886
Estimated amounts due to third-party payers	(837,110)	(1,272,503)
Accounts payable and accrued expenses	(1,569,226)	573,674
Change in pension liability	1,840,352	903,213
Due to/from related parties	(2,290,341)	350,446
Other assets and liabilities	(117,550)	98,338
Net cash provided by operating activities	$ 12,462,116	$ 15,170,241
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 1,006,309	$ 1,783,872
Capital lease obligations incurred for capital assets	$ 1,008,328	$ 158,912
Noncash distribution from and contribution to equity investee	$ 627,269	$ -

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Comanche County Hospital Authority (the Authority), a public trust, was created on January 13, 1971, by the Board of Commissioners of Comanche County, Oklahoma (the County), to operate, control and manage all matters concerning Comanche County Memorial Hospital (CCMH), McMahon-Tomlinson Nursing Center (MTNC) and the trust estate. The Board of Commissioners of the County appoints the members of the Authority's Board of Trustees.

On January 13, 1971, an indenture of lease was entered into between the County (the Lessor) and the trustees of the Authority (the Lessee) leasing to the Authority all hospital and nursing center sites, equipment and facilities owned and subsequently constructed or acquired by the Lessor or under its custody, management or control. The initial term of the lease was for a period of 30 years and so long thereafter as any indebtedness incurred by the Lessee and secured by the revenues of any of the leased property remains unpaid. In addition, the lease agreement provided the Authority certain renewal options. Consideration for the lease is the installation and construction of improvements to the leased property for the purpose of aiding the Lessor in the performance of its public functions. In July 2000, the Authority exercised an option to renew the lease for an additional 30-year period ending in January 2031.

CCMH primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in southwestern Oklahoma. CCMH also operates a rehabilitation unit, a skilled nursing unit, a psychiatric unit, outpatient clinics, a home health agency and an ambulance service in the same geographic area.

MTNC earns revenues by providing intermediate nursing care services in a 146-bed nursing facility in Lawton, Oklahoma.

On September 1, 2007, the Authority was awarded a grant by the Health Resources and Services Administration of the U.S. Department of Health and Human Services to partially fund the operations and activities of the Lawton Community Health Center (LCHC), a federally qualified health center (FQHC). LCHC is an operating division of the Authority and operates the FQHC under a co-applicant agreement with Lawton Community Health Center, Inc., a not-for-profit organization.

Effective September 1, 1993, the Authority entered into a sublease agreement with the Tillman County – City of Frederick Hospital Authority (Tillman) to take over full use, operations, administration and management of Tillman's hospital and nursing center facilities. The term of the sublease was for a period of 20 years with a renewal option for an additional 20 years. The Authority's consideration to Tillman under the sublease was the Authority's guarantee of Tillman's Series 1994B Bonds through December 2003 and Tillman's revenue refunding note subsequent to that date, which were paid in full during 2014. Effective July 31, 2013, the Authority entered into a sublease agreement with Tillman whereby the Authority was granted continued use of the hospital and the nursing center facilities and full administrative, management and operational control of the hospital and the nursing center through August 31, 2023, with three successive five-year renewal options. In August 2015, the Authority and Tillman amended the sublease agreement to allow the Authority to take certain actions related to the operations of Tillman, including terminating the sublease agreement based on certain financial requirements beginning December 31, 2015.

Tillman primarily earned revenue by operating a 37-bed short-term hospital, a 30-bed nursing center, a home health agency and a physician clinic in Frederick, Oklahoma. Effective March 31, 2016, Tillman ceased providing inpatient and emergency services. Effective September 30, 2016, Tillman ceased providing clinic services. Effective February 28, 2017, the Authority terminated the sublease agreement.

Under accounting principles generally accepted in the United States of America, the accompanying financial statements of the Authority are comprised of CCMH, MTNC and LCHC, which are considered operating divisions of the Authority. The termination of the Tillman sublease, which was previously reported as a blended component unit of the Authority, has resulted in a change in reporting entity and, therefore, Tillman is no longer included in the accompanying financial statements. See *Note 2* for additional information. All transactions and accounts between CCMH, MTNC and LCHC have been eliminated in the accompanying financial statements.

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and deferred outflows of resources and liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents excluding investments in noncurrent cash and investments. At June 30, 2017 and 2016, cash equivalents consisted of money market mutual funds with brokers.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than unemployment; workers' compensation; and employee health, dental and short-term disability. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Authority is self-insured for a portion of its exposure to risk of loss from unemployment, employee health, dental, short-term disability and workers' compensation claims. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

The investments in joint ventures are reported on the equity method of accounting. All other investments are carried at fair value, which is determined using quoted market prices. Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as uncollectible accounts based on individual credit evaluation and specific circumstances of the account.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	5–20 years
Buildings and improvements	10–50 years
Equipment	3–20 years

The Authority capitalizes interest costs as a component of construction in progress based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	2017	2016
Interest costs capitalized	$ 696,117	$ 671,235
Interest costs and other financing costs charged to expense	3,052,963	3,174,351
Total interest incurred	$ 3,749,080	$ 3,845,586

Compensated Absences

Authority policies permit most employees to accumulate paid days off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Defined Benefit Pension Plan

The Authority has a single-employer defined benefit pension plan, the Comanche County Hospital Authority Employee Retirement Plan (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

The Authority is required to account for certain transactions that do not qualify for treatment as either assets or liabilities as deferred outflows or inflows of resources. Deferred outflows and inflows of resources are defined as a consumption (deferred outflows) or an acquisition (deferred inflows) of net position by the Authority that is applicable to a future reporting period.

At June 30, 2017 and 2016, the deferred inflows and outflows of resources reported by the Authority on the accompanying balance sheets consisted of the following items:

	2017	2016
Deferred inflows related to pensions	$ 60,568	$ 105,769
Loss on defeasance of long-term debt, net	$ 1,119,795	$ 1,296,129
Deferred outflows related to pensions	4,918,167	4,839,970
Total deferred outflows	$ 6,037,962	$ 6,136,099

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, the amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the Authority is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Foundation

The Authority is the beneficiary of Comanche County Memorial Hospital Foundation (the Foundation), a separate legal entity with its own board of directors. The Foundation has legal title to all of the Foundation's assets. The Foundation is not a component unit of the Authority and, thus, is not reflected in the accompanying financial statements.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee, which is placed in pools after receiving federal matching funds. The total fees and matching funds are then allocated to hospitals as directed by legislation.

SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The amounts noted in the table below for the years ended June 30, 2017 and 2016, represent the approximate amounts received and paid by the Authority. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different from the net amounts received in 2017.

	2017	2016
SHOPP funds received	$ 14,272,000	$ 11,280,000
SHOPP assessment fees paid	6,023,000	5,328,000
Net SHOPP benefit	$ 8,249,000	$ 5,952,000

Electronic Health Records Incentive Programs

The Electronic Health Records Incentive Programs, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provide for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for three years based on a statutory formula, as determined by the state, which is approved by CMS. Payments under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based on an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the programs.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

CCMH attested to meeting the third-year requirements under the Medicare and Medicaid programs during the year ended June 30, 2016. CCMH attested to meeting the fourth-year requirements under the Medicare program during the year ended June 30, 2017. The revenue related to these programs for the years ended June 30, 2017 and 2016, which is included in other revenue on the accompanying statements of revenues, expenses and changes in net position, is summarized below:

	2017	2016
Medicare Hospital Program Revenue	$ 453,000	$ 1,076,000
Medicaid Hospital Program Revenue	-	149,000
Medicare and Medicaid Physician Program Revenue	145,000	412,000
Total	$ 598,000	$ 1,637,000

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. These reclassifications had no effect on the changes in financial position.

Note 2: Change in Reporting Entity

During 2017, the sublease agreement with Tillman was terminated, resulting in a change in reporting entity. The accompanying financial statements as of and for the year ended June 30, 2016, have been retroactively restated for the change, which resulted in a decrease in beginning net position of $3,049,892 and an increase in change in net position of $1,830,678. Net position has been adjusted for the effect of retroactive application.

Note 3: Net Patient Service Revenue

CCMH, MTNC and LCHC have agreements with third-party payers that provide for payments to them at amounts different from their established rates. Those payment arrangements include:

- **Medicare** – Substantially all inpatient acute care services and outpatient services rendered to Medicare program beneficiaries, including physician services, are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. CCMH, MTNC and LCHC are reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor.

- **Medicaid** – CCMH, MTNC and LCHC have also been reimbursed for services rendered to patients covered by the state Medicaid program. CCMH is reimbursed on a prospective basis at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. MTNC is reimbursed for services to residents who are Medicaid beneficiaries at prospectively determined per diem rates with no retroactive adjustment. LCHC is reimbursed for services provided to Medicaid beneficiaries at prospectively determined rates with no retroactive adjustment.

Approximately 63% and 67% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2017 and 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Grant Revenue

The Authority is the recipient of a Community Health Center (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery in Lawton, Oklahoma, and surrounding areas. Terms of the grant generally provide for funding of LCHC's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2017 and 2016, the Authority received approximately $2,024,000 and $1,912,000, respectively, in CHC grant funds.

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At June 30, 2017 and 2016, none of the Authority's bank balances of approximately $15,153,000 and $12,383,000, respectively, were exposed to custodial credit risk. At June 30, 2017 and 2016, the Authority's bank balances in excess of FDIC limits were collateralized by irrevocable letters of credit from the Federal Home Loan Bank.

Investments

The Authority has an investment policy related to its investment portfolio. This policy does not apply to investments held under trustee agreements related to bond indentures.

At June 30, the Authority had the following investments and maturities:

June 30, 2017

Type	Fair Value	Maturities in Years: Less than 1	1–5	6–10	More than 10
Mortgage- and asset-backed securities of U.S. agencies	$ 25,222,366	$ 2,113,031	$ 22,954,615	$ -	$ 154,720
Equity securities	239,256	239,256	-	-	-
Money market mutual funds	20,823,126	20,823,126	-	-	-
	46,284,748	$ 23,175,413	$ 22,954,615	$ -	$ 154,720
Accrued investment income	99,785				
	$ 46,384,533				

June 30, 2016

Type	Fair Value	Maturities in Years: Less than 1	1–5	6–10	More than 10
Mortgage- and asset-backed securities of U.S. agencies	$ 23,498,371	$ 3,754,775	$ 19,743,596	$ -	$ -
Equity securities	153,452	153,452	-	-	-
Money market mutual funds	18,775,441	18,775,441	-	-	-
	42,427,264	$ 22,683,668	$ 19,743,596	$ -	$ -
Accrued investment income	70,854				
	$ 42,498,118				

- **Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits the sale of securities on the open market prior to maturity and directly investing in securities maturing more than five years from the date of purchase. The Authority has also adopted weighted-average limitations not to exceed three years. The money market mutual funds and equity securities are presented as investments with maturities of less than one year because they are redeemable in full immediately.

- **Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority's policy to limit its investments to securities with a Standard & Poor's (S & P) credit rating of AAA or Moody's credit rating of Aaa. U.S. Treasury obligations, U.S. government agency and instrumentality obligations, certificates of deposit and money market mutual funds are acceptable security types under the Authority's investment policy. At June 30, 2017 and 2016, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

	2017		2016	
Type	**Moody's**	**S & P**	**Moody's**	**S & P**
Mortgage- and asset-backed securities of U.S. agencies	Aaa	AA+	Aaa	AA+
Money market mutual funds	Aaa	AAA	Aaa	AAA

- **Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2017 and 2016, the Authority's investments in mortgage- and asset-backed securities are held by counterparties in other than the Authority's name. The Authority's investment policy does not address how securities underlying repurchase agreements are to be held.

- **Concentration of Credit Risk** – The Authority limits the types of securities purchased to U.S. Treasury obligations, U.S. government agency and instrumentality obligations, money market mutual funds and certificates of deposit fully covered by FDIC limits. The Authority's investment policy does not place a limit on the amount that may be invested in any one issuer.

At June 30, 2017, the following investments exceeded 5% of the total fair value of all investments:

Investment	Fair Value	Percentage of Total
Federal National Mortgage Association	$ 9,587,544	20.7%
Federal Home Loan Mortgage Corporation	$ 8,436,538	18.2%
Federal Home Loan Bank	$ 4,106,946	8.9%
Federal Farm Credit Bank	$ 2,448,150	5.3%

At June 30, 2016, the following investments exceeded 5% of the total fair value of all investments:

Investment	Fair Value	Percentage of Total
Federal Home Loan Mortgage Corporation	$ 9,814,413	23.1%
Federal Home Loan Bank	$ 6,163,627	14.5%
Federal National Mortgage Association	$ 6,019,791	14.2%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	2017	2016
Carrying value		
Deposits	$ 10,745,853	$ 10,944,094
Investments	46,384,533	42,498,118
	$ 57,130,386	$ 53,442,212
Included in the following balance sheet captions		
Cash and cash equivalents	$ 19,170,747	$ 16,162,298
Restricted cash and investments – current	6,408,402	6,192,911
Noncurrent cash and investments	31,451,452	31,016,149
Accrued investment income	99,785	70,854
	$ 57,130,386	$ 53,442,212

Investment Income

Investment income for the years ended June 30 consisted of:

	2017	2016
Interest and dividend income	$ 517,463	$ 546,137
Net increase (decrease) in fair value of investments	(448,717)	69,600
	$ 68,746	$ 615,737

The Comanche County Hospital Authority
Notes to Financial Statements
June 30, 2017 and 2016

Note 5: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, most of whom are residents of southwestern Oklahoma and are insured under third-party payer agreements. Patient accounts receivable at June 30 consisted of:

	2017	2016
Medicare	$ 15,792,493	$ 10,552,806
Medicaid	5,286,219	4,939,731
Other third-party payers	40,533,440	20,411,349
Patients	20,651,173	46,370,687
	82,263,325	82,274,573
Less allowance for uncollectible accounts	44,113,000	44,908,000
	$ 38,150,325	$ 37,366,573

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 3,944,883	$ -	$ -	$ 352,488	$ 4,297,371
Land improvements	9,210,139	-	-	149,070	9,359,209
Buildings and improvements	138,619,700	-	-	23,657,311	162,277,011
Equipment	139,643,719	426,346	(4,487,893)	2,494,232	138,076,404
Construction in progress	21,917,075	7,825,339	-	(26,653,101)	3,089,313
	313,335,516	8,251,685	(4,487,893)	-	317,099,308
Less accumulated depreciation					
Land improvements	6,892,396	291,638	-	-	7,184,034
Buildings and improvements	79,174,716	5,087,355	-	-	84,262,071
Equipment	109,411,956	7,258,967	(4,475,997)	-	112,194,926
	195,479,068	12,637,960	(4,475,997)	-	203,641,031
Capital assets, net	$ 117,856,448	$ (4,386,275)	$ (11,896)	$ -	$ 113,458,277

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 3,944,883	$ -	$ -	$ -	$ 3,944,883
Land improvements	9,138,813	-	-	71,326	9,210,139
Buildings and improvements	136,336,977	17,314	(20,708)	2,286,117	138,619,700
Equipment	136,515,257	3,037,968	(217,116)	307,610	139,643,719
Construction in progress	11,955,446	12,627,300	(618)	(2,665,053)	21,917,075
	297,891,376	15,682,582	(238,442)	-	313,335,516
Less accumulated depreciation					
Land improvements	6,536,471	355,925	-	-	6,892,396
Buildings and improvements	74,801,951	4,372,765	-	-	79,174,716
Equipment	102,108,400	7,489,254	(185,698)	-	109,411,956
	183,446,822	12,217,944	(185,698)	-	195,479,068
Capital assets, net	$ 114,444,554	$ 3,464,638	$ (52,744)	$ -	$ 117,856,448

Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance for services under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable costs of such incidents. At June 30, 2017 and 2016, the Authority accrued approximately $250,000 and $350,000, respectively, based on its claims experience for these claims. It is reasonably possible that these estimates could change materially in the near term.

Because the Authority was created by the County, management believes the limit of liability for any individual tort claim not covered by insurance would be limited to $125,000 under Oklahoma state law.

Note 8: Self-Insured Claims

The Authority sponsors short-term disability, health and dental care plans and a workers' compensation plan for its employees. These plans are self-insured to the extent of the deductible amounts under the excess risk insurance policies the Authority has obtained. These self-insured amounts are currently as follows:

- Workers' compensation – first $450,000 per accident
- Health and dental care – first $350,000 per person per year

A provision is accrued for self-insured workers' compensation and health and dental care claim costs, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible the Authority's estimate will change by a material amount in the near term.

Activity in the Authority's accrued liability for self-insured plans, included in accrued expenses on the accompanying balance sheets, during the years ended June 30 is summarized as follows:

	2017	
	Employee Health and Dental Benefits	Workers' Compensation
Balance, beginning of year	$ 1,328,370	$ 1,001,312
Current year claims incurred and changes in estimates for claims incurred in prior years	8,032,615	585,955
Claims and expenses paid	(8,034,121)	(634,496)
Balance, end of year	$ 1,326,864	$ 952,771

	2016	
	Employee Health and Dental Benefits	Workers' Compensation
Balance, beginning of year	$ 1,145,651	$ 1,183,586
Current year claims incurred and changes in estimates for claims incurred in prior years	7,876,298	606,479
Claims and expenses paid	(7,693,579)	(788,753)
Balance, end of year	$ 1,328,370	$ 1,001,312

In June 2017 and 2016, the Oklahoma Workers' Compensation Court required the Authority to post collateral for self-insured claims in the form of letters of credit with a bank in the amount of $792,000 for both years in the event the Authority was unable to pay its claims. As of the date of the Independent Auditor's Report, no amounts have been drawn on these letters of credit.

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30:

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Series 2012A Revenue Bonds	$ 35,841,207	$ -	$ (1,051,198)	$ 34,790,009	$ 1,081,733
Series 2012B Revenue Bonds	9,830,000	-	(645,000)	9,185,000	670,000
Series 2015 Revenue Bonds	41,755,450	-	(3,189,498)	38,565,952	3,296,365
Note payable to bank (B)	7,634,444	3,232,891	(1,682,714)	9,184,621	1,701,814
Note payable to bank (C)	-	4,000,000	(203,733)	3,796,267	350,307
Note payable to third party	110,731	-	(34,289)	76,442	34,911
Capital lease obligations	122,178	1,008,328	(50,996)	1,079,510	261,325
Total long-term debt	95,294,010	8,241,219	(6,857,428)	96,677,801	7,396,455
Other long-term liabilities					
Estimated self-insurance costs	1,001,312	585,955	(634,496)	952,771	455,771
Deferred compensation plans	1,846,043	306,529	(1,018,803)	1,133,769	41,981
Total long-term obligations	$ 98,141,365	$ 9,133,703	$ (8,510,727)	$ 98,764,341	$ 7,894,207

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Series 2012A Revenue Bonds	$ 36,866,689	$ -	$ (1,025,482)	$ 35,841,207	$ 1,051,425
Series 2012B Revenue Bonds	9,830,000	-	-	9,830,000	645,000
Series 2015 Revenue Bonds	45,236,143	-	(3,480,693)	41,755,450	3,189,497
Note payable to bank (A)	215,750	-	(215,750)	-	-
Note payable to bank (B)	9,330,613	-	(1,696,169)	7,634,444	1,753,627
Note payable to third party	144,409	-	(33,678)	110,731	34,289
Capital lease obligations	421,411	158,912	(458,145)	122,178	50,432
Total long-term debt	102,045,015	158,912	(6,909,917)	95,294,010	6,724,270
Other long-term liabilities					
Estimated self-insurance costs	1,183,586	606,479	(788,753)	1,001,312	762,312
Deferred compensation plans	1,793,783	71,034	(18,774)	1,846,043	1,018,803
Total long-term obligations	$ 105,022,384	$ 836,425	$ (7,717,444)	$ 98,141,365	$ 8,505,385

Revenue Bonds Payable

The revenue bonds payable consist of the following:

- Series 2012A Hospital Revenue Refunding Bonds (Series 2012A Revenue Bonds), in the original amount of $36,790,000 dated December 14, 2012, bear interest at 3.00% to 5.00%, payable semiannually. Principal is payable in annual installments through July 2042. The Authority is required to make monthly deposits to the debt service fund held by the trustee. All of the bonds still outstanding may be redeemed at the Authority's option on or after July 1, 2022, at a redemption price of 100%. The bonds are secured by the net revenues of the Authority and the assets restricted under the bond indenture agreement. The principal of these bonds was split between CCMH and MTNC. The allocation of the principal amounts and respective maturity dates related to CCMH and MTNC are as follows:

	Principal Amount	Maturity Date
Comanche County Memorial Hospital	$ 24,765,000	July 2032
McMahon-Tomlinson Nursing Center	12,025,000	July 2042
	$ 36,790,000	

When the Series 2012A Revenue Bonds were issued, the bonds were sold at a premium of approximately $2,162,000. At June 30, 2017 and 2016, the outstanding balance of the Series 2012A Revenue Bonds was as follows:

	2017	2016
Principal amount	$ 33,390,000	$ 34,300,000
Plus unamortized premium	1,400,009	1,541,207
Net amount outstanding	$ 34,790,009	$ 35,841,207

- Series 2012B Hospital Revenue Refunding Bonds (the Series 2012B Revenue Bonds), in the original amount of $9,830,000 dated December 14, 2012, bear interest at 3.43% to 5.90%, payable semiannually. Principal is payable in annual installments through July 2027. The Authority is required to make monthly deposits to the debt service fund held by the trustee. All of the bonds still outstanding may be redeemed at the Authority's option on or after July 1, 2022, at a redemption price of 100%. The bonds are secured by the net revenues of the Authority and the assets restricted under the bond indenture agreement.

- Series 2015 Hospital Revenue Refunding Bonds (the Series 2015 Revenue Bonds), in the original amount of $41,575,000 dated April 7, 2015, bear interest at 3.13% to 5.00%, payable semiannually. Principal is payable in annual installments through July 2029 and was used to refund the Series 2005 Revenue Bonds and a portion of one of the notes payable to bank. The Authority is required to make monthly deposits to the debt service fund held by the trustee. All of the bonds still outstanding may be redeemed at the Authority's option on or after July 1, 2025, at a redemption price of 100%. The bonds are secured by the net revenues of the Authority and the assets restricted under the bond indenture agreement.

  When the Series 2015 Revenue Bonds were issued, the bonds were sold at a premium of approximately $3,754,000. At June 30, 2017 and 2016, the outstanding balance of the Series 2015 Revenue Bonds was as follows:

	2017	2016
Principal amount	$ 35,900,000	$ 38,610,000
Plus unamortized premium	2,665,952	3,145,450
Net amount outstanding	$ 38,565,952	$ 41,755,450

The revenue bonds' indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The indentures also require the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a debt service coverage ratio of at least 1.10 to 1.00, restrictions on incurrence of additional debt and maintaining a minimum days cash on hand.

In prior years, the Authority had advance refunded four different revenue bond issues and each of these advance refunding transactions resulted in extinguishment of debt since the Authority was legally released from its obligation on those bond series.

The prior advance refunding transactions resulted in an accounting loss on the extinguishment of the long-term debt. This loss on refunding is shown as deferred outflows of resources on the accompanying balance sheets and is being amortized using the straight-line method over the life of the respective new bond issues.

The debt service requirements as of June 30, 2017, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	$ 8,883,859	$ 5,048,098	$ 3,835,761
2019	8,821,994	5,198,541	3,623,453
2020	8,785,897	5,391,665	3,394,232
2021	8,728,337	5,577,540	3,150,797
2022	8,674,436	5,780,963	2,893,473
2023–2027	35,760,129	25,280,284	10,479,845
2028–2032	26,753,504	22,372,159	4,381,345
2033–2037	5,147,859	4,021,000	1,126,859
2038–2042	3,653,135	3,155,712	497,423
2043	730,193	714,999	15,194
	$ 115,939,343	$ 82,540,961	$ 33,398,382

Note Payable to Bank (A)

The first note payable to bank was in the original amount of $2,300,000 and was due March 10, 2016, with principal and interest at 5% payable monthly. The note was secured by collateral assignments of leases. This note payable was paid in full during the year ended June 30, 2016.

Note Payable to Bank (B)

The second note payable to bank was entered into by the Authority in October 2013 in the original amount of $27,000,000 with $18,000,000 being a variable rate note and $9,000,000 being a fixed rate note. The proceeds of the note were used by CCMH and MTNC.

In April 2015, the Authority amended the note payable to bank. The amended debt combines the two separate notes into one note carrying a fixed interest rate of 3.25% annually. The amended note matures on the earlier of April 7, 2025, or as the loan becomes due and payable pursuant to the repayment schedule. The amended note allowed for draws on the note up to $16,835,000 through December 31, 2015. Payments of principal and interest are due monthly in the amount of $164,892.

In October 2016, the Authority further amended the note payable allowing for draws on the note through December 31, 2017.

The debt service requirements as of June 30, 2017, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	$ 1,978,708	$ 1,701,814	$ 276,894
2019	1,978,708	1,758,694	220,014
2020	1,978,708	1,817,063	161,645
2021	1,978,708	1,878,206	100,502
2022	1,978,708	1,940,980	37,728
2023	88,101	87,864	237
	$ 9,981,641	$ 9,184,621	$ 797,020

Note Payable to Bank (C)

In October 2015, the Authority obtained a $5,000,000 revolving bank line of credit for operations. At June 30, 2016, there were no outstanding balances borrowed against this line. In October 2016, the revolving line of credit was converted to a note payable to bank in the amount of $4,000,000 due October 1, 2026, with principal and interest at 3.25% payable monthly beginning December 2016. This note is secured by all pledged revenues of the Authority.

The debt service requirements as of June 30, 2017, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	$ 468,492	$ 350,307	$ 118,185
2019	468,493	361,864	106,629
2020	468,493	373,801	94,692
2021	468,493	386,132	82,361
2022	468,493	398,870	69,623
2023–2027	2,069,365	1,925,293	144,072
	$ 4,411,829	$ 3,796,267	$ 615,562

The Comanche County Hospital Authority

Notes to Financial Statements

June 30, 2017 and 2016

Note Payable to Third Party

The note payable to third party is due July 1, 2019, including principal and interest of 1.8% annually, payable monthly. The note is secured by a mortgage of real property. The debt service requirements for the Authority's note payable to third party as of June 30, 2017, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	$ 36,000	$ 34,911	$ 1,089
2019	36,000	35,545	455
2020	6,000	5,986	14
	$ 78,000	$ 76,442	$ 1,558

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Capital assets acquired using capital leases at June 30 consisted of the following:

	2017	2016
Capital assets, cost	$ 1,167,240	$ 158,912
Less accumulated depreciation	57,329	26,485
	$ 1,109,911	$ 132,427

The following is a schedule by year of future minimum lease payments under the capital leases, including interest rates of 0.52% to 10.72% together with the present value of the future minimum lease payments as of June 30, 2017:

Year Ending June 30,	
2018	$ 285,336
2019	239,600
2020	224,237
2021	224,238
2022	162,963
Total minimum lease payments	1,136,374
Less amount representing interest	56,864
Present value of future minimum lease payments	$ 1,079,510

Note 10: Charity Care and Other Community Benefits

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue.

The costs of charity care provided under the Authority's charity care policy were approximately $1,017,000 and $1,545,000 for 2017 and 2016, respectively. The cost of charity care is estimated by applying the ratio of costs to gross charges from the most recent Medicare cost report.

In addition to uncompensated care, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, prenatal education and care, community educational services, ambulance services, rural clinics and various support groups.

Note 11: Pension Plan

Plan Description

The Authority maintains the Comanche County Hospital Authority Employee Retirement Plan (the Plan), a single-employer defined benefit pension plan covering substantially all employees. The Plan is administered by the Plan's board of trustees, who are appointed by the Authority's governing body. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. The Plan does not issue a separate report that includes financial statements and required supplementary information for the Plan.

Benefits Provided

The Plan provides retirement, disability and death benefits to plan members and their beneficiaries. Retirement benefits for employees are calculated as 0.6% of the participant's Final Average Compensation, as defined by the Plan, multiplied by the participant's years of credited service at retirement or termination. Death benefits are equal to the vested benefits and allow for qualifying surviving spouses to receive 50% of the amount the participant would have received. The normal retirement age under the Plan is 65, with certain defined exceptions.

The employees covered by the Plan at June 30 are:

	2017	2016
Inactive employees or beneficiaries currently receiving benefits	298	279
Inactive employees entitled to but not yet receiving benefits	266	241
Active employees	1,117	1,309
	1,681	1,829

Contributions

The Authority's governing body has the authority to establish and amend the contribution requirements of the Authority and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2017 and 2016, the Authority contributed approximately $2,305,000 and $2,315,000, respectively, to the Plan. Participants do not contribute to the Plan.

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2017 and 2016, for the years then ended, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the June 30, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	2.000%	2.250%
Salary increase (average, including inflation)	3.000%	3.000%
Investment rate of return (net of pension plan investment expense) and including inflation	6.625%	6.750%

Mortality rates were based on the 2016 and 2015 IRS Prescribed Mortality – Optional Combined Table for Small Plans – Male and Female.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Rate of Return
Asset Class		
Domestic stocks – large cap	17.68%	7.85%
Domestic stocks – mid cap	7.22%	8.10%
Domestic stocks – small cap	4.17%	8.55%
International stocks	16.40%	8.10%
Real estate	5.41%	7.95%
Treasury inflation-protected securities	1.36%	3.05%
Core bond	34.92%	3.75%
High-yield bonds	12.11%	6.70%
Cash and cash equivalents	0.73%	1.55%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 6.625% and 6.750% for the years ended June 30, 2017 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that the Authority's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and the net pension liability are:

	2017		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Balance, beginning of year	$ 61,531,491	$ 41,635,791	$ 19,895,700
Changes for the year			
Service cost	655,666	-	655,666
Interest	4,087,742	-	4,087,742
Differences between expected and actual experience	2,180,773	-	2,180,773
Contributions – employer	-	2,305,000	(2,305,000)
Net investment income	-	3,717,334	(3,717,334)
Benefit payments	(3,228,627)	(3,228,627)	-
Administrative expense	-	(48,520)	48,520
Change of assumptions	1,013,383	-	1,013,383
Net changes	4,708,937	2,745,187	1,963,750
Balance, end of year	$ 66,240,428	$ 44,380,978	$ 21,859,450

	2016 Total Pension Liability (a)	2016 Plan Fiduciary Net Position (b)	2016 Net Pension Liability (a) - (b)
Balance, beginning of year	$ 57,727,344	$ 41,874,259	$ 15,853,085
Changes for the year			
Service cost	682,446	-	682,446
Interest	3,984,688	-	3,984,688
Differences between expected and actual experience	252,114	-	252,114
Contributions – employer	-	2,315,000	(2,315,000)
Net investment income	-	402,171	(402,171)
Benefit payments	(2,882,449)	(2,882,449)	-
Administrative expense	-	(73,190)	73,190
Change of assumptions	1,756,164	-	1,756,164
Other changes	11,184	-	11,184
Net changes	3,804,147	(238,468)	4,042,615
Balance, end of year	$ 61,531,491	$ 41,635,791	$ 19,895,700

The net pension liability of the Authority has been calculated using a discount rate of 6.625%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (5.625%)	Current Discount Rate (6.625%)	1% Increase (7.625%)
Net pension liability	$ 29,986,236	$ 21,859,450	$ 15,125,883

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2017 and 2016, the Authority recognized pension expense of approximately $4,145,000 and $3,218,000, respectively. At June 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,662,971	$ 60,568
Change in assumptions	1,669,410	-
Net difference between projected and actual earnings on pension plan investments	1,585,786	-
Total	$ 4,918,167	$ 60,568

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 193,619	$ 105,769
Change in assumptions	1,380,477	-
Net difference between projected and actual earnings on pension plan investments	3,265,874	-
Total	$ 4,839,970	$ 105,769

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

2018	$ 2,124,077
2019	2,144,952
2020	777,906
2021	(189,336)
Total	$ 4,857,599

Pension Plan Fiduciary Net Position

As of June 30, the Plan's fiduciary net position was comprised of the following:

	2017	2016
Pooled investments, at fair value		
Equities	$ 21,096,361	$ 19,551,626
Fixed income	18,165,177	17,238,656
Balanced asset allocation	1,999,071	1,904,291
Other	3,120,369	2,941,218
Total pooled investments, at fair value	$ 44,380,978	$ 41,635,791
Total plan fiduciary net position	$ 44,380,978	$ 41,635,791

Investment Policy – Investment policy decisions are established and maintained by the Administrative Committee charged with overseeing the pension plan, as authorized by the Authority's Board of Trustees. The Administrative Committee employs and selects investment managers.

The primary goal of a pension fund is to help pay the cost of the pension plan while providing adequate security to meet the benefits promised under the pension plan. As a consequence, two important dimensions of a pension plan's investment program are expected return and expected risk.

The pension plan trustees diversify pension plan investments among asset classes, recognizing that there is a relationship between the level of risk assumed in an investment program and the level of return that should be expected. Appropriate diversification better enables balance of risk and return.

Investment Rate of Return – The annual money-weighted rate of return on pension plan investments, net of expenses, which expresses net investment performance adjusted for changing amounts actually invested each month was approximately 9.1% for the 12 months ended June 30, 2017.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Plan does not have a separate policy covering credit risk.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Plan's investment policy does not address how investments are to be held.

Concentration of Credit Risk – The Plan does not have a policy to limit its holdings in any one issuer. At June 30, 2017 and 2016, all the Plan's investments were held through the Plan's investment manager, The Principal Group.

At June 30, the Plan's investments had the following maturities:

	June 30, 2017				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Pooled investments, at fair value					
Equities	$ 21,096,361	$ 21,096,361	$ -	$ -	$ -
Fixed income	18,165,177	697,602	5,999,560	5,318,766	6,149,249
Balanced asset allocation	1,999,071	1,486,535	202,913	236,535	73,088
Other	3,120,369	3,120,369	-	-	-
	$ 44,380,978	$ 26,400,867	$ 6,202,473	$ 5,555,301	$ 6,222,337

	June 30, 2016				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Pooled investments, at fair value					
Equities	$ 19,551,626	$ 19,551,626	$ -	$ -	$ -
Fixed income	17,238,656	971,168	2,827,409	10,512,998	2,927,081
Balanced asset allocation	1,904,291	1,197,386	-	706,905	-
Other	2,941,218	1,679,737	1,261,481	-	-
	$ 41,635,791	$ 23,399,917	$ 4,088,890	$ 11,219,903	$ 2,927,081

Following is a description of the valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

The fair value of the pension plan assets at June 30 was as follows:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Pooled Investments by Fair Value Level				
Equities	$ 21,096,361	$ -	$ 21,096,361	$ -
Fixed income	18,165,177	-	18,165,177	-
Balanced asset allocation	1,999,071	-	1,999,071	-
Other	3,120,369	-	3,120,369	-
Total pooled investments by fair value level	$ 44,380,978	$ -	$ 44,380,978	$ -
2016				
Pooled Investments by Fair Value Level				
Equities	$ 19,551,626	$ -	$ 19,551,626	$ -
Fixed income	17,238,656	-	17,238,656	-
Balanced asset allocation	1,904,291	-	1,904,291	-
Other	2,941,218	-	2,941,218	-
Total pooled investments by fair value level	$ 41,635,791	$ -	$ 41,635,791	$ -

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Plan did not hold any Level 3 securities at June 30, 2017 or 2016.

Note 12: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

		Fair Value Measurements Using		
Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Investments by Fair Value Level				
Mortgage- and asset-backed securities of U.S. agencies	$ 25,222,366	$ 4,991,469	$ 20,230,897	$ -
Equity securities	239,256	239,256	-	-
Money market mutual funds	20,823,126	20,823,126	-	-
Total investments by fair value level	$ 46,284,748	$ 26,053,851	$ 20,230,897	$ -

Type	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Investments by Fair Value Level				
Mortgage- and asset-backed securities of U.S. agencies	$ 23,498,371	$ 9,814,413	$ 13,683,958	$ -
Equity securities	153,452	153,452	-	-
Money market mutual funds	18,775,441	18,775,441	-	-
Total investments by fair value level	$ 42,427,264	$ 28,743,306	$ 13,683,958	$ -

Note 13: Related-Party Information

Comanche County Memorial Hospital Foundation, Inc.

The Foundation, a not-for-profit corporation with a separate board of directors, was established in February 1993 to support the educational and charitable purposes of CCMH. CCMH provides administrative services and supplies to the Foundation. At June 30, 2017 and 2016, no amounts are owed by the Foundation as a result of these purchases and services.

Cancer Centers of Southwest Oklahoma, LLC

As discussed below, the Authority is a member of Cancer Centers of Southwest Oklahoma, LLC (CCSO). For the years ended June 30, 2017 and 2016, the Authority recorded revenue from CCSO in the amounts of approximately $7,231,000 and $7,800,000, respectively, for space rental, purchases and services provided by the Authority to or on behalf of CCSO. At June 30, 2017 and 2016, CCSO owed the Authority approximately $2,204,000 and $1,250,000, respectively, which is included in due from related parties on the accompanying balance sheets.

CCSO provides cancer treatment services to the Authority's patients. For the years ended June 30, 2017 and 2016, the Authority incurred approximately $18,793,000 and $20,380,000, respectively, of expense and owed CCSO approximately $1,854,000 and $2,741,000 at June 30, 2017 and 2016, respectively, related to these services. These amounts are included in the accompanying balance sheets in due to related parties.

Note 14: Investments in Joint Ventures

The investments in joint ventures relate to a 25% ownership in MSO Healthcare of Oklahoma, LLC (MSO), an approximate 46% ownership in CCSO and an approximate 10% ownership in LifeCare Health Services, L.L.C. (LifeCare). These investments in joint ventures are accounted for using the equity method.

The financial position and results of operations of the investees are summarized below. The information summarized below represents the results of operations for CCSO, MSO and LifeCare for the fiscal years ended June 30, 2017 and 2016.

	June 30, 2017		
	CCSO	MSO	LifeCare
Current assets	$ 13,207,609	$ 150,809	$ 6,146,385
Property and other long-term assets, net	17,888,355	350,477	482,550
Total assets	$ 31,095,964	$ 501,286	$ 6,628,935
Total liabilities	$ 25,409,597	$ 151,757	$ 212,074
Partners' equity	5,686,367	349,529	6,416,861
Total liabilities and partners' equity	$ 31,095,964	$ 501,286	$ 6,628,935
Revenues	$ 34,862,191	$ 216,106	$ 1,018,679
Excess (deficiency) of revenues over expenses	$ 2,080,152	$ (90,579)	$ 122,410

	June 30, 2016	
	CCSO	MSO
Current assets	$ 11,802,801	$ 47,641
Property and other long-term assets, net	19,714,119	408,708
Total assets	$ 31,516,920	$ 456,349
Total liabilities	$ 26,510,666	$ 61,922
Partners' equity	5,006,254	394,427
Total liabilities and partners' equity	$ 31,516,920	$ 456,349
Revenues	$ 34,082,464	$ 226,356
Excess (deficiency) of revenues over expenses	$ 1,295,002	$ (4,837)

Complete financial statements of the joint venture entities may be obtained by contacting the Authority's management.

Note 15: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Required Supplementary Information

The Comanche County Hospital Authority

Required Supplementary Information

Schedule of Changes in the Authority's Net Pension Liability and Related Ratios

	2017	2016	2015
Total pension liability			
Service cost	$ 655,666	$ 682,446	$ 637,179
Interest	4,087,742	3,984,688	3,863,517
Differences between expected and actual experience	2,180,773	252,114	(196,171)
Change of assumptions	1,013,383	1,756,164	58,934
Benefit payments	(3,228,627)	(2,882,449)	(2,509,568)
Other changes	-	11,184	-
Net change in total pension liability	4,708,937	3,804,147	1,853,891
Total pension liability – beginning	61,531,491	57,727,344	55,873,453
Total pension liability – ending (a)	66,240,428	61,531,491	57,727,344
Plan fiduciary net position			
Contributions – employer	2,305,000	2,315,000	2,425,000
Net investment income	3,717,334	402,171	750,448
Benefit payments	(3,228,627)	(2,882,449)	(2,509,568)
Administrative expense	(48,520)	(73,190)	(44,173)
Net change in plan fiduciary net position	2,745,187	(238,468)	621,707
Plan fiduciary net position – beginning	41,635,791	41,874,259	41,252,552
Plan fiduciary net position – ending (b)	44,380,978	41,635,791	41,874,259
Net pension liability – ending (a) - (b)	$ 21,859,450	$ 19,895,700	$ 15,853,085
Plan fiduciary net position as a percentage of the total pension liability	67.00%	67.67%	72.54%
Covered employee payroll	$ 50,454,740	$ 56,460,170	$ 51,828,978
Net pension liability as a percentage of covered employee payroll	43.32%	35.24%	30.59%

Notes to Schedule

Change in assumptions:

- Investment rate of return reduced from 6.750% to 6.625%
- Inflation reduced from 2.25% to 2.00%
- Mortality table updated to IRS Prescribed Mortality – Optional Combined Table for Small Plans – Male and Female – for 2016

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

The Comanche County Hospital Authority

Required Supplementary Information

Schedule of the Authority's Contributions

	2017	2016	2015
Actuarially determined contributions	$ 3,723,996	$ 2,818,799	$ 2,365,504
Contributions in relation to the actuarially determined contribution	2,305,000	2,315,000	2,425,000
Contribution deficiency (excess)	$ 1,418,996	$ 503,799	$ (59,496)
Covered employee payroll	$ 50,454,740	$ 56,460,170	$ 51,828,978
Contributions as a percentage of covered employee payroll	4.57%	4.10%	4.68%

Notes to Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Valuation date: June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry Age
Amortization method:	Initial unfunded actuarial accrued liability – 15 years Amendments and assumption changes – 10 years
Remaining amortization period:	Initial unfunded actuarial accrued liability – 13 years Amendments and assumption changes – 8 years
Asset valuation method:	Market Value
Inflation:	2.000%
Salary increases:	3.000%
Investment rate of return:	6.625%
Retirement age:	If hired on or before July 1, 1992 – the later of age 65 or 10 years of vested service If hired after July 1, 1992 – attained age 65
Mortality:	IRS Prescribed Mortality – Optional Combined Table for Small Plans – Male and Female – for 2016

Supplementary Information

The Comanche County Hospital Authority
Combining Schedule – Balance Sheet Information
June 30, 2017

	Comanche County Memorial Hospital	McMahon-Tomlinson Nursing Center	Lawton Community Health Center	Eliminations	Combined Balance
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	$ 16,114,102	$ 269,712	$ 2,786,933	$ -	$ 19,170,747
Restricted cash and investments – current	5,880,082	528,320	-	-	6,408,402
Patient accounts receivable, net; $44,113,000	36,666,322	1,058,147	425,856	-	38,150,325
Accrued investment income	99,785	-	-	-	99,785
Due from related parties	7,769,510	-	-	(5,110,737)	2,658,773
Supplies	5,367,619	23,400	24,291	-	5,415,310
Prepaid expenses and other	3,860,173	59,818	227,731	-	4,147,722
Total current assets	75,757,593	1,939,397	3,464,811	(5,110,737)	76,051,064
Noncurrent Cash and Investments					
Held by trustee for debt service	10,323,108	2,075,123	-	-	12,398,231
Less amount required to meet current obligations	5,880,082	528,320	-	-	6,408,402
	4,443,026	1,546,803	-	-	5,989,829
Other long-term investments	25,461,623	-	-	-	25,461,623
Total noncurrent cash and investments	29,904,649	1,546,803	-	-	31,451,452
Capital Assets, Net	93,923,168	17,780,803	1,754,306	-	113,458,277
Other Assets					
Investments in joint ventures	3,349,335	-	-	-	3,349,335
Goodwill	4,867,473	-	-	-	4,867,473
Other	1,601,436	-	-	-	1,601,436
Total other assets	9,818,244	-	-	-	9,818,244
Deferred Outflows of Resources	5,397,356	776,219	-	(135,613)	6,037,962
Total assets and deferred outflows of resources	$ 214,801,010	$ 22,043,222	$ 5,219,117	$ (5,246,350)	$ 236,816,999

	Comanche County Memorial Hospital	McMahon-Tomlinson Nursing Center	Lawton Community Health Center	Eliminations	Combined Balance
Liabilities, Deferred Inflows of Resources and Net Position					
Current Liabilities					
Current maturities of long-term debt	$ 6,230,270	$ 1,166,185	$ -	$ -	$ 7,396,455
Accounts payable	18,408,130	426,700	302,027	-	19,136,857
Accrued expenses	13,195,365	585,345	-	-	13,780,710
Accrued interest payable	1,677,676	259,871	-	-	1,937,547
Due to related parties	1,855,185	4,773,407	337,330	(5,110,737)	1,855,185
Estimated amounts due to third-party payers	391,547	-	-	-	391,547
Total current liabilities	41,758,173	7,211,508	639,357	(5,110,737)	44,498,301
Long-Term Debt	76,038,965	13,242,381	-	-	89,281,346
Net Pension Liability	20,383,937	1,475,513	-	-	21,859,450
Other Long-Term Obligations	1,588,788	-	-	-	1,588,788
Total liabilities	139,769,863	21,929,402	639,357	(5,110,737)	157,227,885
Deferred Inflows of Resources	192,093	4,088	-	(135,613)	60,568
Net Position					
Net investment in capital assets	23,344,710	4,919,040	1,754,306	-	30,018,056
Restricted – expendable for debt service	5,946,120	268,449	-	-	6,214,569
Unrestricted	45,548,224	(5,077,757)	2,825,454	-	43,295,921
Total net position	74,839,054	109,732	4,579,760	-	79,528,546
Total liabilities, deferred inflows of resources and net position	$ 214,801,010	$ 22,043,222	$ 5,219,117	$ (5,246,350)	$ 236,816,999

Note to Schedule

The Authority's investment in CCSO is presented in the Comanche County Memorial Hospital column of these combining schedules.

The Comanche County Hospital Authority

Combining Schedule – Balance Sheet Information

June 30, 2016

	Comanche County Memorial Hospital	McMahon-Tomlinson Nursing Center	Lawton Community Health Center	Eliminations	Combined Balance
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	$ 13,074,651	$ 943,678	$ 2,143,969	$ -	$ 16,162,298
Restricted cash and investments – current	5,822,330	370,581	-	-	6,192,911
Patient accounts receivable, net; $44,908,000	36,012,529	826,857	527,187	-	37,366,573
Accrued investment income	70,854	-	-	-	70,854
Due from related parties	5,140,255	-	-	(3,813,288)	1,326,967
Supplies	5,714,129	27,575	95,849	-	5,837,553
Prepaid expenses and other	3,799,896	14,647	219,749	-	4,034,292
Total current assets	69,634,644	2,183,338	2,986,754	(3,813,288)	70,991,448
Noncurrent Cash and Investments					
Held by trustee for debt service	10,359,478	1,917,813	-	-	12,277,291
Held in escrow for capital acquisitions	1,279,946	-	-	-	1,279,946
	11,639,424	1,917,813	-	-	13,557,237
Less amount required to meet current obligations	5,822,330	370,581	-	-	6,192,911
	5,817,094	1,547,232	-	-	7,364,326
Other long-term investments	23,651,823	-	-	-	23,651,823
Total noncurrent cash and investments	29,468,917	1,547,232	-	-	31,016,149
Capital Assets, Net	98,001,634	18,850,759	1,004,055	-	117,856,448
Other Assets					
Investments in joint ventures	2,513,965	-	-	-	2,513,965
Goodwill	5,358,311	-	-	-	5,358,311
Other	1,504,219	-	-	-	1,504,219
Total other assets	9,376,495	-	-	-	9,376,495
Deferred Outflows of Resources	5,959,838	573,535	-	(397,274)	6,136,099
Total assets and deferred outflows of resources	$ 212,441,528	$ 23,154,864	$ 3,990,809	$ (4,210,562)	$ 235,376,639

	Comanche County Memorial Hospital	McMahon-Tomlinson Nursing Center	Lawton Community Health Center	Eliminations	Combined Balance
Liabilities, Deferred Inflows of Resources and Net Position					
Current Liabilities					
Current maturities of long-term debt	$ 5,663,392	$ 1,060,878	$ -	$ -	$ 6,724,270
Accounts payable	20,962,932	3,503,795	194,920	(3,300,871)	21,360,776
Accrued expenses	13,814,653	611,475	-	-	14,426,128
Accrued interest payable	1,772,330	263,955	-	-	2,036,285
Due to related parties	2,813,720	-	512,417	(512,417)	2,813,720
Estimated amounts due to third-party payers	1,228,657	-	-	-	1,228,657
Total current liabilities	46,255,684	5,440,103	707,337	(3,813,288)	48,589,836
Long-Term Debt	74,360,210	14,209,530	-	-	88,569,740
Net Pension Liability	18,806,749	1,088,951	-	-	19,895,700
Other Long-Term Obligations	1,066,240	-	-	-	1,066,240
Total liabilities	140,488,883	20,738,584	707,337	(3,813,288)	158,121,516
Deferred Inflows of Resources	408,609	94,434	-	(397,274)	105,769
Net Position					
Net investment in capital assets	31,627,472	5,127,154	1,004,055	-	37,758,681
Restricted – expendable for debt service	5,887,836	107,055	-	-	5,994,891
Unrestricted	34,028,728	(2,912,363)	2,279,417	-	33,395,782
Total net position	71,544,036	2,321,846	3,283,472	-	77,149,354
Total liabilities, deferred inflows of resources and net position	$ 212,441,528	$ 23,154,864	$ 3,990,809	$ (4,210,562)	$ 235,376,639

Note to Schedule

The Authority's investment in CCSO is presented in the Comanche County Memorial Hospital column of these combining schedules.

The Comanche County Hospital Authority

Combining Schedule – Statement of Revenues, Expenses and Changes in Net Position Information

Year Ended June 30, 2017

	Comanche County Memorial Hospital	McMahon-Tomlinson Nursing Center	Lawton Community Health Center	Eliminations	Combined Balance
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts; $51,174,070	$ 246,369,425	$ 8,183,420	$ 6,582,818	$ -	$ 261,135,663
Grant revenue	-	-	2,024,107	-	2,024,107
Other	6,894,663	10,514	366,431	(57,183)	7,214,425
Total operating revenues	253,264,088	8,193,934	8,973,356	(57,183)	270,374,195
Operating Expenses					
Salaries and wages	103,798,663	4,208,048	4,710,630	-	112,717,341
Employee benefits	17,944,108	1,014,652	868,417	-	19,827,177
Purchased services and professional fees	56,175,439	1,606,377	760,529	-	58,542,345
Medical supplies and drugs	36,927,574	590,138	1,052,628	-	38,570,340
Supplies and other	22,571,760	1,299,443	796,557	(57,183)	24,610,577
Depreciation and amortization	12,069,738	1,084,993	161,670	-	13,316,401
Total operating expenses	249,487,282	9,803,651	8,350,431	(57,183)	267,584,181
Operating Income (Loss)	3,776,806	(1,609,717)	622,925	-	2,790,014
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	361,155	-	649,430	-	1,010,585
Gain on investments in joint ventures	1,475,415	-	-	-	1,475,415
Investment income	39,418	5,395	23,933	-	68,746
Interest expense and other financing costs	(2,445,171)	(607,792)	-	-	(3,052,963)
Total nonoperating revenues (expenses)	(569,183)	(602,397)	673,363	-	(498,217)
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	3,207,623	(2,212,114)	1,296,288	-	2,291,797
Capital Grants and Gifts	87,395	-	-	-	87,395
Increase (Decrease) in Net Position	3,295,018	(2,212,114)	1,296,288	-	2,379,192
Net Position, Beginning of Year	71,544,036	2,321,846	3,283,472	-	77,149,354
Net Position, End of Year	$ 74,839,054	$ 109,732	$ 4,579,760	$ -	$ 79,528,546

Note to Schedule

The Authority’s investment in CCSO is presented in the Comanche County Memorial Hospital column of these combining schedules.

The Comanche County Hospital Authority

Combining Schedule – Statement of Revenues, Expenses and Changes in Net Position Information

Year Ended June 30, 2016

	Comanche County Memorial Hospital	McMahon-Tomlinson Nursing Center	Lawton Community Health Center	Eliminations	Combined Balance
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts; $46,098,095	$ 233,204,171	$ 8,307,955	$ 4,614,649	$ -	$ 246,126,775
Grant revenue	-	-	1,912,325	-	1,912,325
Other	9,048,925	17,121	291,102	(57,183)	9,299,965
Total operating revenues	242,253,096	8,325,076	6,818,076	(57,183)	257,339,065
Operating Expenses					
Salaries and wages	99,122,906	4,087,346	3,536,546	-	106,746,798
Employee benefits	17,300,738	1,029,237	619,290	-	18,949,265
Purchased services and professional fees	58,820,690	1,099,119	611,922	-	60,531,731
Medical supplies and drugs	34,352,661	558,581	430,677	-	35,341,919
Supplies and other	22,491,232	1,493,731	609,632	(57,183)	24,537,412
Depreciation and amortization	11,595,498	1,086,929	65,338	-	12,747,765
Total operating expenses	243,683,725	9,354,943	5,873,405	(57,183)	258,854,890
Operating Income (Loss)	(1,430,629)	(1,029,867)	944,671	-	(1,515,825)
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	376,692	-	286,100	-	662,792
Gain on investments in joint ventures	707,910	-	-	-	707,910
Investment income	599,267	3,808	12,662	-	615,737
Interest expense and other financing costs	(2,535,286)	(639,065)	-	-	(3,174,351)
Total nonoperating revenues (expenses)	(851,417)	(635,257)	298,762	-	(1,187,912)
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	(2,282,046)	(1,665,124)	1,243,433	-	(2,703,737)
Capital Grants and Gifts	1,500,070	-	-	-	1,500,070
Increase (Decrease) in Net Position	(781,976)	(1,665,124)	1,243,433	-	(1,203,667)
Net Position, Beginning of Year	72,326,012	3,986,970	2,040,039	-	78,353,021
Net Position, End of Year	$ 71,544,036	$ 2,321,846	$ 3,283,472	$ -	$ 77,149,354

Note to Schedule

The Authority's investment in CCSO is presented in the Comanche County Memorial Hospital column of these combining schedules.

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

Board of Trustees
The Comanche County Hospital Authority
Lawton, 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 Comanche County Hospital Authority (the Authority), which comprise the balance sheet as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
The Comanche County Hospital Authority

Compliance and Other Matters

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

We noted certain matters that we reported to the Authority's management in a separate letter dated December 11, 2017.

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.

BKD, LLP

Tulsa, Oklahoma
December 11, 2017

The Comanche County Hospital Authority

Schedule of Findings and Responses

Year Ended June 30, 2017

Reference Number	Finding
	No matters are reportable.