



Management's Discussion and Analysis
and Financial Statements
June 30, 2019 and 2018

Choctaw County - City of Hugo Hospital Authority

Choctaw County – City of Hugo Hospital Authority

Table of Contents
June 30, 2019 and 2018

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position.....	9
Statements of Cash Flows	10
Notes to Financial Statements	12
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 <i>Government Auditing Standards</i>	24
Schedule of Findings and Responses.....	26



Independent Auditor's Report

Board of Trustees
Choctaw County – City of Hugo Hospital Authority
Hugo, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Choctaw County – City of Hugo Hospital Authority (Authority) as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, 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 of 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Choctaw County – City of Hugo Hospital Authority as of June 30, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2019 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
December 3, 2019

Introduction

Our discussion and analysis for Choctaw County – City of Hugo Hospital Authority (Authority) financial performance provides an overview of the Authority’s financial activities for the fiscal years ended June 30, 2019, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

Total assets increased in 2019 by \$550,464 or 6% and decreased in 2018 by \$259,607 or 3%.

Total liabilities decreased in 2019 by \$327,076 or 15%, and increased in 2018 by \$146,180 or 7%.

The Authority’s net position increased in 2019 by \$877,540 or 11% and decreased in 2018 by \$405,787 or 5%.

The Authority reported an operating loss in 2019 of \$89,566, an operating loss in 2018 of \$1,345,849 and an operating loss in 2017 of \$2,139,445. During 2019, the operating loss decreased by \$1,256,283 or 93%, and the operating loss decreased by \$793,596 or 37% during 2018.

Operating expenses decreased in 2019 by \$685,039 or 6% and decreased by \$473,113 or 4% in 2018.

Using This Annual Report

The Authority’s financial statements consist of three statements – Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The 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 it. 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 increased by \$877,540 or 11% in 2019 and decreased by \$405,787 or 5% in 2018 as shown below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets	\$ 7,542,962	\$ 6,723,513	\$6,735,778
Capital assets, net	<u>2,897,158</u>	<u>3,166,143</u>	<u>3,413,485</u>
Total assets	<u><u>\$ 10,440,120</u></u>	<u><u>\$ 9,889,656</u></u>	<u><u>\$ 10,149,263</u></u>
Liabilities			
Current liabilities	\$ 1,740,463	\$ 1,991,497	\$1,874,374
Long-term debt, less current maturities	<u>135,490</u>	<u>211,532</u>	<u>182,475</u>
Total liabilities	<u>1,875,953</u>	<u>2,203,029</u>	<u>2,056,849</u>
Net Position			
Net investment in capital assets	1,787,506	1,833,732	1,989,003
Restricted, expendable for debt service	893,410	1,041,979	1,187,538
Unrestricted	<u>5,883,251</u>	<u>4,810,916</u>	<u>4,915,873</u>
Total net position	<u>8,564,167</u>	<u>7,686,627</u>	<u>8,092,414</u>
Total liabilities and net position	<u><u>\$ 10,440,120</u></u>	<u><u>\$ 9,889,656</u></u>	<u><u>\$ 10,149,263</u></u>

Assets, Liabilities, and Net Position

Significant components of the change in the Authority’s assets, liabilities, and net position are as follows:

- Cash, certificates of deposit and restricted cash increased in 2019 by \$1,111,244 or 31% and decreased in 2018 by \$678,916 or 16%.
- Estimated third party payor settlements decreased in 2019 by \$247,812 or 86% and increased in 2018 by \$180,278 or 169%.
- Capital assets decreased in 2019 by \$268,985 or 8% and decreased in 2018 by \$247,342 or 7%.
- Accounts payable decreased in 2019 by \$100,965 or 12% and increased in 2018 by \$257,965 or 93%.

The changes above are attributable to operational improvements in 2019.

Choctaw County – City of Hugo Hospital Authority
Management’s Discussion and Analysis

Operating Results and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues			
Net patient service revenue	\$ 10,338,805	\$ 9,851,675	\$ 9,475,429
Other operating revenue	160,139	76,025	131,788
Total operating revenue	<u>10,498,944</u>	<u>9,927,700</u>	<u>9,607,217</u>
Operating Expenses			
Salaries, wages, and employee benefits	5,538,074	6,129,837	6,426,932
Supplies and other	4,498,488	4,644,048	4,776,880
Depreciation and amortization	551,948	499,664	542,850
Total operating expenses	<u>10,588,510</u>	<u>11,273,549</u>	<u>11,746,662</u>
Operating Loss	<u>(89,566)</u>	<u>(1,345,849)</u>	<u>(2,139,445)</u>
Nonoperating Revenues (Expenses)			
Sales taxes	965,910	937,500	917,730
Investment income	25,094	26,168	36,091
Interest expense	(26,946)	(30,525)	(39,056)
Noncapital contributions and donations	8,644	7,650	8,146
Loss of disposal of capital assets	(5,596)	(731)	-
Nonoperating revenues, net	<u>967,106</u>	<u>940,062</u>	<u>922,911</u>
Change in Net Position	<u>\$ 877,540</u>	<u>\$ (405,787)</u>	<u>\$ (1,216,534)</u>

Operating Results

The first component of the overall change in the Authority’s net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Authority had operating losses in 2019, 2018, and 2017.

The operating loss for 2019 decreased by \$1,256,283 or 93% as compared to the decrease of \$793,596 or 37% in 2018. The primary components of the decrease in operating loss are:

- Increase in net patient service of \$487,130 in 2019 is due to changes in case mix and charge master increases, compared to the increase of \$376,246 in 2018 which was attributable to volume increases.
- A decrease in salaries, wages, and employee benefits of \$591,763 in 2019, primarily due to a decrease in employees, compared to an increase of \$297,095 in 2018
- An increase in supplies and other expenses of \$127,716 in 2019, which was primarily due to increased repair costs compared to a decrease of \$132,832 in 2018.
- A decrease in professional fees and purchased services of \$273,276 primarily due to efforts to control cost, compared to an increase of \$26,129 in 2018.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of city sales tax, interest income, and interest expense. The sales tax increased by \$28,410 or 3% in 2019 and \$19,770 or 2% in 2018.

The Authority’s Cash Flows

The Authority’s overall liquidity increased during 2019 with a net increase to cash and cash equivalents of \$511,244 and decreased during 2018 by \$335,931. Cash flows used for operating activities increased in 2019 by \$1,578,290 or 147% and decreased in 2018 by \$150,456 or 12%. This was due primarily to the increase in net patient service revenue and decrease in salaries, wages, and employee benefits. Cash provided by non-capital financing activities increased in 2019 by \$375,560 or 50% and decreased in 2018 by \$226,105 or 23%. Cash used for capital and capital related financing activities increased in 2019 by \$162,615 or 43% and decreased in 2018 by \$260,478 or 41%. Cash from investing activities decreased in 2019 by \$944,060 or 256% and increased in 2018 by \$604,124 or 257%.

Capital Assets

The Authority had \$2,897,158 invested in capital assets at the end of 2019 and \$3,166,143 at the end of 2018, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets totaling \$288,559 in 2019 and \$253,053 in 2018.

Note Payable and Capital Leases

The Authority had \$1,109,652 in a note payable and capital leases at the end of 2019 and \$1,332,411 at the end of 2018, as detailed in Notes 5 and 6 to the financial statements. The Authority made principal payments of \$222,759 in 2019 and \$210,570 in 2018.

Contacting the Authority’s Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-317-9500.

Choctaw County – City of Hugo Hospital Authority
 Statements of Net Position
 June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,458,568	\$ 947,324
Certificates of deposit	809,476	60,907
Internally designated for specific operating purposes	1,567,189	1,567,189
Restricted by bank for debt service	893,410	1,041,979
Receivables		
Patient, net of estimated uncollectibles		
of \$3,647,000 in 2019 and \$3,327,000 in 2018	1,788,217	1,607,627
Estimated third-party payor settlements	38,929	286,741
Sales tax	467,484	612,863
Supplies	331,035	441,455
Prepaid expenses and other	188,654	157,428
Total current assets	7,542,962	6,723,513
Capital Assets		
Capital assets not being depreciated	15,512	15,512
Capital assets being depreciated, net	2,881,646	3,150,631
Total capital assets	2,897,158	3,166,143
Total assets	\$ 10,440,120	\$ 9,889,656

Choctaw County – City of Hugo Hospital Authority

Statements of Net Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities and Net Position		
Current Liabilities		
Note payable	\$ 893,410	\$ 1,041,979
Current maturities of long-term debt	80,752	78,900
Accounts payable	433,413	534,378
Accrued expenses	<u>332,888</u>	<u>336,240</u>
Total current liabilities	1,740,463	1,991,497
Long-Term Debt, Less Current Maturities	<u>135,490</u>	<u>211,532</u>
Total liabilities	<u>1,875,953</u>	<u>2,203,029</u>
Net Position		
Net investment in capital assets	1,787,506	1,833,732
Restricted, expendable for debt service	893,410	1,041,979
Unrestricted	<u>5,883,251</u>	<u>4,810,916</u>
Total net position	<u>8,564,167</u>	<u>7,686,627</u>
Total liabilities and net position	<u>\$ 10,440,120</u>	<u>\$ 9,889,656</u>

Choctaw County – City of Hugo Hospital Authority
 Statements of Revenues, Expenses and Changes in Net Position
 Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$6,030,051 in 2019 and \$5,276,993 in 2018)	\$ 10,338,805	\$ 9,851,675
Other revenue	160,139	76,025
Total operating revenues	10,498,944	9,927,700
Operating Expenses		
Salaries and wages	4,781,077	5,281,511
Employee benefits	756,997	848,326
Professional fees and purchased services	2,383,819	2,657,095
Supplies and other	2,114,669	1,986,953
Depreciation and amortization	551,948	499,664
Total operating expenses	10,588,510	11,273,549
Operating Loss	(89,566)	(1,345,849)
Nonoperating Revenues (Expenses)		
Sales tax income	965,910	937,500
Investment income	25,094	26,168
Interest expense	(26,946)	(30,525)
Noncapital contributions	8,644	7,650
Loss on abandonment of capital assets	(5,596)	(731)
Net nonoperating revenues (expenses)	967,106	940,062
Change in Net Position	877,540	(405,787)
Net Position, Beginning of Year	7,686,627	8,092,414
Net Position, End of Year	\$ 8,564,167	\$ 7,686,627

Choctaw County – City of Hugo Hospital Authority

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 10,406,027	\$9,398,722
Payments to suppliers and contractors	(4,520,259)	(4,399,005)
Payments to and on behalf of employees	(5,541,426)	(6,149,551)
Other receipts and payments, net	160,139	76,025
Net Cash from (used for) Operating Activities	504,481	(1,073,809)
Noncapital Financing Activities		
Noncapital contributions	8,644	7,650
Sales taxes received	1,111,289	736,723
Net Cash from Noncapital Financing Activities	1,119,933	744,373
Capital and Capital Related Financing Activities		
Principal payment for short-term notes payable	(148,569)	(145,559)
Principal payments on long-term debt	(74,190)	(65,011)
Interest paid	(26,946)	(30,525)
Purchase of capital assets	(288,559)	(134,554)
Net Cash used for Capital and Capital Related Financing Activities	(538,264)	(375,649)
Investing Activities		
Investment income	25,094	26,168
Redemption of certificates of deposit	-	342,986
Purchase of certificates of deposit	(600,000)	-
Net Cash (used for) from Investing Activities	(574,906)	369,154
Net Change in Cash and Cash Equivalents	511,244	(335,931)
Cash and Cash Equivalents, Beginning of Year	947,324	1,283,255
Cash and Cash Equivalents, End of Year	\$ 1,458,568	\$ 947,324

Choctaw County – City of Hugo Hospital Authority

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (89,566)	\$ (1,345,849)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization on capital assets	551,948	499,664
Provision for bad debts	6,030,051	5,276,993
Changes in assets and liabilities		
Patient receivables	(6,210,641)	(5,549,668)
Supplies	110,420	22,743
Prepaid expenses and other	(31,226)	(35,665)
Accounts payable	(100,965)	257,965
Accrued expenses	(3,352)	(19,714)
Estimated third-party payor settlements	247,812	(180,278)
Net Cash from (used for) Operating Activities	\$ 504,481	\$ (1,073,809)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	\$ -	\$ 118,499

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Choctaw County – City of Hugo 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 Authority are described below.

Reporting Entity

The Authority operates a 34-bed short-term acute care hospital located in Hugo, Oklahoma as Choctaw Memorial Hospital. The governing boards of Choctaw County and the City of Hugo appoint members to the Board of Trustees of the Authority on an alternating basis. The Board of Trustees exercises governing oversight responsibility for the Hospital which includes such duties as budget review, care of patients, and management of the facilities as set forth by the ordinance of the City of Hugo.

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 or the related debt obligations.

Restricted net position:

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

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

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, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Certificates of Deposit

Short-term investments include certificates of deposit with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

Patient Receivables

Patient receivables are uncollateralized patient 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 years June 30, 2019 and 2018 decreased approximately \$0 and \$121,000 due to removal of allowances previously estimated that related to patient receivables.

Supplies

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

Restricted and Internally Designated Cash and Investments

Restricted cash and investments are restricted by a bank for debt service. Internally designated cash and investments are set aside by the Board of Trustees for future operating purposes, over which the Board retains control and may at its discretion subsequently use for other purposes. Certificates of deposit are recorded at historical cost. Restricted and internally designated cash and investments that are available for obligations classified as current liabilities are reported in current assets, as well as those intended to be used for operations.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$1,500 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:

Land improvements	10-40 Years
Buildings and improvements	5-40 Years
Equipment	3-20 Years

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

Compensated Absences

The Authority's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued 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, 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 considered in the recognition of revenue 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 health care services 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 these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$9,000 and \$68,000 for the years ended June 30, 2019 and 2018, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

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

Sales Tax Revenue

Effective April 1, 2009, the citizens of Choctaw County, Oklahoma, approved a 0.75% sales tax for furnishing, equipping, renovating and maintaining the Authority, including the payment of principal and interest on any indebtedness. The tax will continue until repealed by the voters. For the years ended June 30, 2019 and 2018, the Authority recorded approximately \$966,000 and \$938,000, or 8% and 9% of its revenue, from the tax appropriation. Revenue from tax appropriations is recognized in the year in which the sales taxes are earned.

New Accounting Pronouncements

The Hospital adopted the provisions of GASB Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The adoption of GASB No. 88 changed the Hospital's disclosure requirements as seen in Note 6 but did not impact amounts recorded by the Hospital.

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: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and 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, 2016.

Medicaid: The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Other payors: 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, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	48%	49%
Medicaid	19%	20%
Commercial and other payors	22%	21%
Self pay	<u>11%</u>	<u>10%</u>
	<u>100%</u>	<u>100%</u>

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

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Carrying Amount		
Cash	\$ 1,458,568	\$ 947,324
Short-term certificates of deposit	<u>3,270,075</u>	<u>2,670,075</u>
	<u>\$ 4,728,643</u>	<u>\$ 3,617,399</u>

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 1,458,568	\$ 947,324
Certificates of deposit	809,476	60,907
Internally designated for specific operating purposes	1,567,189	1,567,189
Restricted by bank for debt service	<u>893,410</u>	<u>1,041,979</u>
	<u>\$ 4,728,643</u>	<u>\$ 3,617,399</u>

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. The Authority’s deposit policy does not further restrict bank deposits or limit investment deposits.

The Authority’s deposits in banks at June 30, 2019 were not fully covered by federal depository insurance or by collateral held by the Authority’s custodian bank in the Authority’s name. At year end, the deposits were underinsured by \$2,918. The Authority’s deposits in banks at June 30, 2018 were fully covered by federal depository insurance or by collateral held by the Authority’s custodian bank in the Authority’s name.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes require that investments be made in compliance with state law. The Authority’s investment policy does not further limit its investment options.

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Authority does not have a formally adopted investment policy for managing concentration of credit risk.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2019 are as follows:

	Balance June 30, 2018	Additions	Transfers and Retirements	Balance June 30, 2019
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated				
Land	\$ 15,512	\$ -	\$ -	\$ 15,512
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets being depreciated				
Building and improvements	\$ 6,299,126	\$ 87,411	\$ -	\$ 6,386,537
Equipment	5,750,061	201,148	(11,519)	5,939,690
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets being depreciated	<u>12,049,187</u>	<u>\$ 288,559</u>	<u>\$ (11,519)</u>	<u>12,326,227</u>
Less accumulated depreciation for				
Building and improvements	(3,843,025)	\$ (220,105)	\$ -	(4,063,130)
Equipment	(5,055,531)	(331,843)	5,923	(5,381,451)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	<u>(8,898,556)</u>	<u>\$ (551,948)</u>	<u>\$ 5,923</u>	<u>(9,444,581)</u>
Net capital assets being depreciated	<u>\$ 3,150,631</u>			<u>\$ 2,881,646</u>
Capital assets, net	<u>\$ 3,166,143</u>			<u>\$ 2,897,158</u>

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital assets not being depreciated				
Land	\$ 15,512	\$ -	\$ -	\$ 15,512
Total capital assets not being depreciated	<u>\$ 15,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,512</u>
Capital assets being depreciated				
Building and improvements	\$ 6,283,882	\$ 15,244	\$ -	\$ 6,299,126
Equipment	<u>5,639,492</u>	<u>237,809</u>	<u>(127,240)</u>	<u>5,750,061</u>
Total capital assets being depreciated	<u>11,923,374</u>	<u>\$ 253,053</u>	<u>\$ (127,240)</u>	<u>12,049,187</u>
Less accumulated depreciation for				
Building and improvements	(3,634,849)	\$ (208,176)	\$ -	(3,843,025)
Equipment	<u>(4,890,552)</u>	<u>(291,488)</u>	<u>126,509</u>	<u>(5,055,531)</u>
Total accumulated depreciation	<u>(8,525,401)</u>	<u>\$ (499,664)</u>	<u>\$ 126,509</u>	<u>(8,898,556)</u>
Net capital assets being depreciated	<u>\$ 3,397,973</u>			<u>\$ 3,150,631</u>
Capital assets, net	<u>\$ 3,413,485</u>			<u>\$ 3,166,143</u>

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018 for all operating leases was \$85,971 and \$92,215. The capitalized leased assets consist of:

	2019	2018
Major moveable equipment	\$ 502,910	\$ 502,910
Less accumulated amortization	(404,690)	(304,108)
	\$ 98,220	\$ 198,802

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

Years Ending June 30,	Capital Leases	Operating Leases
2020	\$ 84,967	\$ 43,626
2021	85,095	33,820
2022	45,236	22,928
2023	8,755	-
Total minimum lease payments	224,053	\$ 100,374
Less interest	(7,811)	
Present value of minimum lease payments - Note 6	\$ 216,242	

Note 6 - Debt

A schedule of changes in the Authority's long-term debt for 2019 and 2018 is as follows:

	Balance June 30, 2018	Additions	Payments	Balance June 30, 2019	Due Within One Year
Direct Borrowings	\$ 1,041,979	\$ -	\$ 148,569	\$ 893,410	\$ 893,410
Capital Lease Obligations (Note 5)	\$ 290,432	\$ -	\$ 74,190	\$ 216,242	\$ 80,752

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due Within One Year
Direct Borrowings	\$ 1,187,538	\$ -	\$ 145,559	\$ 1,041,979	\$ 1,041,979
Capital Lease Obligations (Note 5)	\$ 236,944	\$ 118,499	\$ 65,011	\$ 290,432	\$ 78,900

In March 2015, the Authority obtained a \$1,494,000 short-term note payable to a bank which includes interest at 2.1% and is due on demand. The note matures annually and was extended for an additional year in February 2019. If no demand is made, the note matures February 2020. The note is collateralized by one of the Authority's certificates of deposit. Under an agreement with the bank, the Authority is making monthly payments on the note based on a 120 month amortization schedule.

Capital lease obligations, including imputed interest ranging from 1.98% - 2.73% collateralized by associated equipment, with varying maturity dates from September 2021 through October 2022.

Note 7 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2019 and 2018 was as follows:

	2019	2018
Medicare	34%	27%
Medicaid	8%	8%
Other third-party payors and patients	18%	21%
Self-pay	40%	44%
	100%	100%

Note 8 - Pension Plan

The Authority has a defined contribution pension plan under which employees can become participants upon hiring. Employer contributions are made on a discretionary basis. The Authority did not make any contributions for the years ended June 30, 2019, 2018 and 2017.

Note 9 - Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011 and is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

SHOPP revenue and assessment fees are recorded as part of net patient service revenue on the accompanying statements of revenues, expenses and changes in net position. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Net SHOPP benefit consisted of the following for the years ended June 30, 2019 and 2018, and is included in net patient service revenue on the statement of revenues, expenses, and changes in net position.

	<u>2019</u>	<u>2018</u>
SHOPP funds received	\$ 837,893	\$ 863,421
SHOPP assessment fees paid	<u>333,800</u>	<u>367,260</u>
Net SHOPP benefit	<u>\$ 504,093</u>	<u>\$ 496,161</u>

Note 10 - 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 malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigations, Claims, and Disputes

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

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



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*

Board of Trustees
Choctaw County – City of Hugo Hospital Authority
Hugo, 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 Choctaw County – City of Hugo Hospital Authority (Authority) , which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position, cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 3, 2019.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified a deficiency 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 Authority’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2019-A in the accompanying *Schedule of Findings and Responses* to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's 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.



Oklahoma City, Oklahoma
December 3, 2019

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weaknesses:

2019-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 standards established by the U.S. generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB).

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 and GASB. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, material misstatements to the financial statements were identified in the areas of patient accounts receivable and estimated third-party payor settlements.

Effect: The preparation of financial statements as part of the audit engagement may result in financial statements and related information not being available for management purposes as timely as it would be if prepared by Authority personnel. In addition, the need for adjustments indicates that the Hospital's interim financial information may not be materially correct, which may affect management decisions during the course of the year.

Cause: This condition was caused by the Board of Trustees' and management's determination that it would take undue expense and effort to provide for a system that prepares the financial statements in accordance with GAAP as well as the failure to identify adjustments needed to allowances.

Auditor's Recommendation: While the preparation of financial statements by an outside party is not unusual for an organization of your size, the need for material adjustments should require consideration of the controls and processes over the areas identified. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with a deficiency in preparation of financial statements because of cost or other considerations.

Management Response: Management agrees with the finding. The Board of Trustees has taken into consideration the expense of hiring additional accounting personnel for the accurate reporting of the financial statements and feels that the cost does not justify the benefit.