

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, 2017 and 2016



**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
June 30, 2017 and 2016**

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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 financial statements of The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital), a component unit of Kiowa County, Oklahoma, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Hospital'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 Hospital 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 13*, the Hospital has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in *Note 13*. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2018, 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
March 19, 2018

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Balance Sheets
June 30, 2017 and 2016**

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 950,054	\$ 1,568,526
Short-term investments	369,635	319,370
Patient accounts receivable, net of allowance; 2017 – \$1,625,000, 2016 – \$1,583,000	1,398,492	1,824,482
Estimated amounts due from third-party payer	38,617	21,617
Supplies	297,265	321,380
Prepaid expenses and other	119,855	158,640
Total current assets	3,173,918	4,214,015
Noncurrent Investments	844,845	836,268
Capital Assets, Net	5,103,287	5,834,659
Total assets	\$ 9,122,050	\$ 10,884,942

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 18,708	\$ 18,338
Accounts payable	325,542	245,160
Accrued expenses	585,048	677,430
Total current liabilities	929,298	940,928
Long-Term Debt	48,074	66,682
Total liabilities	977,372	1,007,610
Net Position		
Net investment in capital assets	5,036,505	5,749,639
Unrestricted	3,108,173	4,127,693
Total net position	8,144,678	9,877,332
Total liabilities and net position	\$ 9,122,050	\$ 10,884,942

**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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$2,674,799, 2016 – \$2,310,776	\$ 10,456,838	\$ 10,633,386
Other	81,717	127,793
	<u>10,538,555</u>	<u>10,761,179</u>
Operating Expenses		
Salaries and wages	6,005,730	6,701,294
Employee benefits	776,910	1,389,451
Purchased services and professional fees	944,014	836,518
Medical supplies and drugs	372,329	477,815
Supplies and other	3,456,844	3,232,629
Depreciation	774,100	744,905
	<u>12,329,927</u>	<u>13,382,612</u>
	<u>(1,791,372)</u>	<u>(2,621,433)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Investment income	60,360	37,777
Interest expense	(1,642)	(957)
	<u>58,718</u>	<u>36,820</u>
Deficiency of Revenues over Expenses and Decrease in Net Position	(1,732,654)	(2,584,613)
Net Position, Beginning of Year	<u>9,877,332</u>	<u>12,461,945</u>
Net Position, End of Year	<u>\$ 8,144,678</u>	<u>\$ 9,877,332</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, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 10,865,828	\$ 10,547,298
Payments to suppliers and contractors	(4,629,905)	(4,534,789)
Payments to and on behalf of employees	(6,875,022)	(8,158,233)
Other receipts, net	81,717	127,793
Net cash used in operating activities	(557,382)	(2,017,931)
Capital and Related Financing Activities		
Principal paid on long-term debt	(18,238)	(9,497)
Interest paid on long-term debt	(1,642)	(957)
Purchase of capital assets	(42,728)	(516,137)
Proceeds from sale of capital assets	-	6,168
Net cash used in capital and related financing activities	(62,608)	(520,423)
Investing Activities		
Proceeds from disposition of investments	(13,929)	2,443,137
Interest on investments	15,447	27,932
Net cash provided by investing activities	1,518	2,471,069
Decrease in Cash and Cash Equivalents	(618,472)	(67,285)
Cash and Cash Equivalents, Beginning of Year	1,568,526	1,635,811
Cash and Cash Equivalents, End of Year	\$ 950,054	\$ 1,568,526
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,791,372)	\$ (2,621,433)
Depreciation	774,100	744,905
Gain on sale of capital assets	-	(6,168)
Change in accrued self-insurance costs	-	(78,000)
Provision for uncollectible accounts	2,674,799	2,310,776
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,248,809)	(2,605,547)
Supplies and prepaid expenses	62,900	49,473
Estimated amounts due from third-party payer	(17,000)	208,683
Accounts payable and accrued expenses	(12,000)	(20,620)
Net cash used in operating activities	\$ (557,382)	\$ (2,017,931)
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, 2017 and 2016**

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 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, 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers.

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

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

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.

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

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
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A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2017 and 2016**

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, 2017 and 2016, the Hospital had the following activity related to the SHOPP:

	2017	2016
SHOPP funds received	\$ 610,000	\$ 568,000
SHOPP assessment fees paid	332,000	339,000
Net SHOPP benefit	\$ 278,000	\$ 229,000

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 2017. 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
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Notes to Financial Statements
June 30, 2017 and 2016**

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. 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, 2015.
- **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 57% and 61% 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, 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.

At June 30, 2017 and 2016, none of the Hospital's bank balances of \$1,786,093 and \$2,213,285, respectively, were exposed to custodial credit risk. At June 30, 2017 and 2016, 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.

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

Investments

At June 30, 2017 and 2016, the Hospital had the following investments and maturities:

Type	June 30, 2017				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Exchange-traded funds					
Bonds	\$ 314,031	\$ -	\$ 85,042	\$ 228,989	\$ -
Equities	328,672	328,672	-	-	-
	642,703	<u>\$ 328,672</u>	<u>\$ 85,042</u>	<u>\$ 228,989</u>	<u>\$ -</u>
BDC Funds	40,963				
	<u>\$ 683,666</u>				
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>
BDC Funds	40,274				
	<u>\$ 633,609</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 funds (BDC Funds) are presented as investments with a maturity 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. At June 30, 2017 and 2016, the Hospital’s investments in bond ETFs were not rated by Standard & Poor’s or Moody’s Investors Service.

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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, 2017 and 2016, the Hospital’s investment in Franklin Square Investment Corporation III funds (BDC Funds) constituted approximately 6% 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, 2017 and 2016.

Summary of Carrying Values

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

	<u>2017</u>	<u>2016</u>
Carrying value		
Deposits	\$ 1,480,868	\$ 2,090,555
Investments	683,666	633,609
	<u>\$ 2,164,534</u>	<u>\$ 2,724,164</u>
Included in the following balance sheet captions		
Cash	\$ 950,054	\$ 1,568,526
Short-term investments	369,635	319,370
Noncurrent investments	844,845	836,268
	<u>\$ 2,164,534</u>	<u>\$ 2,724,164</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 15,447	\$ 27,932
Net increase in fair value of investments	44,913	9,845
	<u>\$ 60,360</u>	<u>\$ 37,777</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, 2017 and 2016**

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:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 614,779	\$ 824,443
Medicaid	96,759	161,124
Other third-party payers	481,256	662,574
Patients	<u>1,830,698</u>	<u>1,759,341</u>
	3,023,492	3,407,482
Less allowance for uncollectible accounts	<u>1,625,000</u>	<u>1,583,000</u>
	<u>\$ 1,398,492</u>	<u>\$ 1,824,482</u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	<u>2017</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 40,901	\$ -	\$ -	\$ -	\$ 40,901
Land improvements	87,313	-	-	-	87,313
Buildings and improvements	6,322,275	-	-	-	6,322,275
Equipment	9,216,221	40,942	-	9,638	9,266,801
Construction in progress	<u>7,852</u>	<u>1,786</u>	<u>-</u>	<u>(9,638)</u>	<u>-</u>
	<u>15,674,562</u>	<u>42,728</u>	<u>-</u>	<u>-</u>	<u>15,717,290</u>
Less accumulated depreciation					
Land improvements	85,387	354	-	-	85,741
Buildings and improvements	3,231,426	239,419	-	-	3,470,845
Equipment	<u>6,523,090</u>	<u>534,327</u>	<u>-</u>	<u>-</u>	<u>7,057,417</u>
	<u>9,839,903</u>	<u>774,100</u>	<u>-</u>	<u>-</u>	<u>10,614,003</u>
Capital assets, net	<u>\$ 5,834,659</u>	<u>\$ (731,372)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,103,287</u>

**The Kiowa County Hospital Authority
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A Component Unit of Kiowa County, Oklahoma**

**Notes to Financial Statements
June 30, 2017 and 2016**

	2016				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 63,206	\$ -	\$ -	\$ (22,305)	\$ 40,901
Land improvements	87,313	-	-	-	87,313
Buildings and improvements	6,299,970	-	-	22,305	6,322,275
Equipment	8,099,861	263,666	(13,899)	866,593	9,216,221
Construction in progress	527,459	346,986	-	(866,593)	7,852
	<u>15,077,809</u>	<u>610,652</u>	<u>(13,899)</u>	<u>-</u>	<u>15,674,562</u>
Less accumulated depreciation					
Land improvements	85,033	354	-	-	85,387
Buildings and improvements	2,984,398	247,028	-	-	3,231,426
Equipment	6,039,466	497,523	(13,899)	-	6,523,090
	<u>9,108,897</u>	<u>744,905</u>	<u>(13,899)</u>	<u>-</u>	<u>9,839,903</u>
Capital assets, net	<u>\$ 5,968,912</u>	<u>\$ (134,253)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,834,659</u>

Note 6: Medical Malpractice 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, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-Term Obligation

The following is a summary of long-term obligation transactions for the Hospital for the year ended June 30, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligation	\$ 85,020	\$ -	\$ (18,238)	\$ 66,782	\$ 18,708

**The Kiowa County Hospital Authority
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A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2017 and 2016**

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, 2017 and 2016, totaled \$94,517, net of accumulated depreciation of \$23,501 and \$4,700, respectively. 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, 2017:

	Capital Lease Obligation
2018	\$ 19,880
2019	19,880
2020	19,880
2021	9,575
Total minimum lease payments	69,215
Less amount representing interest	(2,433)
Present value of future minimum lease payments	\$ 66,782

Note 8: 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 cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Uncompensated costs relating to these services are as follows:

	2017	2016
Charity allowances	\$ 58,000	\$ 97,000
State Medicaid	191,000	441,000
	\$ 249,000	\$ 538,000

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.

The Kiowa County Hospital Authority
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Note 9: Pension Plans

The Hospital sponsors 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 2017 and 2016.

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 4.5% and 4.4% for 2017 and 2016, respectively. Contributions actually made by plan participants aggregated approximately \$206,000 and \$181,000 for the years ended June 30, 2017 and 2016, respectively.

Note 10: 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
- 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

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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	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				
Exchange traded funds				
Bonds	\$ 314,031	\$ 314,031	\$ -	\$ -
Equities	328,672	328,672	-	-
BDC Funds	<u>40,963</u>	<u>40,963</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	<u>\$ 683,666</u>	<u>\$ 683,666</u>	<u>\$ -</u>	<u>\$ -</u>
2016				
Investments by Fair Value Level				
Exchange traded funds				
Bonds	\$ 314,239	\$ 314,239	\$ -	\$ -
Equities	279,096	279,096	-	-
BDC 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>

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. The Hospital had no Level 2 or Level 3 investments at June 30, 2017 and 2016.

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Note 11: 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.

Note 12: Risks and Uncertainties

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Note 13: Management's Consideration of Going Concern Matters

The Hospital has incurred significant losses for several years and currently has minimal working capital due to recurring negative cash flows. The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year. These include evaluating the financial viability of current service lines and implementation of cost containment strategies. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern; however, the above conditions raise substantial doubt about the Hospital's ability to do so. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Hospital be unable to continue as a going concern.

Subsequent to year-end, the Hospital obtained a revolving bank line of credit in the amount of \$850,000 maturing November 5, 2018. The line is collateralized by certificates of deposit. Principal and interest at a fixed rate of 3.5% are due on the maturity date unless demanded earlier. The Hospital has borrowed \$100,000 against the line.

**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, 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 March 19, 2018, which contained *Emphasis of Matter* and *Other Matters* paragraphs regarding substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time and omission of required supplementary information.

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 March 19, 2018.

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
March 19, 2018

**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, 2017**

**Reference
Number**

Finding

No matters are reportable.