

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma**
Independent Auditor's Reports and Financial Statements
June 30, 2016 and 2015



**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
June 30, 2016 and 2015**

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
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 <i>Government Auditing Standards</i>	26
Schedule of Findings and Responses.....	28

Independent Auditor's Report

Board of Trustees
The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
Hobart, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital), a component unit of Kiowa County, Oklahoma, as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Hospital as of June 30, 2016 and 2015, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017, on our consideration of the Hospital'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 Hospital's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
January 10, 2017

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015**

Introduction

This management's discussion and analysis of the financial performance of The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents, short-term investments and noncurrent investments decreased in 2016 by \$2,500,577 or 47.9% and decreased by \$3,119,189 or 37.4% in 2015.
- The Hospital's net position decreased by \$2,584,613 or 20.7% in 2016 and decreased by \$1,520,174 or 10.9% in 2015.
- The Hospital reported an operating loss of \$2,621,433 in 2016 and \$1,580,044 in 2015.

Using This Annual Report

The Hospital'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 Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital 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 hospital's finances is, "Is the hospital 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 Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. 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 Hospital's net position and changes in it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital'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 Hospital.

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 Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position decreased by \$2,584,613 or 20.7% in 2016 and \$1,520,174 or 10.9% in 2015 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2016	2015	2014
Assets			
Cash and cash equivalents, short-term investments and noncurrent investments	\$ 2,724,164	\$ 5,224,741	\$ 8,343,930
Patient accounts receivable, net	1,824,482	1,529,711	1,543,087
Capital assets, net	5,834,659	5,968,912	4,840,219
Other current and noncurrent assets	<u>501,637</u>	<u>759,793</u>	<u>442,316</u>
Total assets	<u>\$ 10,884,942</u>	<u>\$ 13,483,157</u>	<u>\$ 15,169,552</u>
Liabilities	<u>\$ 1,007,610</u>	<u>\$ 1,021,212</u>	<u>\$ 1,187,433</u>
Net Position			
Net investment in capital assets	5,749,639	5,968,912	4,750,108
Unrestricted	<u>4,127,693</u>	<u>6,493,033</u>	<u>9,232,011</u>
Total net position	<u>9,877,332</u>	<u>12,461,945</u>	<u>13,982,119</u>
Total liabilities and net position	<u>\$ 10,884,942</u>	<u>\$ 13,483,157</u>	<u>\$ 15,169,552</u>

One significant change in the Hospital's assets for 2016 is the decrease in cash and cash equivalents, short-term investments and noncurrent investments of \$2,500,577 or 47.9%. This decrease is primarily driven by two factors. First, the Hospital has continued to invest in capital infrastructure and purchased an additional \$535,458 in equipment from cash reserves in 2016. Second, the Hospital has continued to experience operating losses as a result of volume declines and decreases in reimbursement rates from third parties.

One significant change in the Hospital's assets for 2015 is the decrease in cash and cash equivalents, short-term investments and noncurrent investments of \$3,119,189 or 37.4%. This decrease primarily relates to the Hospital purchasing additional capital assets from cash reserves in the amount of \$2,150,686. In addition, the Hospital's operating room was closed for approximately seven months during the year which further contributed to the decline in cash collections.

The Hospital also saw an increase in other current and noncurrent assets in 2015 of \$317,477 or 71.8% related to an increase in supplies inventory of \$46,563, an increase in prepaid expenses and other of \$40,614 and the change in amounts due to/from third-party payer. In 2014, the Hospital recorded a payable to a third-party payer of \$254,700, while in 2015, the Hospital recorded a receivable from a third-party payer of \$230,300.

Operating Results and Changes in the Hospital's Net Position

In 2016, the Hospital's net position decreased by \$2,584,613 or 20.7% as shown in Table 2. This decrease is made up of several different components and worsened by \$1,064,439 compared to the 2015 decrease in net position of \$1,520,174.

In 2015, the Hospital's net position decreased by \$1,520,174 or 10.9% as shown in Table 2. This decrease is made up of several different components and worsened by \$50,942 compared to the 2014 decrease in net position of \$1,469,232.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	\$ 10,633,386	\$ 10,102,062	\$ 11,076,867
Other operating revenues	<u>127,793</u>	<u>1,075,000</u>	<u>396,347</u>
Total operating revenues	<u>10,761,179</u>	<u>11,177,062</u>	<u>11,473,214</u>
Operating Expenses			
Salaries and wages and employee benefits	8,090,745	8,244,101	8,111,170
Purchased services and professional fees	836,518	430,734	534,546
Depreciation	744,905	550,635	748,441
Supplies and other	<u>3,710,444</u>	<u>3,531,636</u>	<u>3,664,587</u>
Total operating expenses	<u>13,382,612</u>	<u>12,757,106</u>	<u>13,058,744</u>
Operating Loss	<u>(2,621,433)</u>	<u>(1,580,044)</u>	<u>(1,585,530)</u>
Nonoperating Revenues (Expenses)			
Investment income	37,777	59,870	116,298
Interest expense	<u>(957)</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>36,820</u>	<u>59,870</u>	<u>116,298</u>
Decrease in Net Position	<u>\$ (2,584,613)</u>	<u>\$ (1,520,174)</u>	<u>\$ (1,469,232)</u>

Operating Loss

The first component of the overall change in the Hospital'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. The Hospital reported an operating loss in 2016, 2015 and 2014.

The operating loss for 2016 increased by \$1,041,389 as compared to the operating loss recorded in 2015. The primary components of the increased operating loss are:

- An increase in net patient service revenue of approximately \$468,000 primarily due to the general surgery clinic being open the entire year. The Hospital also increased its charges during 2016
- A decrease in other operating revenue of approximately \$884,000 primarily due to the Hospital completing its participation in the Medicare and Medicaid Electronic Health Records Incentive Programs in 2015 when the Hospital recorded revenues related to the programs of approximately \$941,000

- An increase in total operating expenses of approximately \$626,000 in 2016. The increase relates to multiple factors. First, the Hospital saw an increase in purchased services and professional fees and supplies and other expenses related to the Hospital's implementation of a new clinical and financial information system, as well as additional expenses related to the full year of operations of the general surgery clinic. Second, the Hospital saw an increase in depreciation expense related to a full year of depreciation of the surgery suite remodel and depreciation of the new clinical and financial information system.

The operating loss for 2015 decreased by \$5,486 as compared to the operating loss recorded in 2014. The primary components of the decreased operating loss are:

- A decrease in net patient service revenue of approximately \$975,000 due to the closure of the Hospital's operating room for seven months during the year in addition to decreases in inpatient and outpatient volumes during the year
- An increase in other operating revenues of approximately \$679,000, which is due to the Hospital's recording of approximately \$941,000 in revenue related to its participation in the Medicare and Medicaid Electronic Health Records Incentive Programs in 2015 compared to \$267,000 in 2014
- A decrease in total operating expenses of approximately \$302,000, which is due primarily to the temporary closure of the Hospital's operating room. As a result, purchased services and professional fees decreased by approximately \$104,000 and supplies and other decreased by approximately \$133,000. In addition, the Hospital also disposed of approximately \$1,736,000 in capital assets which contributed to the approximate \$198,000 decrease in depreciation expense

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income and interest expense which decreased by \$23,050 or 38.5% during 2016 and decreased by \$56,428 or 48.5% during 2015. The decrease in investment income in 2016 was due to the approximate \$2,500,000 in certificates of deposit that were cashed in during the year.

The Hospital's Cash Flows

In 2016 and 2015, the Hospital's cash flows decreased by \$67,285 and \$2,210,138, respectively. The significantly smaller decrease in 2016 is primarily due to the Hospital converting its short-term investments to cash, which decreased short-term investments by approximately \$2,500,000 in 2016, to fund operating losses as opposed to using only its cash reserves.

Capital Assets and Debt Administration

Capital Assets

At the end of 2016, the Hospital had \$5,834,659 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2016, the Hospital purchased new capital assets costing \$610,652. Of this amount, \$94,517 was acquired through incursion of a capital lease obligation.

At the end of 2015, the Hospital had \$5,968,912 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015, the Hospital purchased new capital assets costing \$2,150,686.

Debt

At June 30, 2016 and 2015, the Hospital had \$85,020 and \$0, respectively, in a capital lease obligation outstanding. Except for the capital lease of \$94,517 initiated in 2016, the Hospital issued no new debt in 2016 and 2015.

Contacting the Hospital's Financial Management

This financial report is designed to provide the Hospital's patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's Business Administration by telephoning 580.726.1900.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Balance Sheets
June 30, 2016 and 2015**

Assets

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 1,568,526	\$ 1,635,811
Short-term investments	319,370	2,816,743
Patient accounts receivable, net of allowance; 2016 – \$1,637,000, 2015 – \$1,458,000	1,824,482	1,529,711
Estimated amounts due from third-party payer	21,617	230,300
Supplies	321,380	362,878
Prepaid expenses and other	158,640	166,615
Total current assets	4,214,015	6,742,058
Noncurrent Investments	836,268	772,187
Capital Assets, Net	5,834,659	5,968,912
Total assets	\$ 10,884,942	\$ 13,483,157

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 18,338	\$ -
Accounts payable	245,160	276,294
Accrued expenses	677,430	744,918
Total current liabilities	940,928	1,021,212
Long-Term Debt	66,682	-
Total liabilities	1,007,610	1,021,212
Net Position		
Net investment in capital assets	5,749,639	5,968,912
Unrestricted	4,127,693	6,493,033
Total net position	9,877,332	12,461,945
Total liabilities and net position	\$ 10,884,942	\$ 13,483,157

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – \$2,310,776, 2015 – \$1,692,211	\$ 10,633,386	\$ 10,102,062
Other	127,793	1,075,000
	<u>10,761,179</u>	<u>11,177,062</u>
Operating Expenses		
Salaries and wages	6,701,294	6,852,678
Employee benefits	1,389,451	1,391,423
Purchased services and professional fees	836,518	430,734
Medical supplies and drugs	477,815	515,155
Supplies and other	3,232,629	3,016,481
Depreciation	744,905	550,635
	<u>13,382,612</u>	<u>12,757,106</u>
	<u>(2,621,433)</u>	<u>(1,580,044)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Investment income	37,777	59,870
Interest expense	(957)	-
	<u>36,820</u>	<u>59,870</u>
Deficiency of Revenues over Expenses and Decrease in Net Position	(2,584,613)	(1,520,174)
Net Position, Beginning of Year	<u>12,461,945</u>	<u>13,982,119</u>
Net Position, End of Year	<u>\$ 9,877,332</u>	<u>\$ 12,461,945</u>

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 10,547,298	\$ 10,270,438
Payments to suppliers and contractors	(4,534,789)	(3,928,037)
Payments to and on behalf of employees	(8,158,233)	(8,192,242)
Other receipts, net	127,793	435,000
Net cash used in operating activities	(2,017,931)	(1,414,841)
Capital and Related Financing Activities		
Principal paid on long-term debt	(9,497)	-
Interest paid on long-term debt	(957)	-
Purchase of capital assets	(516,137)	(2,150,686)
Proceeds from sale of capital assets	6,168	386,468
Net cash used in capital and related financing activities	(520,423)	(1,764,218)
Investing Activities		
Purchases of investments	-	(164,616)
Proceeds from disposition of investments	2,443,137	1,075,404
Interest on investments	27,932	58,133
Net cash provided by investing activities	2,471,069	968,921
Decrease in Cash and Cash Equivalents	(67,285)	(2,210,138)
Cash and Cash Equivalents, Beginning of Year	1,635,811	3,845,949
Cash and Cash Equivalents, End of Year	\$ 1,568,526	\$ 1,635,811
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (2,621,433)	\$ (1,580,044)
Depreciation	744,905	550,635
(Gain) loss on sale of capital assets	(6,168)	84,890
Change in accrued self-insurance costs	(78,000)	53,000
Provision for uncollectible accounts	2,310,776	1,692,211
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,605,547)	(1,678,835)
Supplies and prepaid expenses	49,473	(87,177)
Estimated amounts due from and to third-party payer	208,683	(485,000)
Accounts payable and accrued expenses	(20,620)	35,479
Net cash used in operating activities	\$ (2,017,931)	\$ (1,414,841)
Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	\$ 94,517	\$ -

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

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

Nature of Operations and Reporting Entity

The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital) is a public trust organized under the provisions of Title 60 of the Oklahoma statutes. Kiowa County, Oklahoma (the County) is the Hospital's beneficiary. The Hospital is a component unit of the County, and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital.

The Hospital primarily earns revenues by operating a 38-bed, short-term acute care hospital. The Hospital also operates a home health agency and physician clinics in the same geographical area.

Basis of Accounting and Presentation

The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities 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 and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital 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 liabilities 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 and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Risk Management

The Hospital 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 employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital was self-insured for a portion of its exposure to risk of loss from employee health claims. Effective June 2016, the Hospital obtained commercial insurance covering employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value 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 Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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 Hospital:

Land improvements	5–25 years
Buildings and improvements	5–40 years
Equipment	3–25 years

Compensated Absences

Hospital policies permit most employees to accumulate paid leave 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 paid leave benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the 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.

Net Position

Net position of the Hospital is classified in two 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital 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.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Charity Care

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

Income Taxes

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

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 will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

During the years ended June 30, 2016 and 2015, the Hospital had the following activity related to the SHOPP:

	2016	2015
SHOPP funds received	\$ 568,000	\$ 564,000
SHOPP assessment fees paid	339,000	373,000
Net SHOPP benefit	\$ 229,000	\$ 191,000

The annual amounts to be received and paid by the Hospital 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 benefit to the Hospital over the term of the SHOPP is not expected to be materially different than the net amounts received in 2016. SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses in the accompanying statements of revenues, expenses and changes in net position.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

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 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 up to 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 Hospital 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.

In 2015, the Hospital completed the third and fourth year requirements under the Medicare program and the third-year requirements under the Medicaid program. No revenues were recognized in 2016. The Hospital recognized revenues associated with the Medicare and Medicaid Electronic Health Records Incentive Programs during the year ended June 30, 2015, as follows:

	2015
Medicare Hospital Program Revenue	\$ 881,000
Medicaid Hospital Program Revenue	60,000
	\$ 941,000
Total	

Revenue from these programs is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity and utilization of services. Home health services are paid at prospectively determined rates per 60-day episode that are based on a patient's acuity and utilization of services. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2014.
- **Medicaid** – Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid using prospectively determined rates or established fees. These payment rates vary based on clinical, diagnostic and other factors.

Approximately 61% and 64% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2016 and 2015, respectively, excluding revenue related to the Hospital's participation in the SHOPP. 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 Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: 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 Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires that all deposits of public trusts be insured with federal depository insurance or collateralized.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

At June 30, 2016 and 2015, none of the Hospital's bank balances of \$2,213,285 and \$4,694,091, respectively, were exposed to custodial credit risk. At June 30, 2016 and 2015, all of the Hospital's bank balances in excess of FDIC limits were collateralized by irrevocable letters of credit from the Federal Home Loan Bank.

Investments

At June 30, 2016 and 2015, the Hospital had the following investments and maturities:

Type	June 30, 2016				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Exchange-traded funds					
Bonds	\$ 314,239	\$ -	\$ 85,109	\$ 229,130	\$ -
Equities	279,096	279,096	-	-	-
	593,335	<u>\$ 279,096</u>	<u>\$ 85,109</u>	<u>\$ 229,130</u>	<u>\$ -</u>
Business Development Company funds	40,274				
	<u>\$ 633,609</u>				
Type	June 30, 2015				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Exchange-traded funds					
Bonds	\$ 258,821	\$ -	\$ 67,360	\$ 191,461	\$ -
Equities	236,651	236,651	-	-	-
	495,472	<u>\$ 236,651</u>	<u>\$ 67,360</u>	<u>\$ 191,461</u>	<u>\$ -</u>
Business Development Company funds	40,274				
	<u>\$ 535,746</u>				

Interest Rate Risk – Interest rate risk is the risk of exposure to fair value losses arising from rising interest rates. The Hospital's policy does not address interest rate risk. The Hospital's investments in exchange-traded funds (ETF), other than bond ETFs, and the Hospital's investment in Business Development Company (BDC) funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2016 and 2015, the Hospital’s investments in bond ETFs were not rated by Standard & Poor’s or Moody’s Investors Service.

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

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2016 and 2015, the Hospital’s investment in Franklin Square Investment Corporation III funds constituted approximately 7% and 8%, respectively, of its total investments.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Hospital had no investments denominated in foreign currency at June 30, 2016 and 2015.

Summary of Carrying Values

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

	<u>2016</u>	<u>2015</u>
Carrying value		
Deposits	\$ 2,090,555	\$ 4,688,995
Investments	<u>633,609</u>	<u>535,746</u>
	<u>\$ 2,724,164</u>	<u>\$ 5,224,741</u>
Included in the following balance sheet captions		
Cash	\$ 1,568,526	\$ 1,635,811
Short-term investments	319,370	2,816,743
Noncurrent investments – other	<u>836,268</u>	<u>772,187</u>
	<u>\$ 2,724,164</u>	<u>\$ 5,224,741</u>

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Investment Income

Investment income for the years ended June 30 consisted of:

	2016	2015
Interest and dividend income	\$ 27,932	\$ 58,133
Net increase in fair value of investments	9,845	1,737
	<u>\$ 37,777</u>	<u>\$ 59,870</u>

Note 4: Patient Accounts Receivable

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

	2016	2015
Medicare	\$ 837,687	\$ 836,866
Medicaid	163,713	85,667
Other third-party payers	673,218	413,599
Patients	1,786,864	1,651,579
	<u>3,461,482</u>	<u>2,987,711</u>
Less allowance for uncollectible accounts	<u>1,637,000</u>	<u>1,458,000</u>
	<u>\$ 1,824,482</u>	<u>\$ 1,529,711</u>

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance 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 ultimate costs of the incidents. Based upon the Hospital's claims experience, \$0 and \$10,000 was accrued as of June 30, 2016 and 2015, respectively, and is included in accrued expenses in the accompanying balance sheets. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Coverage and Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital was self-insured for health claims of participating employees and dependents up to an annual amount of \$40,000 and an aggregate amount of approximately \$800,000 through June 1, 2016. Commercial stop-loss insurance coverage was purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, 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 that the Hospital's estimate will change by a material amount in the near term.

Effective June 1, 2016, the Hospital obtained commercial insurance covering employee health claims.

Activity in the Hospital's accrued employee health claims liability during 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 128,000	\$ 75,000
Current year claims incurred and changes in estimates for claims incurred in prior years	719,469	733,512
Claims and expenses paid	<u>(797,469)</u>	<u>(680,512)</u>
Balance, end of year	<u>\$ 50,000</u>	<u>\$ 128,000</u>

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Note 8: Long-Term Obligation

The following is a summary of long-term obligation transactions for the Hospital for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Capital lease obligation	\$ -	\$ 94,517	\$ (9,497)	\$ 85,020	\$ 18,338

Capital Lease Obligation

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at June 30, 2016, totaled \$94,517, net of accumulated depreciation of \$4,700. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 2.00%, together with the present value of the future minimum lease payments as of June 30, 2016:

	<u>Capital Lease Obligation</u>
2017	\$ 19,880
2018	19,880
2019	19,880
2020	19,880
2021	9,476
Total minimum lease payments	<u>88,996</u>
Less amount representing interest	<u>(3,976)</u>
Present value of future minimum lease payments	<u>\$ 85,020</u>

Note 9: Charity Care

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

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

The cost of charity care provided under the Hospital's charity care policy was approximately \$97,000 and \$133,000 for 2016 and 2015, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

In addition to uncompensated costs, the Hospital 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, home health programs, community educational services and various support groups.

Note 10: Pension Plans

The Hospital contributes to an IRC Section 401(a) retirement plan for the exclusive benefit of eligible employees and their beneficiaries. To be eligible for the plan, an employee must be 21 years of age and have completed at least 1,000 hours of service during the last year. Employees become vested in this plan over a seven-year period. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. The Hospital made no contributions to the plan in 2016 and 2015.

The Hospital also sponsors a defined contribution plan under the rules of IRC Section 457(b) for the exclusive benefit of eligible employees and their beneficiaries. To be eligible for the plan, an employee must be 21 years of age and have completed at least 1,000 hours of service during the last year. This plan is maintained for employee contributions only. The plan is administered by a board of trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members expressed as a percentage of covered payroll were 4.4% and 4.3% for 2016 and 2015, respectively. Contributions actually made by plan participants aggregated approximately \$181,000 and \$180,000 for the years ended June 30, 2016 and 2015, respectively.

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 or liabilities

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; 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 or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents 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	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				
Exchange traded funds				
Bonds	\$ 314,239	\$ 314,239	\$ -	\$ -
Equities	279,096	279,096	-	-
Business Development Company funds	<u>40,274</u>	<u>40,274</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 633,609</u>	<u>\$ 633,609</u>	<u>\$ -</u>	<u>\$ -</u>
2015				
Investments by Fair Value Level				
Exchange traded funds				
Bonds	\$ 258,821	\$ 258,821	\$ -	\$ -
Equities	236,651	236,651	-	-
Business Development Company funds	<u>40,274</u>	<u>40,274</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 535,746</u>	<u>\$ 535,746</u>	<u>\$ -</u>	<u>\$ -</u>

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015**

Investments

Where quoted market prices are available in an active market, investments 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 investments 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 investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Note 12: Contingencies

Litigation

In the normal course of business, the Hospital 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 the Hospital's commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Hospital 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.

**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 Kiowa County Hospital Authority
d/b/a Elkview General Hospital
Hobart, 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 Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital), which comprise the balance sheet as of June 30, 2016, 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 January 10, 2017.

Internal Control over Financial Reporting

Management of the Hospital 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 Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 Hospital'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 Kiowa County Hospital Authority
d/b/a Elkview General Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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 Hospital's management in a separate letter dated January 10, 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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
January 10, 2017

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2016**

**Reference
Number**

Finding

No matters are reportable.