

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma**
Accountants' Reports and Financial Statements
June 30, 2012 and 2011



**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
June 30, 2012 and 2011**

Contents

Independent Accountants' Report on Financial Statements	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	10
Independent Accountants' 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>	22
Schedule of Findings and Responses.....	24

Independent Accountants' Report on Financial Statements

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

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, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Kiowa County Hospital Authority d/b/a Elkview General Hospital as of June 30, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2013, 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* and should be considered in assessing the results of our audit.

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.

BKD, LLP

February 6, 2013

**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, 2012 and 2011**

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, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash, investments and certificates of deposit increased in 2012 by \$2,024,055 or 35.1%.
- The Hospital's net assets increased by \$720,203 or 5.3% in 2012.
- Accounts receivable decreased by \$260,798 or 13.6% in 2012.
- The Hospital reported operating income of \$648,516 in 2012 and an operating loss of \$120,211 in 2011.

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 assets; 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 Assets

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 assets 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 assets and changes in them. The Hospital's total net assets—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 assets 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 Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheets. The Hospital's net assets increased by \$720,203 or 5.3% in 2012 over 2011 and by \$32,698 or 0.2% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Assets		
Cash, investments and certificates of deposit	\$ 7,784,354	\$ 5,760,299
Patient accounts receivable, net	1,656,236	1,917,034
Capital assets, net	5,543,072	6,341,460
Other current and noncurrent assets	<u>751,447</u>	<u>747,244</u>
Total assets	<u>\$ 15,735,109</u>	<u>\$ 14,766,037</u>
Liabilities		
	<u>\$ 1,326,879</u>	<u>\$ 1,078,010</u>
Net Assets		
Invested in capital assets, net of related debt	5,543,072	6,341,460
Unrestricted	<u>8,865,158</u>	<u>7,346,567</u>
Total net assets	<u>14,408,230</u>	<u>13,688,027</u>
Total liabilities and net assets	<u>\$ 15,735,109</u>	<u>\$ 14,766,037</u>

One significant change in the Hospital's assets for 2012 and 2011 is the increase in cash, investments and certificates of deposit, which is consistent with the Hospital's cash flows from operations.

Operating Results and Changes in the Hospital's Net Assets

In 2012, the Hospital's net assets increased by \$720,203 or 5.3% as shown in Table 2. This increase is made up of several different components and represents an improvement of \$687,505 compared with the increase in net assets for 2011 of \$32,698.

Table 2: Operating Results and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue	\$ 13,379,045	\$ 13,517,374
Other operating revenues	<u>1,357,897</u>	<u>371,799</u>
Total operating revenues	<u>14,736,942</u>	<u>13,889,173</u>
Operating Expenses		
Salaries, wages and employee benefits	7,994,875	7,899,507
Purchased services and professional fees	695,519	594,125
Depreciation and amortization	1,048,304	1,041,685
Supplies and other	<u>4,349,728</u>	<u>4,474,067</u>
Total operating expenses	<u>14,088,426</u>	<u>14,009,384</u>
Operating Income (Loss)	648,516	(120,211)
Nonoperating Revenues		
Investment income	<u>71,687</u>	<u>152,909</u>
Excess of Revenues over Expenses and Increase in Net Assets	<u>\$ 720,203</u>	<u>\$ 32,698</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets 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. In 2012 the Hospital reported operating income, and in 2011 the Hospital reported an operating loss. The 2012, operating income of \$648,516 represents an increase of \$768,727 over the 2011 operating loss. The primary reason for this is an increase in other operating revenue of \$986,098 caused primarily by an increase in Medicare and Medicaid incentive payments for the Hospital's implementation of electronic health records.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income, which decreased by \$81,222 or 53.1% for 2012 as compared to 2011 due to lower interest rates.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income or loss and nonoperating revenues and expenses for 2012 and 2011, discussed earlier, with one exception. Cash used by operating activities increased slightly more than the operating income in 2012 due to the increase in the Hospital's patient accounts receivable.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$5,543,072 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Hospital purchased new capital assets costing \$254,233. Overall, capital assets declined in 2012 as depreciation expense exceeded capital assets purchased.

Debt

At June 30, 2012 and 2011, the Hospital had no outstanding long-term debt and issued no new long-term debt.

Contacting the Hospital's Financial Management

This financial report is designed to provide our 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, 2012 and 2011**

Assets

	2012	2011
Current Assets		
Cash	\$ 3,260,184	\$ 1,428,096
Short-term certificates of deposit	388,341	4,052,049
Patient accounts receivable, net of allowance; 2012 – \$1,651,000, 2011 – \$1,420,000	1,656,236	1,917,034
Supplies	429,764	393,379
Prepaid expenses and other	190,731	221,428
Total current assets	5,925,256	8,011,986
Noncurrent Investments		
Loan receivable	130,952	132,437
Other	4,135,829	280,154
	4,266,781	412,591
Capital Assets, Net	5,543,072	6,341,460
Total assets	\$ 15,735,109	\$ 14,766,037

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 203,251	\$ 209,712
Accrued expenses	888,628	803,298
Estimated amounts due to third-party payer	235,000	65,000
Current and total liabilities	1,326,879	1,078,010
Net Assets		
Invested in capital assets, net of related debt	5,543,072	6,341,460
Unrestricted	8,865,158	7,346,567
Total net assets	14,408,230	13,688,027
Total liabilities and net assets	\$ 15,735,109	\$ 14,766,037

**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 Assets
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$2,338,136, 2011 – \$2,538,085	\$ 13,379,045	\$ 13,517,374
Other	<u>1,357,897</u>	<u>371,799</u>
Total operating revenues	<u>14,736,942</u>	<u>13,889,173</u>
Operating Expenses		
Salaries and wages	6,853,198	6,939,266
Employee benefits	1,141,677	960,241
Purchased services and professional fees	695,519	594,125
Medical supplies and drugs	1,089,202	1,271,131
Supplies and other	3,260,526	3,202,936
Depreciation	<u>1,048,304</u>	<u>1,041,685</u>
Total operating expenses	<u>14,088,426</u>	<u>14,009,384</u>
Operating Income (Loss)	648,516	(120,211)
Nonoperating Revenues		
Investment income	<u>71,687</u>	<u>152,909</u>
Excess of Revenues over Expenses and Increase in Net Assets	720,203	32,698
Net Assets, Beginning of Year	<u>13,688,027</u>	<u>13,655,329</u>
Net Assets, End of Year	<u>\$ 14,408,230</u>	<u>\$ 13,688,027</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, 2012 and 2011**

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 13,809,843	\$ 14,076,042
Payments to suppliers and contractors	(5,062,829)	(5,311,133)
Payments to and on behalf of employees	(7,909,545)	(7,939,891)
Other receipts and payments, net	1,357,897	371,799
Net cash provided by operating activities	2,195,366	1,196,817
Capital and Related Financing Activities		
Purchase of capital assets	(254,233)	(507,856)
Proceeds from sale of capital assets	9,750	3,687
Net cash used in capital and related financing activities	(244,483)	(504,169)
Investing Activities		
Purchases of investments	(4,204,526)	(381,486)
Proceeds from disposition of investments	4,014,044	488,964
Interest on investments	71,687	152,909
Net cash provided by (used in) investing activities	(118,795)	260,387
Increase in Cash	1,832,088	953,035
Cash, Beginning of Year	1,428,096	475,061
Cash, End of Year	\$ 3,260,184	\$ 1,428,096
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 648,516	\$ (120,211)
Depreciation	1,048,304	1,041,685
Loss on sale of capital assets	(5,433)	9,056
Changes in operating assets and liabilities		
Patient accounts receivable, net	260,798	552,380
Supplies and prepaid expenses	(5,688)	(116,286)
Estimated amounts due to third-party payer	170,000	6,288
Accounts payable and accrued expenses	78,869	(176,095)
Net cash provided by operating activities	\$ 2,195,366	\$ 1,196,817

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

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 trust'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 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. Operating revenues and expenses include exchange transactions. Investment income is included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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 Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, the Hospital held no cash equivalents.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

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 is self-insured for a portion of its exposure to risk of loss from 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. Investment income includes interest income.

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 fair 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. 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

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011

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. 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 Assets

Net assets of the Hospital are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings, if any, used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital, such as permanent endowments. At June 30, 2012 and 2011, the Hospital had no restricted expendable or restricted nonexpendable net assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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.

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 program is retroactive to July 1, 2011, and is currently scheduled to sunset on December 31, 2014. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which is placed in pools after receiving federal matching funds. The total fees and matching funds are then allocated to hospitals as directed by legislation.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

During the current year, the Hospital received approximately \$602,000 in SHOPP funds and paid approximately \$283,000 in SHOPP assessment fees, which are the estimated annual amounts to be received and paid by the Hospital over the term of the SHOPP program. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net assets.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). 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 four years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment 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 fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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 2011, the Hospital completed the first-year requirements of the Medicaid program and recorded revenue of approximately \$250,000, and in 2012, the Hospital completed the first-year requirements under the Medicare program and second-year requirements under the Medicaid program and recorded revenue of approximately \$1,248,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net assets.

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.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the changes in net assets for 2011.

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 per discharge. 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. 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.
- **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 69% and 71% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The 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, 2012 and 2011**

At June 30, 2012 and 2011, none of the Hospital's bank balances of \$7,336,784 and \$5,826,541, respectively, were exposed to custodial credit risk.

Investments

At June 30, 2012, the Hospital had the following investments and maturities:

Type	June 30, 2012				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Bond mutual funds	\$ 199,907	\$ -	\$ -	\$ 199,907	\$ -
Mutual funds	50,937	50,937	-	-	-
Real estate investment trust	128,425	128,425	-	-	-
Corporate stocks	128,838	128,838	-	-	-
	<u>\$ 508,107</u>	<u>\$ 308,200</u>	<u>\$ -</u>	<u>\$ 199,907</u>	<u>\$ -</u>

Concentration of Credit Risk

Interest Rate Risk – Interest rate risk is the 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 mutual funds other than bond mutual funds, the real estate investment trust (REIT) and corporate stocks 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, 2012, the Hospital's investments in bond mutual funds 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, 2012, the Hospital's investment in Cole Credit Property Trust III, Inc. (a REIT) constituted 25% 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, 2012 and 2011.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

Summary of Carrying Values

The carrying values of deposits are included in the accompanying balance sheets at June 30 as follows:

	<u>2012</u>	<u>2011</u>
Carrying value		
Deposits	\$ 7,276,247	\$ 5,760,299
Investments	508,107	-
	<u>\$ 7,784,354</u>	<u>\$ 5,760,299</u>
Included in the following balance sheet captions		
Cash	\$ 3,260,184	\$ 1,428,096
Short-term certificates of deposit	388,341	4,052,049
Noncurrent investments – other	4,135,829	280,154
	<u>\$ 7,784,354</u>	<u>\$ 5,760,299</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2012</u>	<u>2011</u>
Interest and dividend income	\$ 86,445	\$ 105,393
Net increase (decrease) in fair value of investments	(14,758)	47,516
	<u>\$ 71,687</u>	<u>\$ 152,909</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, 2012 and 2011**

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>2012</u>	<u>2011</u>
Medicare	\$ 824,925	\$ 1,025,134
Medicaid	142,982	158,293
Other third-party payers	430,300	666,438
Patients	<u>1,909,029</u>	<u>1,487,169</u>
 Total patient accounts receivable	 3,307,236	 3,337,034
 Less allowance for uncollectible amounts	 <u>1,651,000</u>	 <u>1,420,000</u>
 Patient accounts receivable, net	 <u>\$ 1,656,236</u>	 <u>\$ 1,917,034</u>

Note 5: Capital Assets

Capital assets activity for the year ended June 30 was:

	<u>2012</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 63,206	\$ -	\$ -	\$ -	\$ 63,206
Land improvements	87,313	-	-	-	87,313
Buildings and improvements	5,096,316	29,047	-	-	5,125,363
Equipment	8,291,201	225,186	(54,642)	12,900	8,474,645
Construction in progress	<u>108,000</u>	<u>-</u>	<u>-</u>	<u>(12,900)</u>	<u>95,100</u>
	<u>13,646,036</u>	<u>254,233</u>	<u>(54,642)</u>	<u>-</u>	<u>13,845,627</u>
Less accumulated depreciation					
Land improvements	83,409	464	-	-	83,873
Buildings and improvements	2,058,443	154,039	-	-	2,212,482
Equipment	<u>5,162,724</u>	<u>893,801</u>	<u>(50,325)</u>	<u>-</u>	<u>6,006,200</u>
	<u>7,304,576</u>	<u>1,048,304</u>	<u>(50,325)</u>	<u>-</u>	<u>8,302,555</u>
Capital assets, net	<u>\$ 6,341,460</u>	<u>\$ (794,071)</u>	<u>\$ (4,317)</u>	<u>\$ -</u>	<u>\$ 5,543,072</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, 2012 and 2011**

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 63,206	\$ -	\$ -	\$ -	\$ 63,206
Land improvements	87,313	-	-	-	87,313
Buildings and improvements	5,096,316	-	-	-	5,096,316
Equipment	7,580,781	240,172	(67,411)	537,659	8,291,201
Construction in progress	377,975	267,684	-	(537,659)	108,000
	<u>13,205,591</u>	<u>507,856</u>	<u>(67,411)</u>	<u>-</u>	<u>13,646,036</u>
Less accumulated depreciation					
Land improvements	82,944	465	-	-	83,409
Buildings and improvements	1,889,218	169,225	-	-	2,058,443
Equipment	4,345,397	871,995	(54,668)	-	5,162,724
	<u>6,317,559</u>	<u>1,041,685</u>	<u>(54,668)</u>	<u>-</u>	<u>7,304,576</u>
Capital assets, net	<u>\$ 6,888,032</u>	<u>\$ (533,829)</u>	<u>\$ (12,743)</u>	<u>\$ -</u>	<u>\$ 6,341,460</u>

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, \$10,000 has been accrued in 2012 and is included in accounts payable 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 is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,000,000. Commercial stop-loss insurance coverage is 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.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

Activity in the Hospital's accrued employee health claims liability during 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 50,000	\$ 125,000
Current year claims incurred and changes in estimates for claims incurred in prior years	702,950	304,767
Claims and expenses paid	<u>(702,950)</u>	<u>(379,767)</u>
Balance, end of year	<u>\$ 50,000</u>	<u>\$ 50,000</u>

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. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	<u>2012</u>	<u>2011</u>
Charity allowances	\$ 736,000	\$ 604,000
State Medicaid	<u>1,878,000</u>	<u>2,467,000</u>
	<u>\$ 2,614,000</u>	<u>\$ 3,071,000</u>

In addition to uncompensated charges, 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 screening and assessments, home health programs, community educational services and various support groups.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

Note 9: 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 2012 and 2011.

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. Contributions actually made by plan participants aggregated approximately \$213,000 and \$203,000 for the years ended June 30, 2012 and 2011, respectively.

Note 10: Risks and Uncertainties

Current Economic Conditions

The current protracted economic decline continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the high unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in certain asset values and allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2012 and 2011**

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.

**Independent Accountants' 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 the financial statements of The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 6, 2013. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-2 to be a significant deficiency.

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 also noted certain matters that we reported to the Hospital's management in a separate letter dated February 6, 2013.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 6, 2013

**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, 2012**

Reference Number	Finding
2012-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Adjusting journal entries were required to correct misstatements in the accompanying financial statements.</p> <p>Context – Errors existed in balance sheet accounts primarily related to recovery audit contractor and electronic health record incentive program reserve estimates being overstated.</p> <p>Effect – Potentially material adjustments could be made to the financial statements previously presented to the Board.</p> <p>Cause – The process of preparing estimates of reserves for recovery audit contractor and electronic health record incentive programs were inadequate.</p> <p>Recommendation – Management should consider revising procedures for computing key significant estimates.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will perform the evaluation and implement corrections that are considered cost effective within the next year.</p>

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Schedule of Findings and Responses, continued
Year Ended June 30, 2012**

Reference Number	Finding
2012-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Three employees’ duties are not adequately segregated among access, recording and monitoring in the patient revenues and cash receipts accounting transactions cycle.</p> <p>Context – Three employees have access to cash receipts and also have responsibility for recording cash receipts and adjustments.</p> <p>Effect – Errors or misappropriations could occur and not be prevented or detected and corrected on a timely basis.</p> <p>Cause – The accounts receivable manager and insurance clerks have access to payments received for services to patients and also have responsibility for recording transactions, including posting adjustments to patient accounts.</p> <p>Recommendation – Management should evaluate further segregation of duties or implement additional controls, as appropriate, to improve internal control, including implementing a management level employee review of adjustments posted to patient accounts.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will perform the suggested evaluation within the next year.</p>