

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma**
Auditor's Reports and Financial Statements
June 30, 2013 and 2012



**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
June 30, 2013 and 2012**

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Independent Auditor's Report on Financial Statements and Supplementary Information

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 basic financial statements of The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital), a component unit of Kiowa County, Oklahoma, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February __, 2014, 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 3, 2014

**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, 2013 and 2012**

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash, short-term investments and certificates of deposit increased in 2013 by \$756,640 or 9.7% and increased by \$2,024,055 or 35.1% in 2012.
- The Hospital's net position increased by \$1,043,121 or 7.2% in 2013 and increased by \$720,203 or 5.3% in 2012.
- Accounts receivable increased by \$113,647 or 6.9% in 2013 and decreased by \$260,798 or 13.6% in 2012.
- The Hospital reported operating income of \$928,825 in 2013 and operating income of \$648,516 in 2012.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased by \$1,043,121 or 7.2% in 2013 over 2012 and by \$720,203 or 5.3% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Cash, short-term investments and certificates of deposit	\$ 8,540,994	\$ 7,784,354	\$ 5,760,299
Patient accounts receivable, net	1,769,883	1,656,236	1,917,034
Capital assets, net	5,079,500	5,543,072	6,341,460
Other current and noncurrent assets	<u>1,041,380</u>	<u>751,447</u>	<u>747,244</u>
Total assets	<u>\$ 16,431,757</u>	<u>\$ 15,735,109</u>	<u>\$ 14,766,037</u>
Liabilities			
	<u>\$ 980,406</u>	<u>\$ 1,326,879</u>	<u>\$ 1,078,010</u>
Net Position			
Net investment in capital assets	5,079,500	5,543,072	6,341,460
Unrestricted	<u>10,371,851</u>	<u>8,865,158</u>	<u>7,346,567</u>
Total net position	<u>15,451,351</u>	<u>14,408,230</u>	<u>13,688,027</u>
Total liabilities and net position	<u>\$ 16,431,757</u>	<u>\$ 15,735,109</u>	<u>\$ 14,766,037</u>

One significant change in the Hospital's assets for 2013 and 2012 is the increase in cash, short-term investments and certificates of deposit of \$756,640 or 9.7%. This change is consistent with the Hospital's cash flows from operations, including receipt of \$215,000 in Electronic Health Records Incentive Program payments and net benefit of participation in Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP) of \$274,000 (see *Note 1*).

One significant change in the Hospital's assets for 2012 and 2011 is the increase in cash, short-term investments and certificates of deposit, which is consistent with the Hospital's cash flows from operations including receipt of \$1,248,000 in Electronic Health Records Incentive Program payments and net SHOPP benefit of \$319,000 (see *Note 1*).

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position increased by \$1,043,121 or 7.2% as shown in Table 2. This increase is made up of several different components and represents an increase of \$322,918 compared to the 2012 increase in net position of \$720,203.

In 2012, the Hospital's net position 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 position for 2011 of \$32,698.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 13,653,611	\$ 13,379,045	\$ 13,517,374
Other operating revenues	<u>1,013,140</u>	<u>1,357,897</u>	<u>371,799</u>
Total operating revenues	<u>14,666,751</u>	<u>14,736,942</u>	<u>13,889,173</u>
Operating Expenses			
Salaries and wages and employee benefits	8,312,110	7,994,875	7,899,507
Purchased services and professional fees	601,697	695,519	594,125
Depreciation	780,362	1,048,304	1,041,685
Supplies and other	<u>4,043,757</u>	<u>4,349,728</u>	<u>4,474,067</u>
Total operating expenses	<u>13,737,926</u>	<u>14,088,426</u>	<u>14,009,384</u>
Operating Income (Loss)	928,825	648,516	(120,211)
Nonoperating Revenues			
Investment income	<u>114,296</u>	<u>71,687</u>	<u>152,909</u>
Increase in Net Position	<u>\$ 1,043,121</u>	<u>\$ 720,203</u>	<u>\$ 32,698</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital reported operating income in both 2013 and 2012 and an operating loss in 2011. The operating income for 2013 increased by \$280,309 as compared to 2012. The primary components of the increased operating income are:

- An increase in net patient service revenue due to Medicare payment and volume changes of approximately \$275,000
- A decrease in other operating revenues of approximately \$394,000, which is due to the difference in first-year payments under the Medicare and Medicaid incentive programs recognized in 2012 of approximately \$1,248,000 and second-year payments of \$855,000 recognized in 2013
- An increase in employee benefits expense due to increases in employee health insurance of approximately \$278,000 for 2013 as compared to 2012

- A decrease in depreciation expense of approximately \$268,000 for 2013 as compared to 2012 due to certain capital assets becoming fully depreciated in 2012 and 2013
- Decreases in other operating expenses of approximately \$73,000 due to decreases in recruiting expense and \$168,000 due to decreases in medical supply costs

In 2012, the 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 \$968,098 due primarily to an increase in Medicare and Medicaid incentive payments related to electronic health record implementation.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income, which increased by \$42,609 or 59.44% for 2013 as compared to 2012 due primarily to unrealized gains on investments.

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 2013 and 2012, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$5,079,500 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Hospital purchased new capital assets costing \$316,790. Overall, capital assets declined in 2013 as depreciation expense exceeded capital assets purchased.

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 2013 as depreciation expense exceeded capital assets purchased.

Debt

At June 30, 2013 and 2012, 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, 2013 and 2012**

Assets

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash	\$ 4,198,688	\$ 3,260,184
Short-term investments	4,043,231	388,341
Patient accounts receivable, net of allowance; 2013 – \$1,668,000, 2012 – \$1,651,000	1,769,883	1,656,236
Estimated amounts due from third-party payer	480,000	-
Supplies	457,875	429,764
Prepaid expenses and other	103,505	190,731
	<u>11,053,182</u>	<u>5,925,256</u>
Noncurrent Investments		
Loan receivable	-	130,952
Other	299,075	4,135,829
	<u>299,075</u>	<u>4,266,781</u>
Capital Assets, Net	<u>5,079,500</u>	<u>5,543,072</u>
Total assets	<u>\$ 16,431,757</u>	<u>\$ 15,735,109</u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 263,042	\$ 203,251
Accrued expenses	717,364	818,124
Estimated amounts due to third-party payer	-	305,504
	<u>980,406</u>	<u>1,326,879</u>
Current and total liabilities	<u>980,406</u>	<u>1,326,879</u>
Net Position		
Net investment in capital assets	5,079,500	5,543,072
Unrestricted	10,371,851	8,865,158
	<u>15,451,351</u>	<u>14,408,230</u>
Total net position	<u>15,451,351</u>	<u>14,408,230</u>
Total liabilities and net position	<u>\$ 16,431,757</u>	<u>\$ 15,735,109</u>

**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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$2,321,760, 2012 – \$2,338,136	\$ 13,653,611	\$ 13,379,045
Other	1,013,140	1,357,897
	<u>14,666,751</u>	<u>14,736,942</u>
Operating Expenses		
Salaries and wages	6,891,892	6,853,198
Employee benefits	1,420,218	1,141,677
Purchased services and professional fees	601,697	695,519
Medical supplies and drugs	917,212	1,089,202
Supplies and other	3,126,545	3,260,526
Depreciation	780,362	1,048,304
	<u>13,737,926</u>	<u>14,088,426</u>
Operating Income	928,825	648,516
Nonoperating Revenues		
Investment income	114,296	71,687
	<u>1,043,121</u>	<u>720,203</u>
Excess of Revenues over Expenses and Increase in Net Position	1,043,121	720,203
Net Position, Beginning of Year	<u>14,408,230</u>	<u>13,688,027</u>
Net Position, End of Year	<u>\$ 15,451,351</u>	<u>\$ 14,408,230</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, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 13,394,460	\$ 13,809,843
Payments to suppliers and contractors	(4,526,548)	(5,062,829)
Payments to and on behalf of employees	(8,412,870)	(7,909,545)
Other receipts and payments, net	373,140	1,357,897
Net cash provided by operating activities	828,182	2,195,366
Capital and Related Financing Activities		
Purchase of capital assets	(316,790)	(254,233)
Proceeds from sale of capital assets	-	9,750
Net cash used in capital and related financing activities	(316,790)	(244,483)
Investing Activities		
Purchases of investments	(102,769)	(4,204,526)
Proceeds from disposition of investments	330,302	4,014,044
Interest on investments	68,627	71,687
Proceeds from repayment of loan receivable	130,952	-
Net cash provided by (used in) investing activities	427,112	(118,795)
Increase in Cash	938,504	1,832,088
Cash, Beginning of Year	3,260,184	1,428,096
Cash, End of Year	\$ 4,198,688	\$ 3,260,184
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 928,825	\$ 648,516
Depreciation	780,362	1,048,304
Gain on sale of capital assets	-	(5,433)
Provision for uncollectible accounts	2,321,760	2,338,136
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,435,407)	(2,077,338)
Supplies and prepaid expenses	59,115	(5,688)
Estimated amounts due to third-party payer	(785,504)	170,000
Accounts payable and accrued expenses	(40,969)	78,869
Net cash provided by operating activities	\$ 828,182	\$ 2,195,366

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012**

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

Nature of Operations and Reporting Entity

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

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

Basis of Accounting and Presentation

The 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 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 and investment income 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 Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, 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, 2013 and 2012**

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. Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

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

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, 2013 and 2012**

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 program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program 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, 2013 and 2012, the Hospital had the following activity related to the SHOPP program:

	2013	2012
SHOPP funds received	\$ 563,000	\$ 602,000
SHOPP assessment fees paid	289,000	283,000
Net SHOPP benefit	\$ 274,000	\$ 319,000

The annual amounts to be received and paid by the Hospital over the term of the SHOPP program 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 program is not expected to be materially different than the net amounts received in 2013. The SHOPP revenue is recorded as part of net patient service revenue and the 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, 2013 and 2012**

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 2013, the Hospital completed the second-year requirements under the Medicaid program and recorded revenue of approximately \$215,000. In October 2013, the Hospital attested to meeting the second-year requirements under the Medicare program. Since the Hospital was reasonably assured of meeting all of the meaningful use objectives, the Hospital has recorded a receivable of approximately \$640,000 at June 30, 2013, which represents approximately 75% of the second-year Medicare incentive payment. Revenue from these programs is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

In 2012, the Hospital completed the first-year requirements under the Medicare 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 position.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. These reclassifications had no effect on the changes in financial position.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012**

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 and utilization of services. Home health services are paid at prospectively determined rates per 60-day episode that are based on a patient's acuity and utilization of services. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2010.
- **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 70% and 69% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2013 and 2012, 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.

At June 30, 2013 and 2012, none of the Hospital's bank balances of \$8,064,111 and \$7,336,784, respectively, were exposed to custodial credit risk. At June 30, 2013, \$3,000,000 of the Hospital's bank balance was collateralized by irrevocable letters of credit from the Federal Home Loan Bank.

**The Kiowa County Hospital Authority
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Investments

At June 30, 2013 and 2012, the Hospital had the following investments and maturities:

Type	June 30, 2013				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Exchange-traded funds					
Bonds	\$ 196,306	\$ -	\$ 27,532	\$ 168,774	\$ -
Corporate stocks	60,208	60,208	-	-	-
Real estate investment trust	155,417	155,417	-	-	-
Corporate stocks	151,745	151,745	-	-	-
	<u>\$ 563,676</u>	<u>\$ 367,370</u>	<u>\$ 27,532</u>	<u>\$ 168,774</u>	<u>\$ -</u>

Type	June 30, 2012				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Exchange-traded funds					
Bonds	\$ 199,907	\$ -	\$ -	\$ 199,907	\$ -
Corporate stocks	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>

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 exchange-traded funds (ETF) other than bond ETFs, 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, 2013 and 2012, the Hospital’s investments in bond ETFs were not rated by Standard & Poor’s or Moody’s Investors Service.

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

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Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2013 and 2012, the Hospital’s investment in Cole Credit Property Trust III, Inc. (a REIT) constituted 28% and 25%, respectively, of its total investments.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Hospital had no investments denominated in foreign currency at June 30, 2013 and 2012.

Summary of Carrying Values

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

	<u>2013</u>	<u>2012</u>
Carrying value		
Deposits	\$ 7,977,318	\$ 7,276,247
Investments	<u>563,676</u>	<u>508,107</u>
	<u>\$ 8,540,994</u>	<u>\$ 7,784,354</u>
Included in the following balance sheet captions		
Cash	\$ 4,198,688	\$ 3,260,184
Short-term investments	4,043,231	388,341
Noncurrent investments – other	<u>299,075</u>	<u>4,135,829</u>
	<u>\$ 8,540,994</u>	<u>\$ 7,784,354</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 68,627	\$ 86,445
Net increase (decrease) in fair value of investments	<u>45,669</u>	<u>(14,758)</u>
	<u>\$ 114,296</u>	<u>\$ 71,687</u>

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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>2013</u>	<u>2012</u>
Medicare	\$ 998,159	\$ 824,925
Medicaid	105,336	142,982
Other third-party payers	617,214	430,300
Patients	<u>1,717,174</u>	<u>1,909,029</u>
 Total patient accounts receivable	 3,437,883	 3,307,236
 Less allowance for uncollectible amounts	 <u>1,668,000</u>	 <u>1,651,000</u>
 Patient accounts receivable, net	 <u>\$ 1,769,883</u>	 <u>\$ 1,656,236</u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	<u>2013</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	5,125,363	130,952	-	-	5,256,315
Equipment	8,474,645	140,986	-	-	8,615,631
Construction in progress	95,100	44,852	-	-	139,952
	<u>13,845,627</u>	<u>316,790</u>	<u>-</u>	<u>-</u>	<u>14,162,417</u>
Less accumulated depreciation					
Land improvements	83,873	452	-	-	84,325
Buildings and improvements	2,212,482	452,800	-	-	2,665,282
Equipment	6,006,200	327,110	-	-	6,333,310
	<u>8,302,555</u>	<u>780,362</u>	<u>-</u>	<u>-</u>	<u>9,082,917</u>
Capital assets, net	<u>\$ 5,543,072</u>	<u>\$ (463,572)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,079,500</u>

**The Kiowa County Hospital Authority
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Notes to Financial Statements
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	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
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	108,000	-	-	(12,900)	95,100
	<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	5,162,724	893,801	(50,325)	-	6,006,200
	<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>

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 2013 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
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A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012**

Activity in the Hospital's accrued employee health claims liability during 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 50,000	\$ 50,000
Current year claims incurred and changes in estimates for claims incurred in prior years	(838,401)	702,950
Claims and expenses paid	<u>888,401</u>	<u>(702,950)</u>
Balance, end of year	<u>\$ 100,000</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 costs relating to these services are as follows:

	<u>2013</u>	<u>2012</u>
Charity allowances	\$ 238,000	\$ 309,000
State Medicaid	<u>308,000</u>	<u>588,000</u>
	<u>\$ 546,000</u>	<u>\$ 897,000</u>

The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. In addition to uncompensated costs, the Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health 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, 2013 and 2012**

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 2013 and 2012.

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 2.9% for 2013 and 3.1% for 2012. Contributions actually made by plan participants aggregated approximately \$201,000 and \$213,000 for the years ended June 30, 2013 and 2012, respectively.

Note 10: 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.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012**

Note 11: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Hospital's net patient service revenue. In addition, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

**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 basic 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, 2013, 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 3, 2014.

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, 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 would not necessarily 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 as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be a significant deficiency in internal control.

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

Compliance

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*.

Hospital's Response to the Finding

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matters

We noted certain matters that we reported to the Hospital's management in a separate letter dated March 3, 2014.

The purpose of this communication 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 entity's internal control or compliance. This communication 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 3, 2014

**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, 2013**

Reference Number	Finding
2013-1	<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 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 – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud 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>