Management's Discussion and Analysis and
Financial Statements
June 30, 2018 and 2017

Holdenville Hospital Authority

EideBailly
CPAs & BUSINESS ADVISORS

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, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years 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 Holdenville Hospital Authority as of June 30, 2018 and 2017, and results of operations, changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern
The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 10 to the financial statements, the Authority has suffered recurring losses from operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

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 December 17, 2018 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 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 17, 2018

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, 2018, 2017 and 2016. 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 $539,606 or 13% in 2018 compared with a decrease during 2017 of $294,728 or 6%.
- The Authority's total liabilities decreased during the year by $365,402 or 11% in 2018 compared with an increase during 2017 of $568,419 or 22%.
- The Authority reported an operating loss in 2018 of $599,238 and in 2017 of $1,371,955. The operating loss decreased $772,717 or 56% from 2017 to 2018. The operating loss increased $32,361 or 2% from 2016 to 2017.

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 $174,204 or 16% in 2018, and decreased $863,147 or 45% in 2017, as shown in Table 1.

Condensed Financial Statements

Table 1: Assets, Liabilities and Net Position

	2018	2017	2016
Assets			
Current assets	$ 2,375,632	$ 2,273,288	$ 2,055,383
Capital assets, net	1,036,719	1,680,829	2,197,224
Noncurrent assets	320,212	318,052	314,290
Total assets	$ 3,732,563	$ 4,272,169	$ 4,566,897
Liabilities			
Current liabilities	$ 2,666,554	$ 2,621,258	$ 1,976,817
Long-term debt, less current maturities	165,691	576,389	652,411
Total liabilities	2,832,245	3,197,647	2,629,228
Net Position			
Net investment in capital assets	583,974	903,750	1,027,246
Unrestricted	316,344	170,772	910,423
Total net position	900,318	1,074,522	1,937,669
Total liabilities and net position	$ 3,732,563	$ 4,272,169	$ 4,566,897

A significant component of the change in the Authority's assets is the decrease in capital assets. Capital assets decreased in 2018 by $644,110 or 38% compared to a decrease of $516,395 or 24% in 2017. The decrease is attributed to depreciation expense being greater than the purchase of capital assets. Cash and cash equivalents decreased $47,820 or 17% in 2018 compared to 2017 which increased $170,546 or 143% as compared to 2016. The decrease in 2018 is attributed to repayment of debt and the increase in 2017 is attributed to proceeds from notes payable. Patient accounts receivable, net of allowances, decreased $106,336 or 11% in 2018 compared to 2017 which decreased $196,724 or 16%. A significant component of the change in the Authority's liabilities is the decrease in notes payable. Notes payable decreased $519,880 or 26% in 2018 compared to 2017 which increased $695,093 or 810% compared to 2016.

Operating Results and Changes in Net Position

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	$ 10,335,188	$ 10,513,550	$10,382,660
Other revenue	719,656	575,804	433,962
Total operating revenues	11,054,844	11,089,354	10,816,622
Operating Expenses			
Salaries and wages and employee benefits	6,444,129	7,066,754	6,874,766
Purchased services and professional fees	1,948,958	2,045,711	1,937,125
Depreciation	644,110	668,169	627,299
Other operating expenses	2,616,885	2,680,675	2,717,026
Total operating expenses	11,654,082	12,461,309	12,156,216
Operating Loss	(599,238)	(1,371,955)	(1,339,594)
Nonoperating Revenues (Expenses)			
Interest expense	(124,483)	(90,630)	(86,393)
Sales tax	535,477	482,681	513,464
Noncapital contributions and grants	8,622	36,359	27,660
Investment income	5,418	7,810	8,005
Gain on sale of capital assets	-	6,467	-
Gain on sale of joint venture	-	-	140,000
Total nonoperating revenues, net	425,034	442,687	602,736
Expenses in Excess of Revenues Before Capital Contributions	(174,204)	(929,268)	(736,858)
Capital Contributions	-	66,121	-
Change in Net Position	(174,204)	(863,147)	(736,858)
Net Position, Beginning of the Year	1,074,522	1,937,669	2,674,527
Net Position, End of Year	$ 900,318	$ 1,074,522	$ 1,937,669

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 $599,238 in 2018 compared to an operating loss of $1,371,955 in 2017.

The primary components of the operating loss are:

- Net patient service revenue decreased $178,362 or 2% in 2018 and increased $130,890 or 1% in 2017. The increase is attributed to the increased services provided by the Authority.
- Salaries, wages and employee benefits expense decreased $622,625 or 9% in 2018 and increased $191,988 or 3% in 2017. The decrease in 2018 was due to reduction of employees employed during 2018. The increase in 2017 is primarily due to new to new physicians employed during 2017.

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 increased $52,796 or 11% from 2017 to 2018 and decreased $30,783 or 6% from 2016 to 2017. Interest expense increased $33,853 or 37% from 2017 to 2018 and $4,237 or 5% from 2016 to 2017.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents of $47,820 when compared with 2017. Cash flows from operating activities increased by $1,021,894 during 2018 when compared with 2017. Cash from noncapital financing activities decreased $1,319,516 in 2018 when compared with 2017. Cash used for capital and related financing activities decreased in 2018 by $80,228 when compared with 2017. Cash from investing activities decreased in 2018 by $972 when compared to 2017.

Capital Assets

In 2018, the Authority did not purchase any capital assets and had $1,036,719 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2017, the Authority purchased $176,849 of capital assets and had $1,680,829 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

Long-Term Debt

The Authority did not incur additional debt in 2018 and had total long-term debt of $710,361 at the end of 2018. The Authority incurred additional debt of $582,359 in 2017 and had total long term debt of $1,231,099 at the end of 2017. During 2018 and 2017, the Authority used $977 and $695,163 of the lines of credit. During 2018 and 2017, the Authority made payments of $119 and $70 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.

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 241,817	$ 289,637
Short-term investments	419,553	417,449
Receivables		
Patients, net of estimated uncollectibles of approximately $845,000 in 2018 and $879,000 in 2017	1,112,173	1,005,837
Estimated third-party payor settlements	242,075	229,563
Sales tax	44,880	44,880
Other	126,282	52,352
Supplies	138,976	195,673
Prepaid expenses	49,876	37,897
Total current assets	2,375,632	2,273,288
Noncurrent Cash and Cash Equivalents	320,212	318,052
Capital Assets		
Capital assets not being depreciated	33,919	33,919
Capital assets being depreciated, net	1,002,800	1,646,910
Total capital assets	1,036,719	1,680,829
Total assets	$ 3,732,563	$ 4,272,169
Liabilities and Net Position		
Current Liabilities		
Notes payable	$ 781,788	$ 780,930
Current maturities of long-term debt	544,670	654,710
Accounts payable	972,547	838,344
Accrued interest	-	16,793
Accrued expenses	367,549	330,481
Total current liabilities	2,666,554	2,621,258
Long-Term Debt, Less Current Maturities	165,691	576,389
Total liabilities	2,832,245	3,197,647
Net Position		
Net investment in capital assets	583,974	903,750
Unrestricted	316,344	170,772
Total net position	900,318	1,074,522
Total liabilities and net position	$ 3,732,563	$ 4,272,169

	2018	2017
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $1,678,579 in 2018 and $1,662,001 in 2017)	$ 10,335,188	$ 10,513,550
Other	719,656	575,804
Total operating revenues	11,054,844	11,089,354
Operating Expenses		
Salaries and wages	5,620,327	6,194,594
Employee benefits	823,802	872,160
Purchased services and professional fees	1,948,958	2,045,711
Supplies	888,164	960,207
Depreciation	644,110	668,169
Other expenses	1,728,721	1,720,468
Total operating expenses	11,654,082	12,461,309
Operating Loss	(599,238)	(1,371,955)
Nonoperating Revenues (Expenses)		
Interest expense	(124,483)	(90,630)
Sales tax	535,477	482,681
Noncapital contributions and grants	8,622	36,359
Investment income	5,418	7,810
Gain on sale of capital assets	-	6,467
Net nonoperating revenues	425,034	442,687
Expenses in Excess of Revenues Before Capital Contributions	(174,204)	(929,268)
Capital Contributions	-	66,121
Change in Net Position	(174,204)	(863,147)
Net Position, Beginning of the Year	1,074,522	1,937,669
Net Position, End of Year	$ 900,318	$ 1,074,522

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	$ 10,216,340	$ 9,827,997
Payments to suppliers and contractors	(4,386,922)	(4,387,918)
Payments to and on behalf of employees	(6,407,061)	(6,978,974)
Other receipts and payments, net	645,726	585,084
Net Cash provided by (used for) Operating Activities	68,083	(953,811)
Noncapital Financing Activities		
Noncapital grants and gifts	8,622	36,359
Proceeds from notes payable and long-term debt	977	1,195,283
Payment on notes payable and long-term debt	(119)	(46,135)
Payment of interest on notes payable and long-term debt	(23,346)	(13,093)
Sales tax	535,477	482,681
Net Cash provided by Noncapital Financing Activities	521,611	1,655,095
Capital and Related Financing Activities		
Purchase of property and equipment	-	(176,849)
Proceeds from sale of capital assets	-	31,542
Proceeds from long-term debt	-	82,239
Principal payments of long-term debt	(520,738)	(475,173)
Payment of interest on long-term debt	(117,930)	(60,744)
Capital contributions	-	66,121
Net Cash used for Capital and Related Financing Activities	(638,668)	(532,864)
Investing Activities		
Purchase of investments	(4,264)	(5,684)
Interest from investments	5,418	7,810
Net Cash provided by Investing Activities	1,154	2,126
Net Change in Cash and Cash Equivalents	(47,820)	170,546
Cash and Cash Equivalents, Beginning of Year	289,637	119,091
Cash and Cash Equivalents, End of Year	$ 241,817	$ 289,637

	2018	2017
Reconciliation of Operating Loss to Net Cash provided by (used for) Operating Activities		
Operating loss	$ (599,238)	$ (1,371,955)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	644,110	668,169
Provision for bad debts	1,678,579	1,662,001
Changes in assets and liabilities		
Receivables		
Patients	(1,784,915)	(1,465,277)
Other	(73,930)	9,280
Supplies	56,697	(26,523)
Prepaid expenses	(11,979)	4,645
Accounts payable	134,203	360,346
Estimated third-party payor settlements	(12,512)	(882,277)
Accrued expenses	37,068	87,780
Net Cash provided by (used for) Operating Activities	$ 68,083	$ (953,811)

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). The Authority 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, 2018 and 2017.

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, 2018 and 2017.

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

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.

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. The net patient service revenue for the year June 30, 2018 decreased approximately and $123,000 due to removal of allowances previously estimated that related to patient receivables.

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 5% and 4% of its financial support from county appropriations related to sales tax in 2018 and 2017. 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 expense 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 in nonoperating revenues when earned.

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 $52,000 and $60,000 for the years ended June 30, 2018 and 2017. Total direct and indirect costs related to these foregone charges were approximately $26,000 and $31,000 at June 30, 2018 and 2017, 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 expenses in excess of revenues.

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 generate matching funds for 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. As a critical access hospital, the Authority is exempt from the assessment fee. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the SHOPP fee paid by the hospital.

The Authority received $737,068 and $659,329, in SHOPP payments included in net patient service revenue, for the years ended June 30, 2018 and 2017. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

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 patient service revenues for the years ended June 30, 2018 and 2017:

	2018	2017
Medicare	57%	54%
Medicaid	14%	16%
Other third-party payors	23%	24%
Self pay	6%	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, 2018 decreased approximately $61,000 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 and investments are reported in the following statements of net position captions as of June 30, 2018 and 2017:

	2018	2017
Cash and cash equivalents	$ 241,817	$ 289,637
Short-term investments	419,553	417,449
Noncurrent cash and cash equivalents	320,212	318,052
	$ 981,582	$ 1,025,138

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, 2018 and 2017, the Authority had bank balances as follows:

	2018	2017
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	800,744
Uninsured and uncollateralized	223,612	-
	$ 1,073,612	$ 1,050,744

Investment Income

Investment income on cash and other investments consists primarily of interest from CDs for the years ended June 30, 2018 and 2017.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2018 are as follows:

	Balance June 30, 2017	Additions	Transfers and Retirements	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 33,919	$ -	$ -	$ 33,919
Capital assets being depreciated				
Buildings and improvements	$ 2,531,780	$ -	$ -	$ 2,531,780
Equipment	2,950,744	-	-	2,950,744
Capital lease equipment	2,137,735	-	-	2,137,735
Total depreciable capital assets	7,620,259	$ -	$ -	7,620,259
Less accumulated depreciation for				
Buildings and improvements	(1,873,182)	$ (98,383)	$ -	(1,971,565)
Equipment	(2,586,471)	(165,081)	-	(2,751,552)
Capital lease equipment	(1,513,696)	(380,646)	-	(1,894,342)
Total accumulated depreciation	(5,973,349)	$ (644,110)	$ -	(6,617,459)
Net capital assets being depreciated	$ 1,646,910			$ 1,002,800
Capital assets, net	$ 1,680,829			$ 1,036,719

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Transfers and Retirements	Balance June 30, 2017
Capital assets not being depreciated				
Land	$ 33,919	$ -	$ -	$ 33,919
Capital assets being depreciated				
Buildings and improvements	$ 2,566,553	$ -	$ (34,773)	$ 2,531,780
Equipment	2,773,895	176,849	-	2,950,744
Capital lease equipment	2,137,735	-	-	2,137,735
Total depreciable capital assets	7,478,183	$ 176,849	$ (34,773)	7,620,259
Less accumulated depreciation for				
Buildings and improvements	(1,783,092)	$ (99,788)	$ 9,698	(1,873,182)
Equipment	(2,402,376)	(184,095)	-	(2,586,471)
Capital lease equipment	(1,129,410)	(384,286)	-	(1,513,696)
Total accumulated depreciation	(5,314,878)	$ (668,169)	$ 9,698	(5,973,349)
Net capital assets being depreciated	$ 2,163,305			$ 1,646,910
Capital assets, net	$ 2,197,224			$ 1,680,829

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, 2018 and 2017 for all operating leases was approximately $157,645 and $167,882.

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

Years Ending June 30,	Capital Leases	Operating Leases
2019	$ 332,338	$ 23,115
2020	49,925	13,744
2021	19,963	1,211
Total minimum lease payments	402,226	$ 38,070
Less interest	(10,172)	
Present value of minimum lease payments - Note 6	$ 392,054	

Note 6 - Notes Payable and Long-Term Debt

A schedule of changes in the Authority's notes payable for June 30, 2018 and 2017 is as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018
Note payable:				
Line of credit (1)	$ 254,825	$ 977	$ -	$ 255,802
Line of credit (2)	205,070	-	119	204,951
Line of credit (3)	125,000	-	-	125,000
Line of credit (4)	196,035	-	-	196,035
Total notes payable	$ 780,930	$ 977	$ 119	$ 781,788

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017
Note payable:				
Line of credit (1)	$ 85,802	$ 169,023	$ -	$ 254,825
Line of credit (2)	35	205,070	35	205,070
Line of credit (3)	-	125,035	35	125,000
Line of credit (4)	-	196,035	-	196,035
Total notes payable	$ 85,837	$ 695,163	$ 70	$ 780,930

(1) Line of credit up to $256,305, 2.85% interest rate, due December 18, 2018, collateralized by certificate of deposit.
(2) Line of credit up to $206,000, 3.00% interest rate, due March 26, 2019, collateralized by certificate of deposit.
(3) Line of credit up to $125,035, 2.55% interest rate, due December 18, 2018, collateralized by certificate of deposit.
(4) Line of credit up to $196,035, 3.19% interest rate, due February 4, 2019, collateralized by certificate of deposit.

A schedule of changes in the Authority's long-term debt for the years ended June 30, 2018 and 2017 is as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Long-term debt					
Note payable to bank (2)	$ 14,237	$ -	$ 14,237	$ -	$ -
Note payable to bank (4)	454,020	-	196,404	257,616	204,799
Note payable to bank (5)	75,982	-	15,291	60,691	16,169
Total	544,239	-	225,932	318,307	220,968
Capital lease obligations (6)	686,860	-	294,806	392,054	323,702
Total long-term debt	$ 1,231,099	$ -	$ 520,738	$ 710,361	$ 544,670

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Long-term debt					
Note payable to bank (1)	$ 54,989	$ -	$ 54,989	$ -	$ -
Note payable to bank (2)	46,995	-	32,758	14,237	14,237
Note payable to bank (3)	17,018	-	17,018	-	-
Note payable to bank (4)	-	500,120	46,100	454,020	196,807
Note payable to bank (5)	-	82,239	6,257	75,982	15,449
Total	119,002	582,359	157,122	544,239	226,493
Capital lease obligations (6)	1,050,976	-	364,116	686,860	428,217
Total long-term debt	$ 1,169,978	$ 582,359	$ 521,238	$ 1,231,099	$ 654,710

(1) 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.
(2) Note payable to bank, 4.75% interest rate, due in monthly installments of $2,855 including interest, due November 6, 2017, secured by equipment.
(3) Note payable to bank, 4.00% interest rate, due in monthly installments of $1,909 including interest, due February 15, 2017, secured by equipment.
(4) Note payable to bank, 4.00% interest rate, due in monthly installments of $53,010 including interest, due August 5, 2019, secured by account receivables.
(5) Note payable to bank, 4.00% interest rate, due in monthly installments of $1,517 including interest, due January 10, 2022, secured by equipment.
(6) 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:

	Long-Term Debt		Capital Lease Obligations	
Year Ending June 30,	Principal	Interest	Principal	Interest
2019	$ 220,968	$ 9,371	$ 323,702	$ 8,636
2020	69,549	1,986	48,597	1,328
2021	17,415	792	19,755	208
2022	10,375	137	-	-
Total	$ 318,307	$ 12,286	$ 392,054	$ 10,172

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, 2018 and 2017 was as follows:

	2018	2017
Medicare	25%	24%
Medicaid	6%	12%
Commercial and other third-party payors	33%	31%
Self pay	36%	33%
	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 - Going Concern and Management Plans

The Authority has incurred operating losses during the years ended June 30, 2018 and 2017. For the years ended June 30, 2018 and 2017 the Authority experienced a decrease in net position of $174,203 and $863,147. The Authority has entered into an affiliation agreement in January 2018, restructured management and implemented a cost reduction plan. These changes have led to improved financial results during 2018 as compared to 2017.

Note 11 - Subsequent Events

The Authority has evaluated subsequent events through December 17, 2018, the date which the financial statements are available to be issued.

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 the Holdenville Hospital Authority (Authority) which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2018.

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 have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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: 2018-A through 2018-B.

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.

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 of 2018-001.

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
December 17, 2018

Material Weaknesses In Internal Control Over Financial Reporting:

2018-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. In addition, misstatements to the financial statements were identified, which, in total, were material.

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: We agree with the Auditor's Recommendation to obtain the maximum internal control over financial reporting under the circumstances to enable staff to draft the financial statements internally. Given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to utilize the expertise of our outside auditors regarding these matters.

2018-B 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.

Deficiency In Internal Control Over Compliance:

2018-001 Amounts at Risk

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

Condition: At June 30, 2018, the Authority had $223,612 exposed to custodial risk.

Cause: The Authority maintains deposits in excess of federal depository insurance 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: The Authority will work with the bank to receive a monthly collateral report and verify with the month-end bank statements and internal records to assure the Authority's assets are fully secured.