Financial Statements
September 30, 2015

# Jefferson County Healthcare Authority

CPAs & BUSINESS ADVISORS

**Independent Auditor's Report**

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

**Report on the Financial Statements**
We have audited the accompanying statement of net position of Jefferson County Healthcare Authority (Authority) as of September 30, 2015, and the related statements of revenues, expenses, and changes in net position and statement of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Healthcare Authority as of September 30, 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

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

**Other Reporting Required by *Government Auditing Standards***
In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of the Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 13, 2016

| | |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and cash equivalents | $ 532,344 |
| Short-term investments | 20,000 |
| Accounts receivables | |
| Patients, net of estimated uncollectibles of approximately $2,676,000 | 252,539 |
| Estimated third-party payor settlements | 39,338 |
| Sales tax | 85,843 |
| Other | 589 |
| Supplies | 68,579 |
| Prepaids | 17,500 |
| Total current assets | 1,016,732 |
| **Capital Assets, Net** | 585,512 |
| Total assets | $ 1,602,244 |
| **Liabilities and Net Position** | |
| **Current Liabilities** | |
| Note payable | $ 27,400 |
| Current maturities of long-term debt | 63,290 |
| Accounts payable | 1,253,722 |
| Accrued liabilities | 149,881 |
| Total current liabilities | 1,494,293 |
| **Long-Term Debt, Less Current Maturities** | 189,372 |
| Total liabilities | 1,683,665 |
| **Net Position (Deficit)** | |
| Net investment in capital assets | 418,000 |
| Unrestricted | (499,421) |
| Total net position (deficit) | (81,421) |
| Total liabilities and net position (deficit) | $ 1,602,244 |

| | |
|---|---|
| Operating Revenues | |
| Net patient service revenue, net of provision for bad debts of $236,236 | $ 2,333,569 |
| Other | 328,772 |
| Total operating revenues | 2,662,341 |
| Operating Expenses | |
| Nursing services | 853,887 |
| Other professional services | 1,169,226 |
| General services | 282,530 |
| Administrative services | 812,868 |
| Depreciation | 193,378 |
| Total operating expenses | 3,311,889 |
| Operating Loss | (649,548) |
| Nonoperating Revenues (Expenses) | |
| Investment income | 303 |
| Interest expense | (19,423) |
| Noncapital grants and contributions | 7,956 |
| County appropriation | 305,697 |
| Net nonoperating revenues (expenses) | 294,533 |
| Expenses in Excess of Revenues Before Capital Contributions | (355,015) |
| Capital Contributions | 30,910 |
| Change in Net Position | (324,105) |
| Net Position, Beginning of the Year | 242,684 |
| Net Position (Deficit), End of Year | $ (81,421) |

| | |
|---|---|
| Operating Activities | |
| Receipts from and on behalf of patients | $ 3,044,004 |
| Payments to suppliers and contractors | (1,443,954) |
| Payments to employees | (1,711,211) |
| Other receipts and payments, net | 328,742 |
| Net Cash from Operating Activities | 217,581 |
| Noncapital Related Financing Activities | |
| County appropriations received | 301,676 |
| Noncapital grants and gifts | 7,956 |
| Change in line of credit | (1,400) |
| Interest paid | (6,350) |
| Net Cash from Noncapital Related Financing Activities | 301,882 |
| Capital and Capital Related Financing Activities | |
| Principal paid on long-term debt | (72,549) |
| Interest paid | (13,073) |
| Capital contributions | 30,910 |
| Purchase of capital assets | (34,625) |
| Net Cash used for Capital and Capital Related Financing Activities | (89,337) |
| Investing Activities | |
| Interest on certificate of deposits | 303 |
| Net Change in Cash and Cash Equivalents | 430,429 |
| Cash and Cash Equivalents, Beginning of Year | 101,915 |
| Cash and Cash Equivalents, End of Year | $ 532,344 |

| | | |
|---|---|---|
| Reconciliation of Operating Loss to Net Cash from Operating Activities | | |
| Operating loss | $ | (649,548) |
| Adjustments to reconcile operating loss to net cash used for operating activities | | |
| Depreciation | | 193,378 |
| Provision for bad debts | | 236,236 |
| Changes in assets and liabilities | | |
| Patient account receivables | | (247,117) |
| Other receivables | | (30) |
| Supplies | | 22,183 |
| Prepaids | | 13,002 |
| Accounts payable | | (52,516) |
| Accrued liabilities | | (19,323) |
| Estimated third-party payor settlements | | 721,316 |
| Net Cash from Operating Activities | $ | 217,581 |

| | | |
|---|---|---|
| Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities | | |
| Refinancing of short-term note payable | $ | 27,400 |

## Note 1 - Organization and Significant Accounting Policies

The financial statements of the Jefferson County Healthcare Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

### Reporting Entity

The Authority is a rural hospital, located in Waurika, Oklahoma. The Authority is a critical access facility with 25 beds and rural health clinic services. The Authority is a public trust under the provisions of Title 60 Oklahoma Statutes. The Authority's primary purpose is to provide short-term acute care services for the citizens of Jefferson County, Oklahoma, and the surrounding area.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and Authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of the organization's governing body and (1) the ability of the Authority impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority does not have a component unit which meets the GASB criteria.

### Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### Basis of Presentation

The statement of net position displays the Authority's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

> *Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

*Restricted net position*:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

**Short-Term Investments**

Short-term investments include certificates of deposit with an original maturity of three to twelve months.

**Patient Receivables**

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

**Supplies**

Supplies are valued at the lower of cost (first-in, first-out method) or market and are expensed when used.

**Capital Assets**

Capital asset acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

| | |
|---|---|
| Land improvements | 10-15 years |
| Buildings and improvements | 5-40 years |
| Equipment | 3-20 years |

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

**Compensated Absences**

The Authority’s employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued liabilities in the accompanying financial statements.

**Operating Revenues and Expenses**

The Authority’s statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority’s principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

**Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Charity Care**

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately $181,000 for the year ended September 30, 2015. Total direct and indirect costs related to these foregone charges were approximately $183,000 at September 30, 2015, based on an average ratio of cost to gross charges.

**Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

The Authority recognized revenue of $260,000 for the year ended September 30, 2015 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

**Supplemental Hospital Offset Payment Program Act**

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generated matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will or equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records receipts to contractual adjustments. The Authority received $104,708 during the year ended September 30, 2015.

Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

**County Appropriations**

Effective October 1, 1999, the citizens of Jefferson County, Oklahoma, approved a 1% sales tax for the support of the Authority for a period of five years. The sales tax was renewed for an additional five year period and will expire September 30, 2019. The Authority received approximately 10% of its financial support from county appropriations related to sales tax in 2015. Revenue from county appropriations is recognized in the year in which the sales taxes are earned.

**Grants and Contributions**

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

## Note 2 - Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). Clinical services are paid on a cost basis or fixed fee schedule. The Hospital's Medicare cost reports have been audited by the MAC through the year ended September 30, 2014.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge or established fee schedules.

Other carriers: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other 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.

Concentration of gross charges by major payor were as follows for the year ended September 30, 2015:

| | |
|---|---|
| Medicare | 52% |
| Medicaid | 12% |
| Commercial insurance | 23% |
| Patients | 13% |
| | 100% |

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

## Note 3 - Deposits

The carrying amounts of deposits as of September 30, 2015 are as follows:

| | | |
|---|---|---|
| Carrying Value | | |
| Cash and certificates of deposits | $ | 552,344 |

Deposits are reported in the following statement of net position captions:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 532,344 |
| Short-term investments | | 20,000 |
| Total | $ | 552,344 |

**Deposits – Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

The Authority's deposits in banks at September 30, 2015 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy does not provide specific maturity limits in certificates of deposits to manage exposure to fair value losses arising from changing interest rates.

**Concentration of Credit Risk**

The Authority does not have a formally adopted investment policy for managing concentration of credit risk.

**Investment Income**

Investment income for the year ended September 30, 2015 consisted of interest income.

## Note 4 - Capital Assets

Capital asset additions, retirements, transfers and balances for the year ended September 30, 2015 are as follows:

| | Balance September 30, 2014 | Additions | Retirements and Transfers | Balance September 30, 2015 |
|---|---|---|---|---|
| Capital assets | | | | |
| Land improvements | $ 27,978 | $ - | $ - | $ 27,978 |
| Buildings and Improvements | 957,719 | - | - | 957,719 |
| Equipment | 1,967,230 | 34,625 | (125,676) | 1,876,179 |
| Total capital assets | 2,952,927 | $ 34,625 | $ (125,676) | 2,861,876 |
| Less accumulated depreciation for | | | | |
| Land improvements | 24,141 | $ 642 | $ - | 24,783 |
| Buildings and improvements | 946,072 | 1,331 | - | 947,403 |
| Equipment | 1,238,449 | 191,405 | (125,676) | 1,304,178 |
| Total accumulated depreciation | 2,208,662 | $ 193,378 | $ (125,676) | 2,276,364 |
| Capital Assets, net | $ 744,265 | | | $ 585,512 |

## Note 5 - Leases Obligations

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense in September 30, 2015 for all operating leases was $35,142. The capitalized leased assets consist of:

| | |
|---|---|
| Major Movable Equipment | $ 258,719 |
| Less Accumulated Amortization | (133,409) |
| | $ 125,310 |

## Note 6 - Note Payable and Long-Term Debt

The following is a summary of the note payable during the year ended September 30, 2015 September 30, 2015:

| | Balance September 30, 2014 | Additions | Payments | Balance September 30, 2015 |
|---|---|---|---|---|
| Note payable: | | | | |
| Line of credit | $ 28,800 | $ 27,400 | $ (28,800) | $ 27,400 |

The terms and due date of the Authority's note payable at September 30, 2015September 30, 2015 is as follows:

- Revolving line of credit used for operations up to $28,500; unpaid principal and accrued interest due March 2015; interest rate of 2.19%; collateralized by savings account. Refinanced in April 2015 with a maturity date of April 2016. The note payable was refinanced again in April 2016 with a new maturity date of April 2017.

A schedule of changes in the Authority's long-term debt for September 30, 2015 is as follows:

| | Balance September 30, 2014 | Additions | Payments | Balance September 30, 2015 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-term Debt: | | | | | |
| Note payable to a bank (A) | $ 87,591 | | $ (2,441) | $ 85,150 | $ - |
| Note payable to a bank (B) | 66,658 | | (6,105) | 60,553 | 6,204 |
| Capital leases (C) | 170,962 | - | (64,003) | 106,959 | 57,086 |
| Total long-term debt | $ 325,211 | $ - | $ (72,549) | $ 252,662 | $ 63,290 |

The terms and due dates of the Authority's long-term debt, including capital lease obligations, as of September 30, 2015, are as follows:

A. 6% note, due on demand or June 6, 2013, secured by real estate. Renewed at various times with a new due date of January 2017.
B. Variable rate note (4.5% at September 30, 2015), due on demand or equal payments maturing in May 2025, secured by real estate.
C. Capital leases with varying interest rates from 6.16% to 12.29%; collateralized by the associated equipment; with varying maturity dates from July 2016 through July 2018.

Future payments of principal and interest payments on notes payable and capital lease obligations are as follows:

| | Long-term Debt | | Capital Lease Obligations | |
|---|---|---|---|---|
| Year Ending September 30, | Principal | Interest | Principal | Interest |
| 2016 | $ 6,204 | $ 7,633 | $ 57,086 | $ 5,582 |
| 2017 | 91,639 | 7,348 | 28,195 | 2,630 |
| 2018 | 6,787 | 1,941 | 21,678 | 612 |
| 2019 | 7,099 | 1,629 | - | - |
| 2020 | 7,425 | 1,303 | - | - |
| 2021-2025 | 26,549 | 1,799 | - | - |
| Total | $ 145,703 | $ 21,653 | $ 106,959 | $ 8,824 |

## Note 7 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2015, was as follows:

| | |
|---|---|
| Medicare | 7% |
| Medicaid | 4% |
| Commercial insurance | 6% |
| Patients | 83% |
| | 100% |

## Note 8 - Contingencies

### Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; 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.

### Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

### Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

## Note 9 - Subsequent Events

The Authority has evaluated subsequent events through December 13, 2016 the date which the financial statements were available to be issued.

The Authority signed an agreement to lease office equipment in August 2016. The terms of the lease is for 60 equal payments of $541.

The Authority was approved for an extended repayment schedule (ERS) with the Medicare Administrative Contractor in October 2016 for the amount of $134,198 which was the result of an overpayment for a 2016 interim rate adjustment. The ERS was approved for 21 monthly payments of $6,969, including interest at 9.625%.

The Authority obtained a revolving line of credit for an amount up to $500,000 in November 2016. The Authority has used $244,384 of the line of credit. The line of credit accrues interest at 1.75% plus the applicable federal rate and matures on July 22, 2017.

The Authority obtained a note payable in the amount of $20,100 at 3.35%. The note matures on February 10, 2017.

Supplementary Information
September 30, 2015

# Jefferson County Healthcare Authority

**Independent Auditor's Report on Supplementary Information**

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

We have audited the financial statements of Jefferson County Healthcare Authority (Authority) as of and for the year ended September 30, 2015, and our report thereon dated December 13, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient service revenue, other operating revenue, and operating expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 13, 2016

| | Inpatient | Outpatient | Total |
|---|---|---|---|
| **Daily Patient Services** | | | |
| Medical and surgical | $ 283,809 | $ 32,891 | $ 316,700 |
| Swing bed | 185,625 | - | 185,625 |
| | 469,434 | 32,891 | 502,325 |
| **Other Nursing Services** | | | |
| Central service supplies | 53,647 | 42,530 | 96,177 |
| Emergency services | 9,170 | 511,215 | 520,385 |
| | 62,817 | 553,745 | 616,562 |
| **Other Professional Services** | | | |
| Clinics | - | 216,250 | 216,250 |
| Electrocardiography | 8,104 | 29,026 | 37,130 |
| Laboratory | 93,246 | 531,406 | 624,652 |
| Pharmacy | 426,066 | 186,653 | 612,719 |
| Physical therapy | 23,748 | 95,096 | 118,844 |
| Radiology | 39,363 | 361,946 | 401,309 |
| Respiratory therapy | 66,638 | 10,978 | 77,616 |
| Sleep studies | - | 5,400 | 5,400 |
| | 657,165 | 1,436,755 | 2,093,920 |
| | $ 1,189,416 | $ 2,023,391 | 3,212,807 |
| Charity care | | | (181,495) |
| Total patient service revenue | | | 3,031,312 |
| **Deductions from Revenue** | | | |
| Contractual adjustments | | | (461,507) |
| Provision for bad debts | | | (236,236) |
| Total deductions from revenue | | | (697,743) |
| Net Patient Service Revenue | | | $ 2,333,569 |

| | | |
|---|---|---|
| Other Revenue | | |
| Cafeteria | $ | 6,507 |
| Government incentive for electronic health records | | 260,000 |
| Medical records | | 512 |
| Miscellaneous | | 10,305 |
| Vendor discounts | | 51,448 |
| Total Other Revenue | $ | 328,772 |

| | Salaries | Other | Total |
|---|---|---|---|
| Daily Patient Services | | | |
| Medical and surgical | $ 484,389 | $ 40,699 | $ 525,088 |
| Central services and supply | 461 | 19,310 | 19,771 |
| Emergency services | 250,873 | 58,155 | 309,028 |
| | 735,723 | 118,164 | 853,887 |
| Other Professional Services | | | |
| Clinics | 243,823 | 139,151 | 382,974 |
| Electrocardiology | - | 10,264 | 10,264 |
| Laboratory | 145,178 | 159,996 | 305,174 |
| Pharmacy | 24,885 | 147,818 | 172,703 |
| Physical therapy | 81,211 | 8,355 | 89,566 |
| Radiology | 97,274 | 82,096 | 179,370 |
| Respiratory therapy | 9,293 | 17,542 | 26,835 |
| Sleep studies | 725 | 1,615 | 2,340 |
| | 602,389 | 566,837 | 1,169,226 |
| General Services | | | |
| Dietary | 48,951 | 52,374 | 101,325 |
| Housekeeping | 17,748 | 4,793 | 22,541 |
| Laundry and linen | - | 13,247 | 13,247 |
| Medical records | 63,777 | 15,295 | 79,072 |
| Plant operations | - | 66,345 | 66,345 |
| | 130,476 | 152,054 | 282,530 |
| Administrative Services | | | |
| Administrative and office | 285,085 | 269,200 | 554,285 |
| Employee Benefits | - | 231,142 | 231,142 |
| Insurance | - | 27,441 | 27,441 |
| | 285,085 | 527,783 | 812,868 |
| Depreciation Expense | - | 193,378 | 193,378 |
| Total Expenses | $ 1,753,673 | $ 1,558,216 | $ 3,311,889 |

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

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Jefferson County Healthcare Authority (Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 13, 2016.

**Internal Control over Financial Reporting**
In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2015-A through 2015-F to be material weaknesses.

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 as item 2015-G to be a significant deficiency.

**Compliance and Other Matters**
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

**Authority's Response to Findings**
The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings. The Authority'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.

**Purpose of this Report**
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 13, 2016

**Findings – Financial Statements Audit – Internal Controls over Financial Reporting**

**2015-A Failure to Address Previously Identified Weaknesses**

*Criteria*: An entity should make changes to correct previous weakness and deficiencies identified.

*Condition*: Several identified significant deficiencies and material weaknesses identified in previous audits have not been corrected or addressed by management.

*Cause*: In some cases, the cause is a lack of available resources to properly address the identified weakness. In other cases, it is a lack of action on the part of management.

*Effect*: A material weakness is identified in the overall control environment of the Authority.

*Auditor's Recommendation*: We recognize that not all identified weaknesses are within the ability of the Authority to fully remedy. However, we believe it is imperative that management strive to address all identified comments brought to their attention. Addressing audit recommendations will result in a facility with stronger controls which could lead to a reduction in the number of audit adjustments and recommendations.

*Views of Responsible Officials*: The Authority does not have the resources to correct some of the findings. At the current time, it is not a priority to correct prior year findings; however consideration will be given to correct these recommendations going forward.

**2015-B Material Audit Entries**

*Criteria*: A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

*Condition*: During the course of our engagement, we proposed a material audit adjustment to patient accounts receivables, estimated third party payor settlements, and net position that would not have been identified as a result of the Authority's existing internal controls, and therefore, could have resulted in a material misstatement of the Authority's financial statements.

*Cause*: Material misstatements was not identified and corrected in a timely manner.

*Effect*: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

*Auditor's Recommendation*: It is recommended the Authority implement a system that provides adequate controls over recording transactions and identifying misstatements.

*Views of Responsible Officials*: The Authority will implement a policy to review all accounts balances to review for consistency and reasonableness.

**2015-C Preparation of Financial Statements**

*Criteria*: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

*Condition*: The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

*Cause*: Misstatements to the internal financial statements were not prevented or detected on a timely basis in the normal course of business. Therefore, there were several significant adjusting journal entries at year end proposed during the audit process.

*Effect*: Failure to periodically review account balances can result in errors on the interim financial statements and represents a weakness in internal control over financial reporting. Improper oversight of the accounting function allowed misstatements to occur. Also, the year-end financial report is prepared by the auditors, a party outside of the Authority. The outside party does not have constant contact with ongoing financial transactions that the internal staff has. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Authority management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Auditor's Recommendation*: It is recommended the Authority implement a system that allows for the preparation of interim and year-end financial statements in accordance with GAAP.

*Views of Responsible Officials*: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

**2015-D Segregation of Duties**

*Criteria*: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

*Condition*: During the course of our engagement, we noted that the Authority has limited staff completing incompatible accounting functions due to the size of the Authority. We noted the following items:

- Journal entries are prepared and posted in the accounting system without review by someone other than the preparer. The Chief Financial Officer may prepare and post journal entries without those entries being reviewed by another appropriate management-level employee. We recommend management implement a policy and procedure regarding documented review of journal entries by appropriate management level employee other than the preparer.

- Several business office employees have access to cash receipts and the ability to post payments and adjustments or the responsibility to prepare and send statements. The Chief Financial Officer also has these abilities as well as the responsibility for recording and monitoring these activities.
- The Chief Financial Officer may generate, issue and sign a payroll payment, the individual also has responsibility for recording payroll transactions and reconciling the underlying accounting records.
- An employee has incompatible duties in the purchases, accounts payable and cash disbursement transaction cycle. The Chief Financial Officer may generate, issue and sign a check and also has responsibility for recording transactions and reconciling the underlying accounting records.

*Cause*: The Authority's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

*Effect*: Inadequate segregation of duties could adversely affect the organizations ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions.

*Auditor's Recommendation*: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

*Views of Responsible Officials*: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. The Board of Trustees will continue to review the financial statements and related financial data of the Authority.

**2015-E Cost Report Settlement**

*Criteria*: Accountings standards require an entity to estimate the Medicare cost report settlement in order to fairly state the financial position as of year-end.

*Condition*: During the current year, the Authority did not record an estimate for the Medicare cost report settlement for the current year.

*Cause*: The current year cost report settlement was not estimated at year-end which resulted in a journal entry to the financial statements.

*Effect*: An adjusting journal entry was necessary to properly state the current year settlement.

*Auditor's Recommendation*: We recommend the Authority consider interim cost reports, purchase software or develop an internal spread sheet to assist with the estimate.

*Views of Responsible Officials*: The Authority has the cost report completed after year-end by a CPA firm. The Authority's board has taken into consideration the purchase cost of the cost report estimation software or the professional fees for an interim cost report estimate versus the benefit to the accurate reporting of the Medicare cost report settlement and feels that the cost does not justify the benefit.

**2015-F Accounts Receivables**

*Criteria*: Accounts receivable should be presented net of estimated allowances. Allowances should be made for all payor types to properly reflect the expected cash payments to be received. The estimate should be based on historical trends for each payor class.

*Condition*: The following are items we noticed during our testing of accounts receivables:

- The Authority's accounts receivable detail contained approximately $2,811,000 in accounts which were over 150 days old.
- The accounts receivable detail included some negative balances indicating overpayments on patient accounts or posting errors.
- We reviewed the reconciliation of accounts receivable detail to the general ledger as part of our auditing procedures. We noted an immaterial unlocated difference between the detail accounts receivable listing and the general ledger account balance.
- Allowances for contractual and uncollectable should be reviewed at the end of each month based on historical trends for each payor class.

*Effect*: The Authority has a large amount of patient accounts receivable that are uncollectible.

*Cause*: The Authority uses a collection service to assist with the collection of accounts receivable, however many of the accounts which were turned over to the collection service are not returned to the Authority once it has determined the accounts are uncollectible.

*Auditor's Recommendation*: We recommend the Authority establish an arrangement with the collection service to have uncollectible accounts returned for timely write off in the accounting system, and that management implement a policy requiring that the date the account are returned be documented as part of the collection process. We recommend management research the negative balances and reclassify overpayments to a liability account to prevent understatement of current assets and liabilities. We recommend management reconcile the accounts receivable detail monthly.

*Views of Responsible Officials*: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. The Board of Trustees will continue to review the financial statements and related financial data of the Authority.

**2015-G Title 60 Compliance**

*Condition*: During the current year the Board of Trustees did not complete a Conflict of Interest disclosure form and file with the Oklahoma Secretary of State; file annual audited financial statements with the County; and order an audit within 30 days of the close of each year. In addition, the Authority did not complete or file an audit for fiscal years ending September 30, 2014 and 2013.

*Criteria*: Per section 178.8(a) of Title 60, all transactions between trustees or associated firms, corporations, etc. or trustees immediate family or firm, corporation, etc. they are associated with, must be publicly disclosed, and all trustee interests must be disclosed unless the transaction is secured by competitive bid. The trust must compile a list of all conflicts of interest disclosed by trustees. This list is to be compiled semi-annually in June and December of each year on forms prescribed by the Oklahoma Secretary of State. Per section 180.1 of Title 60, the trust is to order an audit within 30 days of the close of each year. Audits must be certified by a CPA opinion. One copy is to be filed with the State Auditor. Per section 176(g) of Title 60, the trust must file annually with the County financial reports, budgets and results of audits.

*Cause*: These forms, filings and audits were not compiled or filed on a timely basis this year and for the years ending September 30, 2014 and 2013.

*Effect*: The Authority is not in compliance with Oklahoma Title 60 Trust Statutes.

*Auditor's Recommendation*: We recommend that the Authority obtain the required forms be completed and filed on a timely basis, order an audit within the stated time frame and file the audited financial statement with the State Auditor as stipulated by the Oklahoma Title 60 Trust Statutes.

*Views of Responsible Officials*: The Board of Trustees are working to obtain a waiver for the audit periods September 30, 2013 and 2014.