Management's Discussion and Analysis and Financial Statements
June 30, 2016 and 2015

Holdenville Hospital Authority

Independent Auditor's Report

The Board of Trustees
Holdenville Hospital Authority
Holdenville, Oklahoma

Report on the Financial Statements
We have audited the accompanying statements of net position of Holdenville Hospital Authority (Authority), as of June 30, 2016, and the related statement 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Holdenville Hospital Authority as of June 30, 2016, and the change 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.

Correction of Error
The financial statements of the Authority as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated September 13, 2016, expressed an unmodified opinion on those statements. As discussed in Note 10 to the financial statements, certain errors resulting in an understatement of capital assets, understatement of long-term debt, overstatement of accounts payables, understatement of investments, overstatement of cash, understatement of depreciation expense, overstatement of other expenses, understatement of interest expense, understatement of net position, overstatement of cash flows from noncapital financing activities and overstatement of cash flows used for operating activities as of and for the year ending June 30, 2015, were discovered by management of the Authority during the current year. Accordingly, the 2015 financial statements have been restated for the error corrections. The other auditors reported on the 2015 financial statements before the restatement.

As part of our audit of the 2016 financial statements, we also audited the adjustments described in Note 10 that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2015 financial statements of the Authority other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such 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. 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated April 25, 2017 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, 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 reports 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
April 25, 2017

This discussion and analysis of the financial performance of the Holdenville Hospital Authority (Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended June 30, 2016, 2015 and 2014. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole. Readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's total assets decreased during the year by $737,303 or 14% in 2016 compared with a decrease during 2015 of $879,263 or 14%.
- The Authority's total liabilities decreased during the year by $445 or 0.02% in 2016 compared with a decrease during 2015 of $68,673 or 3%.
- The Authority reported an operating loss in 2016 of $1,339,594 and in 2015 of $1,285,339. The operating loss increased $54,255 or 4% from 2015 to 2016. The operating loss increased $963,218 or 299% from 2014 to 2015.

Using This Annual Report

The Authority's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. 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 Authority's net position and changes in them. You can think of the Authority's net position the difference between assets and liabilities as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing 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 balance during the reporting period

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Authority's net position decreased by $736,858 or 28% in 2016, and decreased $810,590 or 23% in 2015, as shown in Table 1.

Condensed Financial Statements

Table 1: Assets, Liabilities and Net Position

	2016	2015 Restated	2014 Restated
Assets			
Current assets	$ 2,055,383	$ 2,449,549	$ 3,360,568
Capital assets, net	2,197,224	2,543,947	2,822,895
Noncurrent assets	314,290	310,704	-
Total assets	$ 4,566,897	$ 5,304,200	$ 6,183,463
Liabilities			
Current liabilities	$ 1,976,817	$ 1,649,564	$ 1,262,396
Long-term debt, less current maturities	652,411	980,109	1,435,950
Total liabilities	2,629,228	2,629,673	2,698,346
Net Position			
Net investment in capital assets	1,027,246	1,064,007	1,080,261
Unrestricted	910,423	1,610,520	2,404,856
Total net position	1,937,669	2,674,527	3,485,117
Total liabilities and net position	$ 4,566,897	$ 5,304,200	$ 6,183,463

A significant component of the change in the Authority's assets is the decrease in current assets. Current assets decreased in 2016 by $394,166 or 16% compared to a decrease of $911,019 or 27% in 2015. Cash and cash equivalents decreased $173,266 or 59% in 2016 compared to 2015 which increased $62,198 or 27%. Patient accounts receivable, net of allowances, decreased $167,437 or 12% in 2016 compared to 2015 which increased $21,038 or 2%.

Operating Results and Changes in Net Position

Table 2: Operating Results and Changes in Net Position

	2016	2015 Restated	2014 Restated
Operating Revenues			
Net patient service revenue	$ 10,382,660	$ 9,817,819	$ 10,322,783
Other revenue	433,962	264,931	209,329
Total operating revenues	10,816,622	10,082,750	10,532,112
Operating Expenses			
Salaries and wages and employee benefits	6,874,766	6,454,896	5,738,934
Purchased services and professional fees	1,937,125	1,825,104	1,966,513
Depreciation	627,299	605,901	626,385
Other operating expenses	2,717,026	2,482,188	2,522,401
Total operating expenses	12,156,216	11,368,089	10,854,233
Operating Loss	(1,339,594)	(1,285,339)	(322,121)
Nonoperating Revenues (Expenses)			
Investment income	8,005	2,665	4,836
Interest expense	(86,393)	(88,105)	(77,143)
Sales tax	513,464	540,619	530,790
Noncapital contributions and grants	27,660	19,570	37,792
Gain on sale of joint venture	140,000	-	-
Total nonoperating revenues, net	602,736	474,749	496,275
Change in Net Position	(736,858)	(810,590)	174,154
Net Position, Beginning of the Year	2,674,527	3,485,117	3,310,963
Net Position, End of Year	$ 1,937,669	$ 2,674,527	$ 3,485,117

Operating Income

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Authority had operating loss of $1,339,594 in 2016 compared to an operating loss of $1,285,339 in 2015.

The primary components of the operating loss are:

- Net patient service revenue increased $564,841 or 6% in 2016 and decreased $504,964 or 5% in 2015. The increase in 2016 is attributed to the increased services provided by the Authority. The decrease in 2015 is attributed to the decreased services provided by the Authority.
- Salaries, wages and employee benefits expense increased $419,870 or 7% in 2016 and $715,962 or 12% in 2015. The increases are primarily due to new to new physicians employed during 2016 and 2015.
- Other operating expenses increased $234,838 or 9% in 2016 and decreased $40,213 or 2% in 2015. The increase in 2016 is attributed to the increased cost for insurance, licenses, repairs and leases.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax revenues, interest expense, and gain on sale of joint venture. Sales tax revenues decreased $27,155 or 5% from 2015 to 2016 and increased $9,829 or 2% from 2014 to 2015. Interest expense decreased $1,712 or 2% from 2015 to 2016 and increased $10,962 or 14% from 2014 to 2015. Gain on sale of joint venture increased $140,000 or 100% from 2015 to 2016 and did not change from 2014 to 2015.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents of $173,266 when compared with 2015. Cash flows used for operating activities decreased by $308,224 during 2016 when compared with 2015. Cash from noncapital financing activities decreased $216,453 when compared with 2015. Cash used for capital and related financing activities decreased $856 when compared with 2015. Cash from investing activities decreased $328,091 when compared to 2015.

Capital Assets

In 2016, the Authority purchased $280,576 of capital assets and had $2,197,224 invested in capital assets, net of accumulated depreciation, at the end of 2016 as detailed in Note 4, to the financial statements. In 2015, the Authority purchased $326,953 of capital assets and had $2,543,947 invested in capital assets, net of accumulated depreciation, at the end of 2015 as detailed in Note 4 to the financial statements.

Long term Debt

The Authority incurred additional debt of $158,154 for capital leases in 2016 and had total long term debt of $1,169,978 at the end of 2016. The Authority incurred additional debt of $300,091 for a capital lease in 2015 and had total long term debt of $1,479,940 at the end of 2015. During 2016 and 2015, the Authority used $35 and $28,047 of the line of credit. During 2016 and 2015, the Authority made payments of $169,341 and $0 on the line of credit.

Requests for Information

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Holdenville Hospital Authority, 100 McDougal Drive, Holdenville, Oklahoma 74848.

	2016	2015 Restated
Assets		
Current Assets		
Cash and cash equivalents	$ 119,091	$ 292,357
Short-term investments	415,527	411,893
Receivables		
Patients, net of estimated uncollectibles of approximately $1,083,000 in 2016 and $756,000 in 2015	1,202,561	1,369,998
Sales tax	44,880	44,880
Other	61,632	796
Supplies	169,150	250,795
Prepaid expenses	42,542	78,830
Total current assets	2,055,383	2,449,549
Noncurrent Investments	314,290	310,704
Capital Assets		
Capital assets not being depreciated	33,919	33,919
Capital assets being depreciated, net	2,163,305	2,510,028
Total capital assets	2,197,224	2,543,947
Total assets	$ 4,566,897	$ 5,304,200
Liabilities and Net Position		
Current Liabilities		
Notes payable	$ 85,837	$ 255,143
Current maturities of long-term debt	517,567	499,831
Accounts payable		
Trade	477,998	392,664
Estimated third-party payor settlements	652,714	52,931
Accrued expenses	242,701	448,995
Total current liabilities	1,976,817	1,649,564
Long-Term Debt, Less Current Maturities	652,411	980,109
Total liabilities	2,629,228	2,629,673
Net Position		
Net investment in capital assets	1,027,246	1,064,007
Unrestricted	910,423	1,610,520
Total net position	1,937,669	2,674,527
Total liabilities and net position	$ 4,566,897	$ 5,304,200

	2016	2015 Restated
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $1,866,060 in 2016 and $2,101,607 in 2015)	$ 10,382,660	$ 9,817,819
Other	433,962	264,931
Total operating revenues	10,816,622	10,082,750
Operating Expenses		
Salaries and wages	5,997,843	5,542,782
Employee benefits	876,923	912,114
Purchased services and professional fees	1,937,125	1,825,104
Supplies	1,053,930	918,592
Depreciation	627,299	605,901
Other expenses	1,663,096	1,563,596
Total operating expenses	12,156,216	11,368,089
Operating Loss	(1,339,594)	(1,285,339)
Nonoperating Revenues (Expenses)		
Investment income	8,005	2,665
Interest expense	(86,393)	(88,105)
Sales tax	513,464	540,619
Noncapital contributions and grants	27,660	19,570
Gain on sale of joint venture	140,000	-
Net nonoperating revenues	602,736	474,749
Change in Net Position	(736,858)	(810,590)
Net Position, Beginning of the Year	2,674,527	3,485,117
Net Position, End of Year	$ 1,937,669	$ 2,674,527

	2016	2015 Restated
Operating Activities		
Receipts from and on behalf of patients	$ 11,149,880	$ 10,128,378
Payments to suppliers and contractors	(4,450,884)	(4,295,709)
Payments to and on behalf of employees	(7,081,060)	(6,414,966)
Other receipts and payments, net	373,126	265,135
Net Cash used for Operating Activities	(8,938)	(317,162)
Noncapital Financing Activities		
Noncapital grants and gifts	27,660	19,570
Change in notes payable	(169,306)	28,047
Sales tax	513,464	540,619
Net cash from noncapital financing activities	371,818	588,236
Capital and Related Financing Activities		
Purchase of property and equipment	(122,422)	(26,862)
Principal payments of long-term debt	(468,116)	(562,785)
Payment of interest on long term debt	(86,393)	(88,105)
Net Cash used for Capital and Related Financing Activities	(676,931)	(677,752)
Investing Activities		
Proceeds from sale of joint venture	140,000	-
Purchase of investments	(7,220)	-
Proceeds from investments	-	466,211
Interest on investments	8,005	2,665
Net Cash from Investing Activities	140,785	468,876
Net Change in Cash and Cash Equivalents	(173,266)	62,198
Cash and Cash Equivalents, Beginning of Year	292,357	230,159
Cash and Cash Equivalents, End of Year	$ 119,091	$ 292,357

	2016	2015 Restated
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (1,339,594)	$ (1,285,339)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	627,299	605,901
Provision for bad debts	1,866,060	2,101,607
Changes in assets and liabilities		
Receivables		
Patients	(1,698,623)	(2,122,645)
Other	(60,836)	204
Supplies	81,645	(6,826)
Prepaid expenses	36,288	(54,704)
Accounts payable	85,334	73,113
Estimated third-party payor settlements	599,783	331,597
Accrued expenses	(206,294)	39,930
Net Cash used for Operating Activities	$ (8,938)	$ (317,162)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	$ 158,154	$ 300,091

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Holdenville Hospital 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 Hospital are described below.

Reporting Entity

Holdenville General Hospital (Hospital) is leased from the City of Holdenville, Oklahoma, to the Holdenville Hospital Authority (Authority), which is a public trust created under Title 60, Oklahoma Statute for the benefit of residents of Holdenville, Oklahoma, the beneficiaries of the trust. The Authority is empowered to provide physical facilities, improvements, and services for the purpose of providing public health care. The Hospital provides inpatient, outpatient, emergency care, and rural health clinics for residents of Holdenville, Oklahoma. Admitting physicians are primarily practitioners in the local area. The Trustees of the Authority consist of city council members. The Trustees have created a separate Hospital Board to oversee the operations of the Hospital. The Trustees retain the right to appoint members of the Hospital Board as vacancies occur.

The Authority, located in Holdenville, Oklahoma, is a 25-bed critical access hospital and primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Holdenville, Oklahoma, area. The Authority operates physician clinics in the same geographic 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 an organization's governing body and (1) the ability of the Authority to 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 attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. The Authority had no restricted, expendable net position at June 30, 2016 and 2015.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority had no restricted, nonexpendable net position at June 30, 2016 and 2015.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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 reporting 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 the 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 and Investment Income

Short-term investments include certificates of deposit with an original maturity date of three to twelve months. Certificates of deposit are recorded at historical cost and interest income is reported as earned as nonoperating revenue.

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 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.

Sales Tax

Effective July 1, 2010, the citizens of Holdenville, Oklahoma, approved a 1% sales tax for the support of the Authority for a period of 5 years. The sales tax was renewed for an additional five year period and will expire July 1, 2020. The Authority received approximately 4% of its financial support from county appropriations related to sales tax in 2016 and 5% in 2015. These funds were used for operations, maintenance, and improvement of the Authority and its facilities.

Supplies

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

Capital Assets

Property and equipment 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 capital assets are as follows:

Buildings and improvements	5-40 years
Equipment	5-15 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from operations, unless explicit donor stipulations specify how the donated assets must be used. 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Noncurrent Investments and Investment Income

Noncurrent investments include certificates of deposit with a maturity date greater than twelve months. Certificates of deposit are recorded at historical cost and interest income is reported as earned.

Interest on investments and deposits are included in nonoperating revenues when earned.

Investment in Joint Venture

Joint ventures in which the Authority has an equity interest and either an ongoing financial interest or an ongoing financial responsibility are reported originally at cost and adjusted for changes in the equity interest in accordance with the joint venture agreement and for any other transactions, such as a return on capital. Equity earnings from joint ventures are included in nonoperating revenues (expenses).

The Authority’s investment in joint venture was $0 at June 30, 2016 and 2015. During 2016, the Authority sold their ownership in the joint venture for $140,000. The gain is included in nonoperating revenues (expenses)

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 expenses 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 $49,000 and $25,000 for the years ended June 30, 2016 and 2015. Total direct and indirect costs related to these foregone charges were approximately $24,000 and $12,000 at June 30, 2016 and 2015, based on an average ratio of cost to gross charges.

Grants and Contributions

From time to time, the Authority receives 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 non-operating revenues and expenses.

Electronic Health Record Incentives

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 Authority 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 $42,500 and $31,406 for the years ended June 30, 2016 and 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 received $646,095 and $604,259, included in net patient service revenue, for the years ended June 30, 2016 and 2015. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Reclassifications

Reclassifications have been made to the June 30, 2015 financial information to make it confirm to the current year presentation. The reclassifications had no effect on previously reported operating results or change in net position.

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 Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended June 30, 2015.

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

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patent service revenues for the years ended June 30, 2016 and 2015:

	2016	2015
Medicare	54%	53%
Medicaid	16%	18%
Other third-party payors	22%	23%
Self pay	8%	6%
	100%	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. The net patient service revenue for the year ended June 30, 2016 decreased approximately $453,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

Note 3 - Deposits and Investments

Deposits are reported in the following statements of net position captions as of June 30, 2016 and 2015:

	2016	2015
Cash and cash equivalents	$ 119,091	$ 292,357
Short-term investments	415,527	411,893
Noncurrent investments	314,290	310,704
	$ 848,908	$ 1,014,954

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. State statutes require that investments be made only in U.S. government obligations and that all bank balances are protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance or bonds.

As of June 30, 2016 and 2015, the Authority had bank balances as follows:

	2016	2015
Insured (FDIC)	$ 250,000	$ 250,000
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	600,000	764,954
Uninsured and uncollateralized	177,048	-
	$ 1,027,048	$ 1,014,954

Investment Income

Investment income on cash and other investments consists primarily of interest income for the years ended June 30, 2016 and 2015.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2016 are as follows:

	Balance June 30, 2015	Additions	Transfers and Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	$ 33,919	$ -	$ -	$ 33,919
Capital assets being depreciated				
Buildings and improvements	$ 2,559,903	$ 6,650	$ -	$ 2,566,553
Equipment	1,985,974	115,772	(95,703)	2,006,043
Capital lease equipment	2,747,433	158,154	-	2,905,587
Total depreciable capital assets	7,293,310	$ 280,576	$ (95,703)	7,478,183
Less accumulated depreciation for				
Buildings and improvements	(1,681,349)	$ (101,743)	$ -	(1,783,092)
Equipment	(1,579,573)	(143,515)	95,703	(1,627,385)
Capital lease equipment	(1,522,360)	(382,041)	-	(1,904,401)
Total accumulated depreciation	(4,783,282)	$ (627,299)	$ 95,703	(5,314,878)
Net capital assets being depreciated	$ 2,510,028			$ 2,163,305
Capital assets, net	$ 2,543,947			$ 2,197,224

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

	Balance June 30, 2014	Additions	Transfers and Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	$ 33,919	$ -	$ -	$ 33,919
Capital assets being depreciated				
Buildings and improvements	$ 2,549,131	$ 10,772	$ -	$ 2,559,903
Equipment	1,969,884	16,090	-	1,985,974
Capital lease equipment	2,447,342	300,091	-	2,747,433
Total depreciable capital assets	6,966,357	$ 326,953	$ -	7,293,310
Less accumulated depreciation for				
Buildings and improvements	(1,601,073)	$ (80,276)	$ -	(1,681,349)
Equipment	(1,408,710)	(170,863)	-	(1,579,573)
Capital lease equipment	(1,167,598)	(354,762)	-	(1,522,360)
Total accumulated depreciation	(4,177,381)	$ (605,901)	$ -	(4,783,282)
Net capital assets being depreciated	$ 2,788,976			$ 2,510,028
Capital assets, net	$ 2,822,895			$ 2,543,947

Note 5 - Lease 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 for the years ended June 30, 2016 and 2015 for all operating leases was approximately $137,353 and $75,484.

Minimum future lease payments for capital and operating leases agreements are as follows:

Years Ending June 30,	Capital Leases	Operating Leases
2017	$ 448,706	$ 35,673
2018	431,759	19,456
2019	162,193	16,210
2020	49,922	15,345
2021	19,964	-
Total minimum lease payments	1,112,544	$ 86,684
Less interest	(61,568)	
Present value of minimum lease payments - Note 6	$ 1,050,976	

Note 6 - Notes Payable and Long-Term Debt

A schedule of changes in the Authority's notes payable for June 30, 2016 and 2015 is as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Note payable:				
Line of credit (1)	$ 255,143	$ -	$ 169,341	$ 85,802
Line of credit (2)	-	35	-	35
Total long-term debt	$ 255,143	$ 35	$ 169,341	$ 85,837

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015
Note payable:				
Line of credit (1)	$ 227,096	$ 28,047	$ -	$ 255,143

(1) Line of credit up to $256,305, 2.85% interest rate, due December 18, 2016, collateralized by certificate of deposit. Subsequent to year end, the Authority made a draw on the line of credit of $170,000 and the maturity date was extended to December 18, 2017.

(2) Line of credit up to $206,000, 3.00% interest rate, due April 26, 2017, collateralized by certificate of deposit. Subsequent to year end, the Authority made a draw on the line of credit of $206,000.

In addition, the Authority has a line of credit up to $125,035 with a due date of December 18, 2016. No amounts were outstanding at June 30, 2016 and 2015. Subsequent to year end, the Authority made a draw on the line of credit of $125,000 and the maturity date was extended to December 18, 2017.

A schedule of changes in the Authority's long-term debt for the years ended June 30, 2016 and 2015 is as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Long-term debt					
Note payable to bank (4)	$ 108,339	$ -	$ 53,350	$ 54,989	$ 54,989
Note payable to bank (6)	67,920	-	20,925	46,995	32,758
Note payable to bank (7)	31,605	-	14,587	17,018	17,018
Total notes payable	207,864	-	88,862	119,002	104,765
Capital lease obligations (8)	1,272,076	158,154	379,254	1,050,976	412,802
Total long-term debt	$ 1,479,940	$ 158,154	$ 468,116	$ 1,169,978	$ 517,567

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Due Within One Year
Long-term debt					
Note payable to bank (3)	$ 18,190	$ -	$ 18,190	$ -	$ -
Note payable to bank (4)	204,449	-	96,110	108,339	79,772
Note payable to bank (5)	45,472	-	45,472	-	-
Note payable to bank (6)	104,730	-	36,810	67,920	31,241
Note payable to bank (7)	57,439	-	25,834	31,605	21,816
Total notes payable	430,280	-	222,416	207,864	132,829
Capital lease obligations (8)	1,312,354	300,091	340,369	1,272,076	367,002
Total long-term debt	$ 1,742,634	$ 300,091	$ 562,785	$ 1,479,940	$ 499,831

(3) Note payable to bank, 6.25% interest rate, due in monthly installments of $3,315 including interest, due December 21, 2014, secured by radiology equipment. Note payable was paid in full during 2015.

(4) Note payable to bank, 4.00% interest rate, due in monthly installments of $6,952 including interest, due January 15, 2017, secured by computer equipment.

(5) Note payable to bank, 2.52% interest rate, due in monthly installments of $4,604 including interest, due April 27, 2015, secured by a deposit account. Note payable was paid in full during 2015.

(6) Note payable to bank, 4.75% interest rate, due in monthly installments of $2,855 including interest, due November 6, 2017, secured by equipment.

(7) Note payable to bank, 4.00% interest rate, due in monthly installments of $1,909 including interest, due February 15, 2017, secured by equipment.

(8) Capital lease obligations, at varying rates of imputed interest from 3.15% to 8.32%, collateralized by leased equipment, with varying maturity dates from May 2018 through January 2021. See Note 5 for minimum future lease payments.

Long-term debt maturities are as follows:

Years Ending June 30,	Long-Term Debt Principal	Long-Term Debt Interest
2017	$ 104,765	$ 2,374
2018	14,237	162
Total	$ 119,002	$ 2,536

Note 7 - Pension Plan

The Authority has a defined contribution pension plan under which employees become participants upon completion of one full year of service. The Authority does not make contributions to the plan.

Note 8 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients and residents, most of who are insured under third-party payor agreements. The mix of receivables for third party payors, patients and residents at June 30, 2016 and 2015 was as follows:

	2016	2015
Medicare	28%	29%
Medicaid	9%	10%
Commercial and other third-party payors	27%	31%
Self pay	36%	30%
	100%	100%

Note 9 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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 professional liability 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 with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services.

Note 10 - Recurring Losses and Management Plans

The Authority has incurred operating losses during the years ended June 30, 2016 and 2015. For the years ended June 30, 2016 and 2015 the Authority experienced a decrease in net position of $736,858 and $810,590. The Authority has obtained additional financing as discussed in Note 6 and 12. The Authority has hired an outside consulting firm to assist with changing the designation of one of the clinics to a rural health clinic, filing an interim rate review, relocating employees to various departments and cost shifting to better account for expenses. These items will help with increasing reimbursement. The Authority is currently working on cost cutting measures without impacting the quality of patient care. The Authority has made revisions in employee policies for additional savings.

Note 11 - Correction of Error

During the year, the Authority noted several leases that were currently treated as operating leases however they should have been treated as capital leases. The incorrect classification of leases resulted in an overstatement of net position, net investment in capital assets of $48,164, understatement of capital assets of $1,155,354 and understatement of long-term debt of $1,203,518 on the statement of net position as of June 30, 2015. Also, the classification error resulted in overstatement of operating expense of $40,612 and understatement of nonoperating expenses of $56,166 for the year ending June 30, 2015. The impact of the error on the statement of cash flows was an overstatement of net cash used for operating activities of $385,599 and understatement of net cash used for capital and related financing activities of $385,599 for the year ending June 30, 2015.

During the year, the Authority noted trade accounts payable were overstated by $89,097. This was a result of a posting error which occurred during the year ending June 30, 2014. The posting error resulted in an overstatement of trade accounts payable and an understatement of unrestricted net position during the year ending June 30, 2015.

During the year, the Authority noted the certificate of deposits had an original maturity date of three to twenty four months. The certificate of deposits should be treated as short-term and noncurrent investments. The error resulted in an overstatement of cash and cash equivalents in the amount of $722,597 and an understatement of short-term in the amount of $411,893 and noncurrent investments in the amount of $310,704 on the statement of net position as of June 30, 2015. In addition, cash flows from investing activities was understated by $466,211 and beginning cash and cash equivalents were overstated by $1,188,808 for the year ending June 30, 2015.

The statement of cash flows reports only those operating, investing and financing activities that affect cash and cash equivalents. The statement of cash flows for the year ending June 30, 2015, incorrectly reported a cash inflow from electronic medical records incentive payments in the amount of $31,406 as a noncapital financing activity. The funds were received for operations of the Authority and should be treated as an operating cash inflow. The transaction should be reported as an other receipts under operating activities on the statement of cash flows. In addition, it was noted, on the reconciliation of operating loss to net cash used for operating activities for the year ending June 30, 2015, the change in patient receivables was overstated and the change in accounts payable was understated by $73,074 due to an error in calculating the amounts. Also, $28,047 from notes payable was incorrectly reported in change in net cash used for capital and related financing activities instead of net cash from noncapital financing activities. The funds from notes payable were used for noncapital activities.

The following is a summary of the effects of the restatement in the Authority's statement of net position:

	As Previously Reported June 30, 2015	Correction of Error	As Restated June 30, 2015
Assets			
Current Assets			
Cash and cash equivalents	$ 1,014,954	$ (722,597)	$ 292,357
Short-term investments	$ -	$ 411,893	$ 411,893
Total current assets	$ 2,760,253	$ (310,704)	$ 2,449,549
Capital Assets			
Capital assets not being depreciated	$ 33,919	$ -	$ 33,919
Capital assets being depreciated, net	1,354,674	1,155,354	2,510,028
Capital Assets, Net	$ 1,388,593	$ 1,155,354	$ 2,543,947
Noncurrent Investments	$ -	$ 310,704	$ 310,704
Total assets	$ 4,148,846	$ 1,155,354	$ 5,304,200
Liabilities and Net Position			
Current Liabilities			
Current maturities of long-term debt	$ 147,930	$ 351,901	$ 499,831
Accounts payable			
Trade	$ 481,761	$ (89,097)	$ 392,664
Total current liabilities	$ 1,386,760	$ 262,804	$ 1,649,564

	As Previously Reported June 30, 2015	Correction of Error	As Restated June 30, 2015
Long-Term Debt, Less Current Maturities	$ 128,492	$ 851,617	$ 980,109
Total liabilities	$ 1,515,252	$ 1,114,421	$ 2,629,673
Net Position			
Net investment in capital assets	$ 1,112,171	$ (48,164)	$ 1,064,007
Unrestricted	1,521,423	89,097	1,610,520
Total net position	$ 2,633,594	$ 40,933	$ 2,674,527
Total liabilities and net position	$ 4,148,846	$ 1,155,354	$ 5,304,200

The following is a summary of the effects of the restatement in the Authority's statement of revenues, expenses and changes in net position:

	As Previously Reported June 30, 2015	Correction of Error	As Restated June 30, 2015
Operating Revenues	$ 10,082,750	$ -	$ 10,082,750
Operating Expenses			
Salaries and wages	5,542,782	-	5,542,782
Employee benefits	912,114	-	912,114
Purchased services and professional fees	1,825,104	-	1,825,104
Supplies	918,592	-	918,592
Depreciation	260,914	344,987	605,901
Other expenses	1,949,195	(385,599)	1,563,596
Total operating expenses	11,408,701	(40,612)	11,368,089
Operating Loss	(1,325,951)	40,612	(1,285,339)
Nonoperating Revenues (Expenses)			
Interest expense	(31,939)	(56,166)	(88,105)
Other	562,854	-	562,854
Net nonoperating revenues	530,915	(56,166)	474,749
Change in Net Position	(795,036)	(15,554)	(810,590)
Net Position, Beginning of the Year	3,428,630	56,487	3,485,117
Net Position, End of Year	$ 2,633,594	$ 40,933	$ 2,674,527

The following is a summary of the effects of the restatement in the Authority's statement of cash flows:

	As Previously Reported June 30, 2015	Correction of Error	As Restated June 30, 2015
Operating Activities			
Receipts from and on behalf of patients	$ 10,128,582	$ (204)	$ 10,128,378
Payments to suppliers and contractors	(5,572,750)	1,277,041	(4,295,709)
Payments to and on behalf of employees	(5,523,524)	(891,442)	(6,414,966)
Other receipts and payments, net	233,525	31,610	265,135
Net Cash used for Operating Activities	(734,167)	417,005	(317,162)
Noncapital Financing Activities			
Noncapital grants and gifts	19,570	-	19,570
Change in notes payable	-	28,047	28,047
Electronic medical records incentive payments	31,406	(31,406)	-
Sales tax	540,619	-	540,619
Net cash from noncapital financing activities	591,595	(3,359)	588,236
Capital and Related Financing Activities			
Purchase of property and equipment	(26,862)	-	(26,862)
Proceeds from long-term debt	28,047	(28,047)	-
Principal payments of long-term debt	(233,352)	(329,433)	(562,785)
Payment of interest on long term debt	(31,939)	(56,166)	(88,105)
Net Cash used for Capital and Related Financing Activities	(264,106)	(413,646)	(677,752)
Investing Activities			
Proceeds from investments	-	466,211	466,211
Interest on investments	2,665	-	2,665
Net Cash from Investing Activities	2,665	466,211	468,876
Net Change in Cash and Cash Equivalents	(404,013)	466,211	62,198
Cash and Cash Equivalents, Beginning of Year	1,418,967	(1,188,808)	230,159
Cash and Cash Equivalents, End of Year	$ 1,014,954	$ (722,597)	$ 292,357

	As Previously Reported June 30, 2015	Correction of Error	As Restated June 30, 2015
Reconciliation of Operating Loss to Net Cash used for Operating Activities			
Operating loss	$ (1,325,951)	$ 40,612	$ (1,285,339)
Adjustments to reconcile operating loss to net cash from operating activities			
Depreciation	260,914	344,987	605,901
Provision for bad debts	2,101,607	-	2,101,607
Changes in assets and liabilities			
Receivables			
Patient	(2,080,977)	(41,668)	(2,122,645)
Other	204	-	204
Supplies	(6,826)	-	(6,826)
Prepaids	(54,704)	-	(54,704)
Accounts payable	39	73,074	73,113
Estimated third parties	331,597	-	331,597
Accrued liabilities	39,930	-	39,930
Net Cash used for Operating Activities	$ (734,167)	$ 417,005	$ (317,162)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities			
Equipment financed through capital lease arrangement	$ 79,494	$ 220,597	$ 300,091

Note 12 - Subsequent Events

The Authority has evaluated subsequent events through April 25, 2017 the date which the financial statements were available to be issued.

On January 4, 2017, the Authority issued a 3.19% note payable in the amount of $196,035 to be used for operations. The note is due on April 4, 2017 of outstanding principal and accrued interest. Secured by certificate of deposit. The note is currently being renewed and extended.

On January 6, 2017, the Authority issued a 4.0% note payable in the amount of $500,120 to be used for operations. The note is due in quarterly payments of $53,010 including interest with a maturity date of August 5, 2019. Secured by patient account receivables.

On January 6, 2017, the Authority issued a 4.0% note payable in the amount of $82,239 to be used to purchase equipment. The note due in monthly payments of $1,517 including interest with a maturity date of January 10, 2022. Secured by equipment

CPAs & BUSINESS ADVISORS

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
Holdenville Hospital Authority
Holdenville, 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 Holdenville Hospital Authority (Authority) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 25, 2017.

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 Finding and Responses*, 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 and Responses to be material weaknesses: 2016-A through 2016-H.

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 Schedule of Findings and Responses to be a significant deficiency: 2016-I.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

Authority's Response to Findings
The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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
April 25, 2017

Material Weaknesses In Internal Control Over Financial Reporting:

2016-A 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 an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: This weakness is due to the limited resources in the financial reporting process due to budgetary constraints. In addition, there is no established review processes.

Effect: The effect of this condition is that year-end financial reporting is prepared by a party outside of the Authority. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to interim financial statements.

Auditor’s Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Views of Responsible Officials: Given the size of the Authority, we do not think it would be cost-effective to fully cure this 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.

2016-B Cost Report Estimate

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

Condition: During the current year, the Authority did not estimate the financial effect of the Medicare cost report settlement for the current year correctly. The Authority should record adjustments for current year activity to the estimated third party payor settlement account.

Effect: This resulted in a material adjusting journal entry to properly state the current year settlement.

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

Auditor's Recommendation: It is recommended the Authority implement a system that provides adequate controls over estimating cost report settlements.

Views of Responsible Officials: Management will obtain a cost report estimate model to assist with monthly account reconciliation.

2016-C Material Audit Adjustments

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 material audit adjustments 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 were 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.

2016-D Contractual and Bad Debt Allowance

Criteria: Accountings standards require an entity to estimate an allowance on the collectability of receivables. The allowance should be based on historical data and current reimbursement rates.

Condition: The allowance calculations were not properly estimated during the year.

Cause: Commercial payors are grouped together for the allowance calculation. Historical collections are not reviewed and considered in determining the potential impact on contractual adjustments or bad debt write-offs.

Effect: Interim financial statements may not be properly stated. A material audit adjustment was made to the allowance accounts.

Auditor's Recommendation: We recommend that management develop an estimate based on historical collections and adjustments. Also, allowances should be separated for the largest commercial payors. The allowance accounts should be reviewed each month as well for reasonableness in relation to the accounts receivable and revenue.

Views of Responsible Officials: Management will develop an estimate based on historical collection percentages.

2016-E Bank Reconciliations

Criteria: A properly designed system of internal control over bank reconciliations allows reconciling items be promptly investigated and adjusted with adequate explanations in a timely manner.

Condition: During the course of our engagement, we noted that bank reconciliations for the Authority's various accounts were not reconciled to the general ledger on a timely manner. In addition, there were errors included in the bank reconciliations that could not be easily explained.

*Caus*e: The Authority utilizes an independent contractor to prepare bank reconciliations. However it was several months after year end before the CFO received them. In addition, the reconciliations were not properly completed and included several errors.

Effect: Interim financial statements may not be properly stated as reconciling items are not posted to the general ledger.

Auditor's Recommendation: In order to maintain accurate financial statements, we recommend management receive and review the reconciliations prior to final monthly close.

Views of Responsible Officials: Management will complete reconciliations and post appropriate journal entries prior to releasing board packet financial information each month.

2016-F Capital Leases

Criteria: There are two types of leases, capital and operating. A capital lease is identified by meeting one of four criteria. If the lease does not meet any of the criteria for a capital lease, it is considered an operating lease. Each type of lease is accounted for differently within an organization.

Condition: During the course of the engagement, we identified several a lease that should have been recorded as capital lease during the year. In addition, we identified several leases that should have been recorded as capital leases during previous years.

Effect: This resulted in a restatement of previously issued financial statements. Capital assets and long-term debt were not properly stated in the financial statements.

Cause: The Authority does not have proper policies and procedures in place to distinguish between capital and operating leases.

Auditor's Recommendation: It is recommended that the Authority develop policies and procedures to identify capital and operating leases.

Views of Responsible Officials: Management will develop a process to identify capital leases and record them appropriately.

2016-G Account Reconciliation

Criteria: Reviewing and reconciling accounts to the general ledger is a necessary step in the Authority's internal control process.

Condition: During the course of our engagement, it was identified that certain accounts are not reconciled from a sub-ledger or other detail or support to the general ledger on a timely basis.

Effect: Misstatements are not identified and corrected in a timely manner.

Cause: Areas with differences that resulted in significant adjustments to the financial statements included accounts payables, accrued liabilities, inventories and prepaid expenses.

Auditor's Recommendation: We recommend management prepare account reconciliations on a timely basis as well as a review of these reconciliations, in order to identify potential misstatements and reconciling items. Significant accounts should be reconciled from a sub-ledger or other detail or support to the general ledger at least on a monthly basis. Any variances should also be reconciled on a periodic basis to ensure that these balances also remain applicable

Views of Responsible Officials: Management will develop a process to reconcile accounts on a regular basis and investigate any variances.

2016-H 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 entity.

Cause: A limited number of office personnel prevent a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

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. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. 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: Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Significant Deficiencies In Internal Control Over Financial Reporting:

2016-I Fixed Asset Listing

Criteria: Accounting tasks such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. This would involve monthly reconciliations of all accounts, making adjustments throughout the year that have typically been made at year-end only, and performing more frequent reviews of the general ledger throughout the year, including making any necessary adjustments.

Condition: At the present time, there is no procedure for reconciling detailed fixed asset records to the general ledger on a regular basis.

*Caus*e: The accounting department is not updating the fixed asset listing.

Effect: Failure to maintain an accurate depreciation schedule resulted in an audit adjustment.

Auditor's Recommendation: It is recommended that the Authority purchase fixed asset software or develop their own schedule to maintain fixed assets and depreciation.

Views of Responsible Officials: Consultant has agreed to maintain depreciation schedule for management.

Material Weaknesses In Internal Control Over Compliance:

2016-001

Criteria: State law requires collateralization of all deposits with federal depository insurance or qualified investments.

Condition: At June 30, 2016, the Authority had $177,048 exposed to custodial risk.

*Caus*e: The Authority has collateral agreements with most of its banks; however, the Authority maintains deposits in excess of FDIC limits which do not have collateral agreements.

Effect: The effect of this condition is that the Authority is not in compliance with state law.

Auditor's Recommendation: It is the responsibility of management to periodically review collateralization agreements in conjunction with deposits.

Views of Responsible Officials: Management is in the process of reviewing collateral agreements and will establish or modify them as needed.