

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2015 and 2014



The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
June 30, 2015 and 2014

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Independent Auditor's Report

Board of Trustees
The Beaver County Hospital Authority
Beaver, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of The Beaver County Hospital Authority (the Authority), a component unit of Beaver County, Oklahoma, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015 and 2014, and the 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

As discussed in *Note 15* to the financial statements, in 2015, the Authority changed its method of accounting for pensions as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2016, 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.

BKD, LLP

Tulsa, Oklahoma
May 9, 2016

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of The Beaver County Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Authority.

As discussed in *Note 15*, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the year ended June 30, 2015. As part of the implementation of GASB 68, management determined it was not practical to restate 2014 and prior years. Therefore, as a result of implementing GASB 68 and GASB 71, a liability associated with the unfunded status of the defined benefit pension plan was recorded, deferred outflows as required by GASB 71 were recorded and the beginning net position of fiscal year 2015 was restated.

Financial Highlights

- Cash and restricted cash decreased in 2015 by \$111,063 or 4.0% and increased in 2014 by \$1,468,862 or 113.2%.
- The Authority's net position decreased in 2015 by \$1,256,410 or 22.3% and increased in 2014 by \$920,032 or 19.5%. In 2015, the decrease in net position included an adjustment applicable to prior years of \$1,223,339 in addition to the decrease in net position of \$33,071.
- The Authority reported operating losses in 2015 and 2014 of \$1,414,019 and \$723,454, respectively. The operating loss in 2015 increased by \$690,565 or 95.5% over the operating loss reported in 2014. The operating loss in 2014 increased by \$395,885 or 120.9% over the operating loss reported in 2013.
- Net nonoperating revenues decreased in 2015 and 2014 by \$297,243 and \$549,766 or 18.5% and 25.5%, respectively.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, 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 Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

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

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

The Statement of Cash Flows

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

The Authority's Net Position

The Authority's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources reported in the balance sheet. The Authority's net position decreased by \$1,256,410 or 22.3% in 2015 over 2014 and increased by \$920,032 or 19.5% in 2014 over 2013 as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

| | 2015 | 2014 | 2013 |
|---|---------------------|---------------------|---------------------|
| Assets | | | |
| Cash and restricted cash | \$ 2,655,557 | \$ 2,766,620 | \$ 1,297,758 |
| Short-term certificates of deposit | 249,500 | 249,500 | 249,500 |
| Patient accounts receivable, net | 788,074 | 1,380,157 | 1,989,038 |
| Other current assets | 728,553 | 1,084,011 | 928,819 |
| Capital assets, net | <u>1,701,112</u> | <u>1,800,554</u> | <u>1,327,885</u> |
| Total assets | 6,122,796 | 7,280,842 | 5,793,000 |
| Deferred Outflows of Resources | | | |
| | <u>448,910</u> | - | - |
| Total assets and deferred outflows of resources | <u>\$ 6,571,706</u> | <u>\$ 7,280,842</u> | <u>\$ 5,793,000</u> |
| Liabilities | | | |
| Long-term debt, including current maturities | \$ 91,632 | \$ 161,792 | \$ 242,623 |
| Other current and noncurrent liabilities | <u>1,107,938</u> | <u>1,478,551</u> | <u>829,910</u> |
| Total liabilities | <u>1,199,570</u> | <u>1,640,343</u> | <u>1,072,533</u> |
| Deferred Inflows of Resources | | | |
| | <u>988,047</u> | - | - |
| Net Position | | | |
| Net investment in capital assets | 1,609,480 | 1,059,426 | 1,072,005 |
| Restricted – expendable for | | | |
| Capital acquisitions | 3,436 | 1,824 | 9,481 |
| Specific operating activities | 554,449 | 531,760 | 327,497 |
| Unrestricted | <u>2,216,724</u> | <u>4,047,489</u> | <u>3,311,484</u> |
| Total net position | <u>4,384,089</u> | <u>5,640,499</u> | <u>4,720,467</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 6,571,706</u> | <u>\$ 7,280,842</u> | <u>\$ 5,793,000</u> |

In 2015, patient accounts receivable, net of allowances decreased by \$592,083 or 42.9% in 2015 compared to 2014. This decrease primarily resulted from continued collections on old outstanding patient accounts receivable and general improvements in collection efforts.

Other current and noncurrent liabilities decreased by \$370,613 or 25.1% in 2015 compared to 2014. This decrease was primarily due to the Authority paying off its liability of \$615,697 for electronic health records (EHR) assets purchased in 2014, which was included in accounts payable as of June 30, 2014.

Additionally, due to implementation of GASB 68 and GASB 71, the Authority recorded deferred inflows and outflows of resources as well as a net pension liability during 2015.

In 2014, cash and restricted cash increased by \$1,468,862 or 113.2% due primarily to receipt of delayed patient accounts receivable for claims generated in 2013 but not paid until 2014.

Patient accounts receivable, net of allowances decreased by \$608,881 or 30.6% in 2014 compared to 2013. This decrease was primarily the result of delays in claims being processed by the Authority's new administrative contractor in 2013 and these claims being paid in 2014.

Capital assets, net of accumulated depreciation increased by \$472,669 or 35.6% in 2014 compared to 2013. The increase in capital assets was primarily due to adding equipment for implementation of electronic health records (see *Note 5*).

Operating Results and Changes in the Authority's Net Position

In 2015, the Authority's net position, before the adjustment applicable to prior years related to GASB 68, decreased by \$33,071 as shown in Table 2. This decrease is made up of several different components and represents a decrease of \$953,103 compared with the increase in net position in 2014 of \$920,032.

Table 2: Operating Results and Changes in Net Position

| | 2015 | 2014 | 2013 |
|---|--------------------|-------------------|---------------------|
| Operating Revenues | | | |
| Net patient service revenue | \$ 4,905,034 | \$ 5,667,283 | \$ 5,344,900 |
| Community pharmacy revenue | 2,041,572 | 1,868,027 | 1,719,630 |
| Other operating revenues | 99,188 | 141,281 | 104,115 |
| Total operating revenues | <u>7,045,794</u> | <u>7,676,591</u> | <u>7,168,645</u> |
| Operating Expenses | | | |
| Salaries and wages and employee benefits | 4,100,684 | 4,240,853 | 3,886,486 |
| Purchased services and professional fees | 758,713 | 722,195 | 703,719 |
| Other operating expenses | 3,224,539 | 3,125,542 | 2,716,457 |
| Depreciation | 375,877 | 311,455 | 189,552 |
| Total operating expenses | <u>8,459,813</u> | <u>8,400,045</u> | <u>7,496,214</u> |
| Operating Loss | <u>(1,414,019)</u> | <u>(723,454)</u> | <u>(327,569)</u> |
| Nonoperating Revenues (Expenses) | | | |
| County appropriations – unrestricted | 930,760 | 1,262,082 | 1,777,273 |
| County appropriations – restricted | 320,318 | 294,252 | 295,446 |
| Investment income | 15,566 | 37,772 | 21,640 |
| Noncapital grants and gifts | 47,739 | 22,755 | 76,420 |
| Interest expense | (4,501) | (9,736) | (13,888) |
| Total nonoperating revenues (expenses) | <u>1,309,882</u> | <u>1,607,125</u> | <u>2,156,891</u> |
| Excess (Deficiency) of Revenues over Expenses Before Capital Gifts | (104,137) | 883,671 | 1,829,322 |
| Capital Gifts | <u>71,066</u> | <u>36,361</u> | <u>-</u> |
| Increase (Decrease) in Net Position | <u>\$ (33,071)</u> | <u>\$ 920,032</u> | <u>\$ 1,829,322</u> |

Operating Losses

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported an operating loss. This is consistent with the Authority's recent operating history as the Authority was formed and is operated primarily to serve residents of Beaver County, Oklahoma, and the surrounding area. As discussed in *Note 1*, the Authority receives unrestricted support in the form of sales tax revenue from Beaver County to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2015 increased by \$690,565 or 95.5% as compared to 2014. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$762,249 or 13.4%
- A decrease in salaries and wages and employee benefits of \$140,169 or 3.3%

The decrease in net patient service revenue was primarily due to the Authority not recognizing any revenue under the Medicare EHR Incentive Program in 2015. In 2014, the Authority attested to and recognized revenue of approximately \$560,000 under the Medicare EHR Incentive Program.

Salaries and wages increased slightly in 2015 by \$111,971 or 3.3% due to a small increase in employees. However, this increase was offset by a decrease of \$252,140 or 30.2% in employee benefits driven by an adjustment to pension expense in 2015.

The operating loss for 2014 increased by \$395,885 or 120.9% as compared to 2013. The primary components of the increased operating loss are:

- An increase in net patient service revenue of \$322,383 or 6.0%
- An increase in salaries and wages and employee benefits of \$354,367 or 9.1%
- An increase in supplies and other expenses of \$414,585 or 15.3%

An increase in net patient service revenue was primarily due to the Authority attesting to and recognizing revenue of approximately \$560,000 under the Medicare EHR Incentive Program while also recognizing final settlements on previous cost reporting years in excess of amounts previously estimated. The Authority did not recognize revenue in 2013 for EHR incentive programs.

Salaries and wages and employee benefits increased in 2014 in connection with the Authority's wage increases during 2014.

Expenditures for medical supplies, prescription drugs and other supplies are a major component of the Authority's costs. In 2014, medical supply, prescription drug and other supply costs totaled \$3,125,542 or 37.2% of total operating expenses. In 2013, they totaled \$2,710,957 or 36.2% of total operating expenses. This represents an increase of \$414,585 or 15.3% over 2013. The major factor contributing to the increased medical supply, prescription drug and other supply costs was due to entering a group purchasing arrangement for medical supplies and prescription drugs.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales taxes levied by Beaver County, property taxes levied for emergency medical services and charity care as well as noncapital gifts and grants. Nonoperating revenue from property taxes and noncapital gifts remained relatively constant in 2015 as compared to 2014. The Authority recognized a decrease in its sales tax appropriations in 2015 compared to 2014 of \$331,322 or 26.3%.

Capital Gifts

The Authority receives both capital gifts and operating gifts/grants from various local, state and federal agencies for specific programs. In 2015, the Authority recognized \$71,066 for the purchase of emergency medical services equipment. In 2014, the Beaver County Nursing Home recognized \$36,361 for meeting requirements of a grant from the State of Oklahoma to receive a van for transporting residents.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2015 and 2014 and the changes in accounts receivable discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015 and 2014, the Authority had \$1,701,112 and \$1,800,554, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015, the Authority purchased new capital assets costing \$277,266. In 2014, the Authority purchased new capital assets costing \$784,124. Of this amount, \$615,697 was acquired through a payable to a third party assisting with the Authority's EHR implementation.

Debt

At June 30, 2015 and 2014, the Authority had \$91,632 and \$161,792, respectively, in notes payable and capital lease obligations outstanding as discussed in *Note 8* to the financial statements. No additional debt was incurred in 2015 or 2014.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's 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. Questions about this report and requests for additional financial information should be directed to the chief executive officer by telephoning 580.625.4551.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Balance Sheets
June 30, 2015 and 2014

Assets and Deferred Outflows of Resources

| | 2015 | 2014 |
|--|--------------|--------------|
| Current Assets | | |
| Cash | \$ 2,097,672 | \$ 2,233,036 |
| Restricted cash | 557,885 | 533,584 |
| Short-term certificates of deposit | 249,500 | 249,500 |
| Patient accounts receivable, net of allowance; 2015 – \$382,000, 2014 – \$668,000 | 788,074 | 1,380,157 |
| County appropriations receivable | 233,738 | 344,299 |
| Estimated amounts due from third-party payers | - | 263,141 |
| Supplies | 454,433 | 416,004 |
| Prepaid expenses and other | 40,382 | 60,567 |
| Total current assets | 4,421,684 | 5,480,288 |
| | | |
| Capital Assets, Net | 1,701,112 | 1,800,554 |
| Total assets | 6,122,796 | 7,280,842 |
| | | |
| Deferred Outflows of Resources | 448,910 | - |
| Total assets and deferred outflows of resources | \$ 6,571,706 | \$ 7,280,842 |

Liabilities, Deferred Inflows of Resources and Net Position

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 42,396 | \$ 69,697 |
| Accounts payable | 312,785 | 929,367 |
| Accrued expenses | 524,153 | 549,184 |
| Estimated amounts due to third-party payers | <u>2,000</u> | <u>-</u> |
| Total current liabilities | 881,334 | 1,548,248 |
| Long-Term Debt | 49,236 | 92,095 |
| Net Pension Liability | <u>269,000</u> | <u>-</u> |
| Total liabilities | <u>1,199,570</u> | <u>1,640,343</u> |
| Deferred Inflows of Resources | <u>988,047</u> | <u>-</u> |
| Net Position | | |
| Net investment in capital assets | 1,609,480 | 1,059,426 |
| Restricted – expendable for | | |
| Capital acquisitions | 3,436 | 1,824 |
| Specific operating activities | 554,449 | 531,760 |
| Unrestricted | <u>2,216,724</u> | <u>4,047,489</u> |
| Total net position | <u>4,384,089</u> | <u>5,640,499</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 6,571,706</u> | <u>\$ 7,280,842</u> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2015 – \$231,543, 2014 – \$360,590 | \$ 4,905,034 | \$ 5,667,283 |
| Community pharmacy revenue | 2,041,572 | 1,868,027 |
| Other | 99,188 | 141,281 |
| | <u>7,045,794</u> | <u>7,676,591</u> |
| Operating Expenses | | |
| Salaries and wages | 3,518,838 | 3,406,867 |
| Employee benefits | 581,846 | 833,986 |
| Purchased services and professional fees | 758,713 | 722,195 |
| Supplies and other | 3,224,539 | 3,125,542 |
| Depreciation | 375,877 | 311,455 |
| | <u>8,459,813</u> | <u>8,400,045</u> |
| | <u>(1,414,019)</u> | <u>(723,454)</u> |
| Operating Loss | | |
| Nonoperating Revenues (Expenses) | | |
| County appropriations – unrestricted | 930,760 | 1,262,082 |
| County appropriations – restricted | 320,318 | 294,252 |
| Investment income | 15,566 | 37,772 |
| Noncapital grants and gifts | 47,739 | 22,755 |
| Interest expense | (4,501) | (9,736) |
| | <u>1,309,882</u> | <u>1,607,125</u> |
| Excess (Deficiency) of Revenues over Expenses Before Capital Gifts | (104,137) | 883,671 |
| Capital Gifts | <u>71,066</u> | <u>36,361</u> |
| Increase (Decrease) in Net Position | <u>(33,071)</u> | <u>920,032</u> |
| Net Position, Beginning of Year, as Previously Reported | 5,640,499 | 4,720,467 |
| Cumulative Effect Adjustment for Adoption of GASB 68 and GASB 71 (see Note 15) | <u>(1,223,339)</u> | <u>-</u> |
| Net Position, Beginning of Year, as Restated | <u>4,417,160</u> | <u>4,720,467</u> |
| Net Position, End of Year | <u>\$ 4,384,089</u> | <u>\$ 5,640,499</u> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 7,803,830 | \$ 7,951,050 |
| Payments to suppliers and contractors | (4,002,381) | (3,908,384) |
| Payments to employees | (4,540,917) | (4,173,707) |
| Other receipts and payments, net | 99,188 | 141,281 |
| Net cash provided by (used in) operating activities | (640,280) | 10,240 |
| Noncapital Financing Activities | | |
| Noncapital grants and gifts | 47,739 | 22,335 |
| County appropriations received | 1,361,639 | 1,634,405 |
| Net cash provided by noncapital financing activities | 1,409,378 | 1,656,740 |
| Capital and Related Financing Activities | | |
| Capital gifts | 71,066 | 36,361 |
| Interest paid on long-term debt | (4,501) | (9,736) |
| Principal paid on long-term debt | (70,160) | (80,831) |
| Purchase of capital assets | (892,963) | (181,684) |
| Proceeds from the disposal of capital assets | 831 | - |
| Net cash used in capital and related financing activities | (895,727) | (235,890) |
| Investing Activities | | |
| Interest income received | 15,566 | 37,772 |
| Net cash provided by investing activities | 15,566 | 37,772 |
| Increase (Decrease) in Cash | (111,063) | 1,468,862 |
| Cash, Beginning of Year | 2,766,620 | 1,297,758 |
| Cash, End of Year | \$ 2,655,557 | \$ 2,766,620 |
| Reconciliation of Cash to the Balance Sheets | | |
| Cash | \$ 2,097,672 | \$ 2,233,036 |
| Restricted cash | 557,885 | 533,584 |
| | \$ 2,655,557 | \$ 2,766,620 |

See Notes to Financial Statements

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|------------------|
| Reconciliation of Operating Loss to Net Cash Provided by (Used in) | | |
| Operating Activities | | |
| Operating loss | \$ (1,414,019) | \$ (723,454) |
| Depreciation | 375,877 | 311,455 |
| Accrued self-insurance costs | 40,669 | (63,837) |
| Provision for uncollectible accounts | 231,543 | 360,590 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | 360,540 | 248,291 |
| Supplies, prepaid expenses and other | (18,244) | (39,702) |
| Estimated amounts due to/from third-party payers | 265,141 | (193,141) |
| Accounts payable and accrued expenses | (66,585) | 110,038 |
| Pension liability | (415,202) | - |
| | <u>\$ (640,280)</u> | <u>\$ 10,240</u> |
| Net cash provided by (used in) operating activities | | |
| | <u>\$ (640,280)</u> | <u>\$ 10,240</u> |
| Supplemental Cash Flows Information | | |
| Capital asset acquisitions included in accounts payable | \$ - | \$ 615,697 |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

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

Nature of Operations

The Beaver County Hospital Authority (the Authority) was created under a trust indenture dated June 5, 1989, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of the citizens of Beaver County, Oklahoma (the County). The Authority is a component unit of the County as the County Commissioners of Beaver County have the authority to appoint members to the Authority's Board of Trustees.

The Authority, located in Beaver, Oklahoma, is comprised of Beaver County Memorial Hospital (the Hospital) and Beaver County Nursing Home (the Nursing Home), which are considered operating divisions of the Authority. The Hospital is a 24-bed Medicare-certified critical access hospital, and the Nursing Home is a 62-bed residential living facility. As part of the Hospital's operations, the Authority also operates two rural health clinics located in Beaver and Turpin, Oklahoma, as well as a retail pharmacy located in the Hospital.

Blended Component Unit

Beaver County Emergency Medical Services (EMS) was organized as a public trust to provide emergency medical services and transportation services to the residents of the County. On July 8, 1991, the Authority and EMS entered into a contract whereby EMS authorized the Authority to operate and maintain the emergency medical services for the County. In exchange for allowing the Authority to charge and collect fees for services provided, EMS agreed to reimburse the Authority for any and all expenses incurred that are not recovered through fees charged for emergency medical services.

Reporting Entity

The accompanying financial statements present the Authority and its blended component unit, as the Authority is considered to be financially accountable for its operations. The blended component unit is, in substance, part of the Authority's operations, even though it is a legally separate entity. Thus, the blended component unit is appropriately presented as funds of the Authority.

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Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2015 and 2014, the Authority did not have any cash equivalents.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation. Settled claims have not exceeded this commercial coverage during any of the three preceding years.

The Authority is self-insured for a portion of its exposure to risk of loss from workers' compensation. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

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Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost.

Investment income includes interest income earned on certificates of deposit and interest-bearing bank accounts.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

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

Compensated Absences

The Authority's policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

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Cost-Sharing Defined Benefit Pension Plan

The Authority participates in a cost-sharing multiple-employer defined benefit pension plan, the Oklahoma Public Employees Retirement System (OPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of OPERS and additions to/deductions from OPERS' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

Net position of the Authority is classified into three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

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County Appropriations

Effective February 1, 2011, the citizens of the County approved a 1% sales tax with an expiration date of April 1, 2017, to provide unrestricted appropriations to the Authority. The County collects the sales tax and remits it monthly to the Authority. Revenue from county appropriations is recognized in the year in which the sales tax is earned. The Authority received approximately 12% and 14% of its financial support from county appropriations related to sales taxes during the years ended June 30, 2015 and 2014, respectively.

Effective February 10, 2009, the citizens of the County approved an ad valorem tax for two mills on the assessed valuation of taxable property situated in the County for the purpose of continued funding and maintenance of EMS. Property taxes are assessed in October of each year and half of the assessed taxes are due December 31 with the other half due March 31 of the following year. These taxes become delinquent after January 1 and April 1, respectively. Revenue from ad valorem tax is recognized in the year for which the ad valorem tax is levied. The Authority received approximately 4% and 3% of its financial support from ad valorem tax revenue during the years ended June 30, 2015 and 2014, respectively.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAH) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Authority's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Authority is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognized the incentive payment revenue received for qualified EHR technology expenditures during 2014, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Authority recorded revenue of approximately \$560,000, which is included in net patient service revenue in the accompanying statements of revenues, expenses and changes in net position for the year ended June 30, 2014.

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The Authority plans to attest to meeting the requirements under the Medicaid second-year program during fiscal year 2016.

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, 2017. The SHOPP is designed to assess certain 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.

CAHs are excluded from paying an assessment fee but are still eligible to receive SHOPP funds. During the years ended June 30, 2015 and 2014, the Authority recognized approximately \$78,000 and \$64,000, respectively, of revenue related to the SHOPP. Revenue recorded under the SHOPP is recorded as a part of net patient service revenue on the accompanying statements of revenues, expenses and changes in net position.

The annual amounts to be received 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. Based on the current information available, the annual benefit to the Authority over the term of the SHOPP is not expected to be materially different than the amounts received in 2015.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. These reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. 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. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2013.
- **Medicaid** – The Authority is 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. Those payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

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Approximately 53% and 54% of the Authority’s net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider 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.

Note 3: Deposits and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government’s deposits may not be returned to it. The Authority’s deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance or other acceptable collateral in specific amounts.

At June 30, 2015 and 2014, none of the Authority’s bank balances of approximately \$2,973,000 and \$3,055,000, respectively, were uninsured and uncollateralized.

Summary of Carrying Values

The carrying values of deposits shown above are included in the accompanying balance sheets as follows:

| | 2015 | 2014 |
|--|--------------|--------------|
| Carrying value | | |
| Deposits | \$ 2,905,057 | \$ 3,016,120 |
| Included in the following balance sheet captions | | |
| Cash | \$ 2,097,672 | \$ 2,233,036 |
| Restricted cash | 557,885 | 533,584 |
| Short-term certificates of deposit | 249,500 | 249,500 |
| | \$ 2,905,057 | \$ 3,016,120 |

Investment Income

Investment income for the years ended June 30, 2015 and 2014, consisted of interest income.

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Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30 consisted of:

| | 2015 | 2014 |
|--|--------------------------|----------------------------|
| Medicare | \$ 512,562 | \$ 1,064,240 |
| Medicaid | 101,353 | 75,252 |
| Other third-party payers | 171,855 | 212,263 |
| Patients | <u>384,304</u> | <u>696,402</u> |
| | 1,170,074 | 2,048,157 |
| Less allowance for uncollectible amounts | <u>382,000</u> | <u>668,000</u> |
| | <u><u>\$ 788,074</u></u> | <u><u>\$ 1,380,157</u></u> |

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

| | 2015 | | | | |
|------------------------------------|------------------------------|---------------------------|------------------------|--------------------|----------------------------|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Land | \$ 52,731 | \$ - | \$ - | \$ - | \$ 52,731 |
| Buildings and land improvements | 2,613,707 | 23,361 | - | - | 2,637,068 |
| Equipment | <u>2,647,167</u> | <u>253,905</u> | <u>(4,529)</u> | - | <u>2,896,543</u> |
| | <u>5,313,605</u> | <u>277,266</u> | <u>(4,529)</u> | - | <u>5,586,342</u> |
| Less accumulated depreciation | | | | | |
| Buildings and land improvements | 2,260,983 | 52,177 | - | - | 2,313,160 |
| Equipment | <u>1,252,068</u> | <u>323,700</u> | <u>(3,698)</u> | - | <u>1,572,070</u> |
| | <u>3,513,051</u> | <u>375,877</u> | <u>(3,698)</u> | - | <u>3,885,230</u> |
| Capital assets, net | <u><u>\$ 1,800,554</u></u> | <u><u>\$ (98,611)</u></u> | <u><u>\$ (831)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,701,112</u></u> |

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| | 2014 | | | | Ending Balance |
|---------------------------------|------------------------------|-------------------|------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Transfers | |
| Land | \$ 52,731 | \$ - | \$ - | \$ - | \$ 52,731 |
| Buildings and land improvements | 2,583,972 | 29,735 | - | - | 2,613,707 |
| Equipment | 1,892,778 | 754,389 | - | - | 2,647,167 |
| | <u>4,529,481</u> | <u>784,124</u> | <u>-</u> | <u>-</u> | <u>5,313,605</u> |
| Less accumulated depreciation | | | | | |
| Buildings and land improvements | 2,205,134 | 55,849 | - | - | 2,260,983 |
| Equipment | 996,462 | 255,606 | - | - | 1,252,068 |
| | <u>3,201,596</u> | <u>311,455</u> | <u>-</u> | <u>-</u> | <u>3,513,051</u> |
| Capital assets, net | <u>\$ 1,327,885</u> | <u>\$ 472,669</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,800,554</u> |

Note 6: Workers' Compensation Claims

The Authority is self-insured for costs associated with workers' compensation claims and purchases commercial insurance coverage for claims in excess of certain retention limits. As of June 30, 2015 and 2014, the Authority has commercial stop-loss insurance coverage for claims in excess of \$400,000 up to \$1,000,000 per occurrence. The Authority accrues the expense of the claim costs and plan administrative expense for actual claims and expenses incurred and estimates of claim costs which have been incurred but not yet reported based on recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

Activity in the Authority's accrued workers' compensation claims liability during 2015 and 2014 is summarized below:

| | 2015 | 2014 |
|--|------------------|------------------|
| Balance, beginning of year | \$ 9,000 | \$ 73,000 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 106,456 | 47,988 |
| Claims and expenses paid | <u>(65,456)</u> | <u>(111,988)</u> |
| Balance, end of year | <u>\$ 50,000</u> | <u>\$ 9,000</u> |

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The Oklahoma Workers' Compensation Court (OWCC) requires the Authority to post collateral for self-insured claims in the form of a line of credit with a bank in the event the Authority was unable to pay its claims. As of June 30, 2015 and 2014, the OWCC required the Authority to have collateral of \$300,000. As of the date of the Independent Auditor's Report, no amounts have been drawn on these lines of credit.

Note 7: Medical Malpractice Claims

Beginning January 1, 2014, the Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Debt

The following is a summary of long-term debt transactions for the Authority for the years ended June 30:

| | 2015 | | | | |
|---------------------------|------------------------------|------------------|--------------------|---------------------------|----------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Note payable to bank | \$ 31,134 | \$ - | \$ (20,679) | \$ 10,455 | \$ 10,455 |
| Capital lease obligations | 18,317 | - | (18,317) | - | - |
| Master lease agreement | 112,341 | - | (31,164) | 81,177 | 31,941 |
| | <u>\$ 161,792</u> | <u>\$ -</u> | <u>\$ (70,160)</u> | <u>\$ 91,632</u> | <u>\$ 42,396</u> |
| | 2014 | | | | |
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Note payable to bank | \$ 51,125 | \$ - | \$ (19,991) | \$ 31,134 | \$ 20,548 |
| Capital lease obligations | 49,397 | - | (31,080) | 18,317 | 18,317 |
| Master lease agreement | 142,101 | - | (29,760) | 112,341 | 30,832 |
| | <u>\$ 242,623</u> | <u>\$ -</u> | <u>\$ (80,831)</u> | <u>\$ 161,792</u> | <u>\$ 69,697</u> |

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Note Payable to Bank

The Authority has one note payable to bank due January 2016, with principal and interest payable monthly at 3.02%. The note is secured by certain equipment.

The debt service requirements for the note payable to bank as of June 30, 2015, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|----------------------|---------------------|-----------|----------|
| 2016 | \$ 10,572 | \$ 10,455 | \$ 117 |

Capital Lease Obligations

The Authority was obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2015 and 2014, totaled \$87,034, net of accumulated depreciation of \$57,140 and \$39,733, respectively. All capital leases were paid in full during 2015.

Master Lease Agreement

In 2013, the Authority borrowed \$201,140 under a master lease agreement to purchase equipment that is accounted for as a capital lease. Assets under the master lease agreement at June 30, 2015 and 2014, had total costs of \$201,140 and accumulated depreciation of \$67,047 and \$38,300, respectively. The following is a schedule by year of future minimum lease payments under the master lease agreement, including interest at a rate of 3.54%, together with the present value of the future minimum lease payments, as of June 30, 2015:

| Year Ending June 30, | |
|--|-----------|
| 2016 | \$ 34,330 |
| 2017 | 34,330 |
| 2018 | 16,321 |
| Total minimum lease payments | 84,981 |
| Less amount representing interest | 3,804 |
| Present value of future minimum lease payments | \$ 81,177 |

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Note 9: Line of Credit

The Authority had a \$450,000 revolving line of credit that expired in June 2014. In July 2014, the Authority renewed this revolving line of credit for the same amount which expired in July 2015. No amounts were drawn on this line of credit. Subsequent to year-end, the Authority renewed this line of credit through July 2016.

Note 10: Restricted Net Position

At June 30, 2015 and 2014, \$660,728 and \$531,760, respectively, of restricted expendable net position was available for the purpose of providing emergency medical services to the residents of the County. In addition, at June 30, 2015 and 2014, \$3,436 and \$1,824, respectively, was available for the purpose of capital acquisitions of the Nursing Home.

Note 11: Charity Care and Other Community Benefits

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs relating to these services are approximately as follows:

| | 2015 | 2014 |
|--------------------|-------------|-------------|
| Charity allowances | \$ 13,000 | \$ 12,000 |
| Medicaid welfare | 94,000 | 17,000 |
| | \$ 107,000 | \$ 29,000 |

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

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Note 12: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's self-insurance program or by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Retirement Plan

Cost-Sharing Defined Benefit Plan

Plan Description

The Authority contributes to OPERS, a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. OPERS is administered by a board of trustees appointed by state statute. Benefit provisions are contained in the plan document and were established and can be amended by action of OPERS' governing body. OPERS issues a publicly available financial report that can be obtained at <http://www.opers.ok.gov/publications>.

Benefits Provided

In general, OPERS provides retirement, disability and death benefits to plan members and their beneficiaries based on members' final average compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon death of eligible members. OPERS' benefits are established and amended by state statute. Retirement provisions are as follows:

Hired Prior to November 1, 2011 – Normal retirement is attained upon completing one of the following: Age of 62 with six years of credited service; 80 points or the sum of age and years of service if the employee was hired before July 1, 1992; 90 points or the sum of age and years of service if the employee was hired after July 1, 1992. Retirement benefits for employees are calculated as the average compensation during the highest three years of the last 10 years of service.

Hired After November 1, 2011 – Normal retirement is attained upon completing one of the following: Age of 65 with six years of credited service or 90 points or the sum of age and years of service with a minimum age of 60. Retirement benefits for employees are calculated as the average compensation during the highest five years of the last 10 years of service.

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Retirement benefits for employees are calculated as 2% of the employee's final average salary times the employee's credited years of service.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Disability retirement benefits are determined in the same manner as retirement benefits and require a minimum of eight years of service and that the member qualifies for disability under the Social Security Administration or Railroad Retirement Board.

Cost-Sharing Defined Benefit Plan Under Governmental Accounting Standards Board (GASB) Statement No. 68

Contributions

The authority to set and amend contribution rates is established by ordinance for OPERS' defined benefit plan in accordance with Title 74 of the Oklahoma Statutes, Chapter 29, Section 908. The contribution rates for the current fiscal year have been made in accordance with Oklahoma statute. Contributions for participating county and local agencies are required by statute to total 20% for employees and employers as of June 30, 2015. For the year ended June 30, 2015, the Authority contributed 11.5% and employees contributed 8.5% of eligible compensation. For the year ended June 30, 2015, contributions to the pension plan from the Authority were approximately \$434,000. For the year ended June 30, 2015, contributions to the pension plan from employees were approximately \$249,000.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Authority reported a liability of \$269,000 for its proportionate share of the net pension liability. The net pension liability as of June 30, 2015, was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Authority's proportion was 0.14654281%.

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For the year ended June 30, 2015, the Authority recognized pension expense of \$18,315. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 89,059 |
| Change in assumptions | 15,394 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 898,988 |
| Contributions made since measurement date | <u>433,516</u> | <u>-</u> |
| Total | <u>\$ 448,910</u> | <u>\$ 988,047</u> |

At June 30, 2015, the Authority reported \$433,516 as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2015, will be recognized in pension expense as follows:

| | |
|-------|---------------------|
| 2016 | \$ (259,170) |
| 2017 | (259,170) |
| 2018 | (229,566) |
| 2019 | <u>(224,747)</u> |
| Total | <u>\$ (972,653)</u> |

Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

| | |
|---------------------------|------------------|
| Inflation | 3.0% |
| Salary increase | 4.5%–8.4% |
| Investment rate of return | 8.0% |
| Actuarial cost method | Entry age normal |

Mortality rates were based on the RP-2000 Healthy Combined Mortality Index projected to 2010, as appropriate with adjustments for mortality improvements based on Scale AA.

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The actuarial assumptions used in the June 30, 2014, valuations were based on the results of an actuarial experience study dated May 9, 2014, for the three-year period from July 1, 2010 to June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Rate of Return |
|--|------------------------------|--|
| Domestic equities – large cap | 38.00% | 5.30% |
| Domestic equities – small cap | 6.00% | 5.60% |
| International stocks | 18.00% | 5.60% |
| Emerging markets stock | 6.00% | 6.40% |
| Domestic fixed income | 25.00% | 0.70% |
| Treasury-inflated protected securities | 3.50% | 0.70% |
| Rate anticipation | 3.50% | 1.50% |
| | 100.00% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for the year ended June 30, 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected to be available to make future benefit payments through 2113 for current employees and plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

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Sensitivity of the Authority’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Authority’s proportionate share of the net pension liability has been calculated using a discount rate of 7.5%. The following presents the Authority’s proportionate share of the net pension liability (asset) calculated using a discount rate 1% higher and 1% lower than the current rate.

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|-------------------------------|-------------------------------|---|-------------------------------|
| Net pension liability (asset) | \$ 1,674,730 | \$ 269,000 | \$ (926,072) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued OPERS financial report.

Payable to the Pension Plan

At June 30, 2015, the Authority reported a payable of approximately \$51,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

Cost-Sharing Defined Benefit Plan Under GASB 27

The Authority participates in OPERS, a cost-sharing multiple-employer defined benefit plan established and administered by the State of Oklahoma, which also has the authority to amend the plan. Pension expense is recorded for the amount the Authority is contractually required to contribute for the year. OPERS covers substantially all state employees as well as employees of participating counties and local agencies. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118-7484.

The retirement plan administered by OPERS is a defined benefit, contributory plan which covers participants with retirement, death and disability benefits. In 2014, participating county and local agencies were required to contribute a total of 20.0% of employees’ salaries, of which employees must contribute between 3.5%–8.5%. In 2014, the Authority’s employees contributed 8.5% of compensation, with the Authority contributing the remaining 11.5%. Contribution rates for participating county and local participants are set by the Oklahoma legislature.

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In 2014 and 2013, contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 8.5% and 11.5%, respectively. Contributions made by plan members approximated \$234,000 and \$212,000 in 2014 and 2013, respectively. The Authority contributed approximately \$317,000 and \$287,000 into the plan during 2014 and 2013, respectively.

Note 14: Management Services Agreement

In May 2011, the Authority entered into a financial services agreement with NewLight Healthcare, LLC for a period of one year with indefinite one-year renewals available until termination by either party. In both May 2015 and 2014, the agreement was automatically renewed for a period of one year. The Authority paid approximately \$53,000 and \$55,000 to NewLight Healthcare, LLC in 2015 and 2014, respectively.

Note 15: Change in Accounting Principles

In 2015, the Authority changed its method of accounting for pensions as a result of implementing GASB 68 and GASB 71, which became effective for reporting periods beginning after June 15, 2014.

The impact of the change in accounting principles was to recognize the unfunded obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. These changes decreased net position of the Authority as of June 30, 2014, by \$1,223,339.

As management determined it was not practical to restate the accompanying financial statements for fiscal year 2014 or prior for the effects of all the provisions of GASB 68 and GASB 71 due to the change in measurement dates, the cumulative effect of applying GASB 68 and GASB 71 has been reported as a restatement of beginning net position.

Note 16: Combining Component Unit Information

As discussed in *Note 1*, the Authority consists of operations of the Hospital and the Nursing Home, which are operating divisions of the Authority. EMS is a blended component unit of the Authority.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

The following tables include combining balance sheet information for the Authority and its blended component unit as of June 30, 2015 and 2014.

| | June 30, 2015 | | | |
|--|--|--|--------------|-------------------|
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
| Assets and Deferred Outflows of Resources | | | | |
| Current Assets | | | | |
| Cash | \$ 2,097,672 | \$ - | \$ - | \$ 2,097,672 |
| Restricted cash | 557,885 | - | - | 557,885 |
| Short-term certificates of deposit | 249,500 | - | - | 249,500 |
| Patient accounts receivable, net | 788,074 | - | - | 788,074 |
| County appropriations receivable | 233,738 | - | - | 233,738 |
| Due from related parties | - | 554,449 | (554,449) | - |
| Supplies | 454,433 | - | - | 454,433 |
| Prepaid expenses and other | 40,382 | - | - | 40,382 |
| | 4,421,684 | 554,449 | (554,449) | 4,421,684 |
| Total current assets | 4,421,684 | 554,449 | (554,449) | 4,421,684 |
| Capital Assets, Net | 1,555,528 | 145,584 | - | 1,701,112 |
| Total assets | 5,977,212 | 700,033 | (554,449) | 6,122,796 |
| Deferred Outflows of Resources | 448,910 | - | - | 448,910 |
| Total assets and deferred outflows of resources | \$ 6,426,122 | \$ 700,033 | \$ (554,449) | \$ 6,571,706 |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

| | June 30, 2015 | | | |
|---|--|--|--------------|-------------------|
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
| Liabilities, Deferred Inflows of Resources and Net Position | | | | |
| Current Liabilities | | | | |
| Current maturities of long-term debt | \$ 31,941 | \$ 10,455 | \$ - | \$ 42,396 |
| Accounts payable | 312,785 | - | - | 312,785 |
| Accrued expenses | 524,153 | - | - | 524,153 |
| Due to related parties | 554,449 | - | (554,449) | - |
| Estimated amounts due to third-party payers | 2,000 | - | - | 2,000 |
| Total current liabilities | 1,425,328 | 10,455 | (554,449) | 881,334 |
| Long-Term Debt | 49,236 | - | - | 49,236 |
| Net Pension Liability | 269,000 | - | - | 269,000 |
| Total liabilities | 1,743,564 | 10,455 | (554,449) | 1,199,570 |
| Deferred Inflows of Resources | 988,047 | - | - | 988,047 |
| Net Position | | | | |
| Net investment in capital assets | 1,474,351 | 135,129 | - | 1,609,480 |
| Restricted – expendable for | | | | |
| Capital acquisitions | 3,436 | - | - | 3,436 |
| Specific operating activities | - | 554,449 | - | 554,449 |
| Unrestricted | 2,216,724 | - | - | 2,216,724 |
| Total net position | 3,694,511 | 689,578 | - | 4,384,089 |
| Total liabilities, deferred inflows of resources and net position | \$ 6,426,122 | \$ 700,033 | \$ (554,449) | \$ 6,571,706 |

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June 30, 2015 and 2014

| | June 30, 2014 | | | |
|--|--|--|--------------|-------------------|
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
| Assets | | | | |
| Current Assets | | | | |
| Cash | \$ 2,233,036 | \$ - | \$ - | \$ 2,233,036 |
| Restricted cash | 533,584 | - | - | 533,584 |
| Short-term certificates of deposit | 249,500 | - | - | 249,500 |
| Patient accounts receivable, net | 1,380,157 | - | - | 1,380,157 |
| County appropriations receivable | 344,299 | - | - | 344,299 |
| Due from related parties | - | 531,760 | (531,760) | - |
| Estimated amounts due from third-party payers | 263,141 | - | - | 263,141 |
| Supplies | 416,004 | - | - | 416,004 |
| Prepaid expenses and other | 60,567 | - | - | 60,567 |
| | 5,480,288 | 531,760 | (531,760) | 5,480,288 |
| Total current assets | 5,480,288 | 531,760 | (531,760) | 5,480,288 |
| Capital Assets, Net | 1,662,278 | 138,276 | - | 1,800,554 |
| Total assets | \$ 7,142,566 | \$ 670,036 | \$ (531,760) | \$ 7,280,842 |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

| | June 30, 2014 | | | |
|---|--|--|--------------|-------------------|
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
| Liabilities and Net Position | | | | |
| Current Liabilities | | | | |
| Current maturities of long-term debt | \$ 49,149 | \$ 20,548 | \$ - | \$ 69,697 |
| Accounts payable | 929,367 | - | - | 929,367 |
| Accrued expenses | 549,184 | - | - | 549,184 |
| Due to related parties | 531,760 | - | (531,760) | - |
| | 2,059,460 | 20,548 | (531,760) | 1,548,248 |
| Total current liabilities | | | | |
| | 81,509 | 10,586 | - | 92,095 |
| Long-Term Debt | | | | |
| Total liabilities | 2,140,969 | 31,134 | (531,760) | 1,640,343 |
| Net Position | | | | |
| Net investment in capital assets | 952,284 | 107,142 | - | 1,059,426 |
| Restricted – expendable for | | | | |
| Capital acquisitions | 1,824 | - | - | 1,824 |
| Specific operating activities | - | 531,760 | - | 531,760 |
| Unrestricted | 4,047,489 | - | - | 4,047,489 |
| | 5,001,597 | 638,902 | - | 5,640,499 |
| Total net position | | | | |
| Total liabilities and net position | \$ 7,142,566 | \$ 670,036 | \$ (531,760) | \$ 7,280,842 |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

The following tables include combining statements of revenues, expenses and changes in net position information for the Authority and its blended component unit for the years ended June 30, 2015 and 2014.

| | Year Ended June 30, 2015 | | | |
|---|---|---|---------------------|---------------------------|
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
| Operating Revenues | | | | |
| Net patient service revenue, net of provision for uncollectible accounts | \$ 4,905,034 | \$ - | \$ - | \$ 4,905,034 |
| Community pharmacy revenue | 2,041,572 | - | - | 2,041,572 |
| Other | 254,183 | - | (154,995) | 99,188 |
| Total operating revenues | <u>7,200,789</u> | <u>-</u> | <u>(154,995)</u> | <u>7,045,794</u> |
| Operating Expenses | | | | |
| Salaries and wages | 3,518,838 | - | - | 3,518,838 |
| Employee benefits | 581,846 | - | - | 581,846 |
| Purchased services and professional fees | 758,713 | 154,995 | (154,995) | 758,713 |
| Supplies and other | 3,224,539 | - | - | 3,224,539 |
| Depreciation | 298,451 | 77,426 | - | 375,877 |
| Total operating expenses | <u>8,382,387</u> | <u>232,421</u> | <u>(154,995)</u> | <u>8,459,813</u> |
| Operating Loss | <u>(1,181,598)</u> | <u>(232,421)</u> | <u>-</u> | <u>(1,414,019)</u> |
| Nonoperating Revenues (Expenses) | | | | |
| County appropriations – unrestricted | 930,760 | - | - | 930,760 |
| County appropriations – restricted | 36,513 | 283,805 | - | 320,318 |
| Investment income | 15,566 | - | - | 15,566 |
| Noncapital grants and gifts | 47,739 | - | - | 47,739 |
| Interest expense | (3,793) | (708) | - | (4,501) |
| Total nonoperating revenues (expenses) | <u>1,026,785</u> | <u>283,097</u> | <u>-</u> | <u>1,309,882</u> |
| Excess (Deficiency) of Revenues over Expenses Before Capital Gifts | <u>(154,813)</u> | <u>50,676</u> | <u>-</u> | <u>(104,137)</u> |
| Capital Gifts | <u>71,066</u> | <u>-</u> | <u>-</u> | <u>71,066</u> |
| Increase (Decrease) in Net Position | <u>(83,747)</u> | <u>50,676</u> | <u>-</u> | <u>(33,071)</u> |
| Net Position, Beginning of Year, as Previously Reported | 5,001,597 | 638,902 | - | 5,640,499 |
| Cumulative Effect Adjustment for Adoption of GASB 68 and GASB 71 (see Note 15) | <u>(1,223,339)</u> | <u>-</u> | <u>-</u> | <u>(1,223,339)</u> |
| Net Position, Beginning of Year, as Restated | <u>3,778,258</u> | <u>638,902</u> | <u>-</u> | <u>4,417,160</u> |
| Net Position, End of Year | <u>\$ 3,694,511</u> | <u>\$ 689,578</u> | <u>\$ -</u> | <u>\$ 4,384,089</u> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

| | Year Ended June 30, 2014 | | | Combined Total |
|--|--|--|-----------------|---------------------|
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | |
| Operating Revenues | | | | |
| Net patient service revenue, net of provision for uncollectible accounts | \$ 5,667,283 | \$ - | \$ - | \$ 5,667,283 |
| Community pharmacy revenue | 1,868,027 | - | - | 1,868,027 |
| Other | 178,450 | - | (37,169) | 141,281 |
| Total operating revenues | <u>7,713,760</u> | <u>-</u> | <u>(37,169)</u> | <u>7,676,591</u> |
| Operating Expenses | | | | |
| Salaries and wages | 3,406,867 | - | - | 3,406,867 |
| Employee benefits | 833,986 | - | - | 833,986 |
| Purchased services and professional fees | 722,195 | 37,169 | (37,169) | 722,195 |
| Supplies and other | 3,125,542 | - | - | 3,125,542 |
| Depreciation | 241,496 | 69,959 | - | 311,455 |
| Total operating expenses | <u>8,330,086</u> | <u>107,128</u> | <u>(37,169)</u> | <u>8,400,045</u> |
| Operating Loss | <u>(616,326)</u> | <u>(107,128)</u> | <u>-</u> | <u>(723,454)</u> |
| Nonoperating Revenues (Expenses) | | | | |
| County appropriations – unrestricted | 1,262,082 | - | - | 1,262,082 |
| County appropriations – restricted | 32,737 | 261,515 | - | 294,252 |
| Investment income | 37,772 | - | - | 37,772 |
| Noncapital grants and gifts | 22,755 | - | - | 22,755 |
| Interest expense | (8,417) | (1,319) | - | (9,736) |
| Total nonoperating revenues (expenses) | <u>1,346,929</u> | <u>260,196</u> | <u>-</u> | <u>1,607,125</u> |
| Excess of Revenues over Expenses Before Capital Gifts | 730,603 | 153,068 | - | 883,671 |
| Capital Gifts | <u>36,361</u> | <u>-</u> | <u>-</u> | <u>36,361</u> |
| Increase in Net Position | 766,964 | 153,068 | - | 920,032 |
| Net Position, Beginning of Year | <u>4,234,633</u> | <u>485,834</u> | <u>-</u> | <u>4,720,467</u> |
| Net Position, End of Year | <u>\$ 5,001,597</u> | <u>\$ 638,902</u> | <u>\$ -</u> | <u>\$ 5,640,499</u> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

The following tables include condensed combining statements of cash flows information for the Authority and its blended component unit for the years ended June 30, 2015 and 2014.

| | Year Ended June 30, 2015 | | | |
|--|---|---|---------------------|---------------------------|
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
| Net Cash Used in Operating Activities | \$ (462,596) | \$ (177,684) | \$ - | \$ (640,280) |
| Net Cash Provided by Noncapital Financing Activities | 1,126,281 | 283,097 | - | 1,409,378 |
| Net Cash Used in Capital and Related Financing Activities | (790,314) | (105,413) | - | (895,727) |
| Net Cash Provided by Investing Activities | 15,566 | - | - | 15,566 |
| Decrease in Cash | (111,063) | - | - | (111,063) |
| Cash, Beginning of Year | 2,766,620 | - | - | 2,766,620 |
| Cash, End of Year | <u>\$ 2,655,557</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,655,557</u> |
| | Year Ended June 30, 2014 | | | |
| | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
| Net Cash Provided by (Used in) Operating Activities | \$ 251,672 | \$ (241,432) | \$ - | \$ 10,240 |
| Net Cash Provided by Noncapital Financing Activities | 1,395,317 | 261,423 | - | 1,656,740 |
| Net Cash Used in Capital and Related Financing Activities | (215,899) | (19,991) | - | (235,890) |
| Net Cash Provided by Investing Activities | 37,772 | - | - | 37,772 |
| Increase in Cash | 1,468,862 | - | - | 1,468,862 |
| Cash, Beginning of Year | 1,297,758 | - | - | 1,297,758 |
| Cash, End of Year | <u>\$ 2,766,620</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,766,620</u> |

Required Supplementary Information

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability

| | 2015 |
|--|--------------|
| Authority's proportion of the net pension liability | 0.14655% |
| Authority's proportionate share of the net pension liability | \$ 269,000 |
| Authority's covered-employee payroll | \$ 3,406,867 |
| Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 7.90% |
| Plan fiduciary net position as a percentage of the total pension liability | 96.00% |

Note to Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. Information in the schedule has been determined as of the measurement date (the June 30 twelve months immediately preceding the Authority's most recent fiscal year-end) of the collective net pension liability in accordance with GASB 68.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Required Supplementary Information
Schedule of the Authority's Contributions

| | 2015 |
|--|--------------|
| Statutorily required contribution | \$ 433,516 |
| Contributions in relation to the statutorily required contribution | 433,516 |
| Contribution excess | \$ - |
| Authority's covered-employee payroll | \$ 3,518,838 |
| Contributions as a percentage of covered-employee payroll | 12.32% |

Note to Schedule

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. Information in this schedule has been determined as of the Authority's most recent fiscal year-end in accordance with GASB 68.

Other Information

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2015

| | Beaver County Memorial Hospital | Beaver County Nursing Home | Eliminations | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
|--|---------------------------------------|----------------------------------|--------------------|---|---|---------------------|---------------------|
| Assets and Deferred Outflows of Resources | | | | | | | |
| Current Assets | | | | | | | |
| Cash | \$ 1,807,502 | \$ 290,170 | \$ - | \$ 2,097,672 | \$ - | \$ - | \$ 2,097,672 |
| Restricted cash | 554,449 | 3,436 | - | 557,885 | - | - | 557,885 |
| Short-term certificates of deposit | 199,500 | 50,000 | - | 249,500 | - | - | 249,500 |
| Patient accounts receivable, net of allowance; \$382,000 | 655,404 | 132,670 | - | 788,074 | - | - | 788,074 |
| Due from related parties | 16,699 | - | (16,699) | - | 554,449 | (554,449) | - |
| County appropriations receivable | 116,869 | 116,869 | - | 233,738 | - | - | 233,738 |
| Supplies | 433,706 | 20,727 | - | 454,433 | - | - | 454,433 |
| Prepaid expenses and other | 40,730 | (348) | - | 40,382 | - | - | 40,382 |
| Total current assets | 3,824,859 | 613,524 | (16,699) | 4,421,684 | 554,449 | (554,449) | 4,421,684 |
| Capital Assets, Net | 1,145,481 | 410,047 | - | 1,555,528 | 145,584 | - | 1,701,112 |
| Total assets | 4,970,340 | 1,023,571 | (16,699) | 5,977,212 | 700,033 | (554,449) | 6,122,796 |
| Deferred Outflows of Resources | 246,586 | 202,324 | - | 448,910 | - | - | 448,910 |
| Total assets and deferred outflows of resources | <u>\$ 5,216,926</u> | <u>\$ 1,225,895</u> | <u>\$ (16,699)</u> | <u>\$ 6,426,122</u> | <u>\$ 700,033</u> | <u>\$ (554,449)</u> | <u>\$ 6,571,706</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | | | | | | | |
| Current Liabilities | | | | | | | |
| Current maturities of long-term debt | \$ 31,941 | \$ - | \$ - | \$ 31,941 | \$ 10,455 | \$ - | \$ 42,396 |
| Accounts payable | 238,196 | 74,589 | - | 312,785 | - | - | 312,785 |
| Due to related parties | 554,449 | 16,699 | (16,699) | 554,449 | - | (554,449) | - |
| Accrued expenses | 302,283 | 221,870 | - | 524,153 | - | - | 524,153 |
| Estimated amounts due to third-party payers | 2,000 | - | - | 2,000 | - | - | 2,000 |
| Total current liabilities | 1,128,869 | 313,158 | (16,699) | 1,425,328 | 10,455 | (554,449) | 881,334 |
| Long-Term Debt | 49,236 | - | - | 49,236 | - | - | 49,236 |
| Net Pension Liability | 147,762 | 121,238 | - | 269,000 | - | - | 269,000 |
| Total liabilities | 1,325,867 | 434,396 | (16,699) | 1,743,564 | 10,455 | (554,449) | 1,199,570 |
| Deferred Inflows of Resources | 542,734 | 445,313 | - | 988,047 | - | - | 988,047 |
| Net Position | | | | | | | |
| Net investment in capital assets | 1,064,304 | 410,047 | - | 1,474,351 | 135,129 | - | 1,609,480 |
| Restricted – expendable for | | | | | | | |
| Capital acquisitions | - | 3,436 | - | 3,436 | - | - | 3,436 |
| Specific operating activities | - | - | - | - | 554,449 | - | 554,449 |
| Unrestricted | 2,284,021 | (67,297) | - | 2,216,724 | - | - | 2,216,724 |
| Total net position | 3,348,325 | 346,186 | - | 3,694,511 | 689,578 | - | 4,384,089 |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 5,216,926</u> | <u>\$ 1,225,895</u> | <u>\$ (16,699)</u> | <u>\$ 6,426,122</u> | <u>\$ 700,033</u> | <u>\$ (554,449)</u> | <u>\$ 6,571,706</u> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2014

| | Beaver County Memorial Hospital | Beaver County Nursing Home | Eliminations | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
|---|---------------------------------------|----------------------------------|--------------------|---|---|---------------------|---------------------|
| Assets | | | | | | | |
| Current Assets | | | | | | | |
| Cash | \$ 1,870,687 | \$ 362,349 | \$ - | \$ 2,233,036 | \$ - | \$ - | \$ 2,233,036 |
| Restricted cash | 531,760 | 1,824 | - | 533,584 | - | - | 533,584 |
| Short-term certificates of deposit | 199,500 | 50,000 | - | 249,500 | - | - | 249,500 |
| Patient accounts receivable, net of allowance; \$668,000 | 1,279,857 | 100,300 | - | 1,380,157 | - | - | 1,380,157 |
| Due from related parties | 16,699 | - | (16,699) | - | 531,760 | (531,760) | - |
| County appropriations receivable | 172,478 | 171,821 | - | 344,299 | - | - | 344,299 |
| Estimated amounts due from third-party payers | 263,141 | - | - | 263,141 | - | - | 263,141 |
| Supplies | 397,158 | 18,846 | - | 416,004 | - | - | 416,004 |
| Prepaid expenses and other | 24,812 | 35,755 | - | 60,567 | - | - | 60,567 |
| Total current assets | 4,756,092 | 740,895 | (16,699) | 5,480,288 | 531,760 | (531,760) | 5,480,288 |
| Capital Assets, Net | 1,253,998 | 408,280 | - | 1,662,278 | 138,276 | - | 1,800,554 |
| Total assets | <u>\$ 6,010,090</u> | <u>\$ 1,149,175</u> | <u>\$ (16,699)</u> | <u>\$ 7,142,566</u> | <u>\$ 670,036</u> | <u>\$ (531,760)</u> | <u>\$ 7,280,842</u> |
| Liabilities and Net Position | | | | | | | |
| Current Liabilities | | | | | | | |
| Current maturities of long-term debt | \$ 49,149 | \$ - | \$ - | \$ 49,149 | \$ 20,548 | \$ - | \$ 69,697 |
| Accounts payable | 844,155 | 85,212 | - | 929,367 | - | - | 929,367 |
| Due to related parties | 531,760 | 16,699 | (16,699) | 531,760 | - | (531,760) | - |
| Accrued expenses | 300,306 | 248,878 | - | 549,184 | - | - | 549,184 |
| Total current liabilities | 1,725,370 | 350,789 | (16,699) | 2,059,460 | 20,548 | (531,760) | 1,548,248 |
| Long-Term Debt | 81,509 | - | - | 81,509 | 10,586 | - | 92,095 |
| Total liabilities | 1,806,879 | 350,789 | (16,699) | 2,140,969 | 31,134 | (531,760) | 1,640,343 |
| Net Position | | | | | | | |
| Net investment in capital assets | 507,643 | 444,641 | - | 952,284 | 107,142 | - | 1,059,426 |
| Restricted – expendable for | | | | | | | |
| Capital acquisitions | - | 1,824 | - | 1,824 | - | - | 1,824 |
| Specific operating activities | - | - | - | - | 531,760 | - | 531,760 |
| Unrestricted | 3,695,568 | 351,921 | - | 4,047,489 | - | - | 4,047,489 |
| Total net position | 4,203,211 | 798,386 | - | 5,001,597 | 638,902 | - | 5,640,499 |
| Total liabilities and net position | <u>\$ 6,010,090</u> | <u>\$ 1,149,175</u> | <u>\$ (16,699)</u> | <u>\$ 7,142,566</u> | <u>\$ 670,036</u> | <u>\$ (531,760)</u> | <u>\$ 7,280,842</u> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended June 30, 2015

| | Beaver County Memorial Hospital | Beaver County Nursing Home | Eliminations | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
|---|---------------------------------------|----------------------------------|--------------|---|---|------------------|---------------------|
| Operating Revenues | | | | | | | |
| Net patient service revenue, net of provision for uncollectible accounts; \$231,543 | \$ 3,030,896 | \$ 1,874,138 | \$ - | \$ 4,905,034 | \$ - | \$ - | \$ 4,905,034 |
| Community pharmacy revenue | 2,041,572 | - | - | 2,041,572 | - | - | 2,041,572 |
| Other | 164,997 | 89,186 | - | 254,183 | - | (154,995) | 99,188 |
| Total operating revenues | <u>5,237,465</u> | <u>1,963,324</u> | <u>-</u> | <u>7,200,789</u> | <u>-</u> | <u>(154,995)</u> | <u>7,045,794</u> |
| Operating Expenses | | | | | | | |
| Salaries and wages | 2,150,395 | 1,368,443 | - | 3,518,838 | - | - | 3,518,838 |
| Employee benefits | 350,098 | 231,748 | - | 581,846 | - | - | 581,846 |
| Purchased services and professional fees | 696,662 | 62,051 | - | 758,713 | 154,995 | (154,995) | 758,713 |
| Supplies and other | 2,603,584 | 620,955 | - | 3,224,539 | - | - | 3,224,539 |
| Depreciation | 248,041 | 50,410 | - | 298,451 | 77,426 | - | 375,877 |
| Total operating expenses | <u>6,048,780</u> | <u>2,333,607</u> | <u>-</u> | <u>8,382,387</u> | <u>232,421</u> | <u>(154,995)</u> | <u>8,459,813</u> |
| Operating Loss | <u>(811,315)</u> | <u>(370,283)</u> | <u>-</u> | <u>(1,181,598)</u> | <u>(232,421)</u> | <u>-</u> | <u>(1,414,019)</u> |
| Nonoperating Revenues (Expenses) | | | | | | | |
| County appropriations – unrestricted | 465,390 | 465,370 | - | 930,760 | - | - | 930,760 |
| County appropriations – restricted | 36,513 | - | - | 36,513 | 283,805 | - | 320,318 |
| Investment income | 13,756 | 1,810 | - | 15,566 | - | - | 15,566 |
| Noncapital grants and gifts | 45,477 | 2,262 | - | 47,739 | - | - | 47,739 |
| Interest expense | (3,793) | - | - | (3,793) | (708) | - | (4,501) |
| Total nonoperating revenues (expenses) | <u>557,343</u> | <u>469,442</u> | <u>-</u> | <u>1,026,785</u> | <u>283,097</u> | <u>-</u> | <u>1,309,882</u> |
| Excess (Deficiency) of Revenues over Expenses Before Capital Gifts | <u>(253,972)</u> | <u>99,159</u> | <u>-</u> | <u>(154,813)</u> | <u>50,676</u> | <u>-</u> | <u>(104,137)</u> |
| Capital Gifts | <u>71,066</u> | <u>-</u> | <u>-</u> | <u>71,066</u> | <u>-</u> | <u>-</u> | <u>71,066</u> |
| Increase (Decrease) in Net Position | <u>(182,906)</u> | <u>99,159</u> | <u>-</u> | <u>(83,747)</u> | <u>50,676</u> | <u>-</u> | <u>(33,071)</u> |
| Net Position, Beginning of Year, as Previously Reported | 4,203,211 | 798,386 | - | 5,001,597 | 638,902 | - | 5,640,499 |
| Cumulative Effect Adjustment for Adoption of GASB 68 and GASB 71 (see Note 15) | <u>(671,980)</u> | <u>(551,359)</u> | <u>-</u> | <u>(1,223,339)</u> | <u>-</u> | <u>-</u> | <u>(1,223,339)</u> |
| Net Position, Beginning of Year, as Restated | <u>3,531,231</u> | <u>247,027</u> | <u>-</u> | <u>3,778,258</u> | <u>638,902</u> | <u>-</u> | <u>4,417,160</u> |
| Net Position, End of Year | <u>\$ 3,348,325</u> | <u>\$ 346,186</u> | <u>\$ -</u> | <u>\$ 3,694,511</u> | <u>\$ 689,578</u> | <u>\$ -</u> | <u>\$ 4,384,089</u> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended June 30, 2014

| | Beaver County Memorial Hospital | Beaver County Nursing Home | Eliminations | The Beaver County Hospital Authority | Beaver County Emergency Medical Services | Eliminations | Combined Total |
|---|---------------------------------------|----------------------------------|--------------|---|---|-----------------|---------------------|
| Operating Revenues | | | | | | | |
| Net patient service revenue, net of provision for uncollectible accounts; \$360,590 | \$ 4,017,933 | \$ 1,649,350 | \$ - | \$ 5,667,283 | \$ - | \$ - | \$ 5,667,283 |
| Community pharmacy revenue | 1,868,027 | - | - | 1,868,027 | - | - | 1,868,027 |
| Other | 55,263 | 123,187 | - | 178,450 | - | (37,169) | 141,281 |
| Total operating revenues | <u>5,941,223</u> | <u>1,772,537</u> | <u>-</u> | <u>7,713,760</u> | <u>-</u> | <u>(37,169)</u> | <u>7,676,591</u> |
| Operating Expenses | | | | | | | |
| Salaries and wages | 1,994,999 | 1,411,868 | - | 3,406,867 | - | - | 3,406,867 |
| Employee benefits | 472,402 | 361,584 | - | 833,986 | - | - | 833,986 |
| Purchased services and professional fees | 678,259 | 43,936 | - | 722,195 | 37,169 | (37,169) | 722,195 |
| Supplies and other | 2,420,933 | 704,609 | - | 3,125,542 | - | - | 3,125,542 |
| Depreciation | 196,745 | 44,751 | - | 241,496 | 69,959 | - | 311,455 |
| Total operating expenses | <u>5,763,338</u> | <u>2,566,748</u> | <u>-</u> | <u>8,330,086</u> | <u>107,128</u> | <u>(37,169)</u> | <u>8,400,045</u> |
| Operating Income (Loss) | <u>177,885</u> | <u>(794,211)</u> | <u>-</u> | <u>(616,326)</u> | <u>(107,128)</u> | <u>-</u> | <u>(723,454)</u> |
| Nonoperating Revenues (Expenses) | | | | | | | |
| County appropriations – unrestricted | 790,242 | 471,840 | - | 1,262,082 | - | - | 1,262,082 |
| County appropriations – restricted | 32,737 | - | - | 32,737 | 261,515 | - | 294,252 |
| Investment income | 32,981 | 4,791 | - | 37,772 | - | - | 37,772 |
| Noncapital grants and gifts | 18,011 | 4,744 | - | 22,755 | - | - | 22,755 |
| Interest expense | (8,417) | - | - | (8,417) | (1,319) | - | (9,736) |
| Total nonoperating revenues (expenses) | <u>865,554</u> | <u>481,375</u> | <u>-</u> | <u>1,346,929</u> | <u>260,196</u> | <u>-</u> | <u>1,607,125</u> |
| Excess (Deficiency) of Revenues over Expenses Before Capital Gifts | <u>1,043,439</u> | <u>(312,836)</u> | <u>-</u> | <u>730,603</u> | <u>153,068</u> | <u>-</u> | <u>883,671</u> |
| Capital Gifts | <u>-</u> | <u>36,361</u> | <u>-</u> | <u>36,361</u> | <u>-</u> | <u>-</u> | <u>36,361</u> |
| Increase (Decrease) in Net Position | <u>1,043,439</u> | <u>(276,475)</u> | <u>-</u> | <u>766,964</u> | <u>153,068</u> | <u>-</u> | <u>920,032</u> |
| Net Position, Beginning of Year | <u>3,159,772</u> | <u>1,074,861</u> | <u>-</u> | <u>4,234,633</u> | <u>485,834</u> | <u>-</u> | <u>4,720,467</u> |
| Net Position, End of Year | <u>\$ 4,203,211</u> | <u>\$ 798,386</u> | <u>\$ -</u> | <u>\$ 5,001,597</u> | <u>\$ 638,902</u> | <u>\$ -</u> | <u>\$ 5,640,499</u> |

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

Board of Trustees
The Beaver County Hospital Authority
Beaver, 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 Beaver County Hospital Authority (the Authority), which comprise the balance sheet as of June 30, 2015, 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 May 9, 2016, which contained an *Emphasis of Matter* paragraph regarding a change in accounting principles.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 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 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. 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 deficiencies described in the accompanying schedule of findings and responses as items 2015-1 through 2015-7 to be material weaknesses.

Board of Trustees
The Beaver County Hospital Authority

Compliance and Other Matters

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

Authority's Responses to the 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.

We also noted certain matters that we reported to the Authority's management in a separate letter dated May 9, 2016.

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 entity'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.

BKD, LLP

Tulsa, Oklahoma
May 9, 2016

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

| Reference Number | Finding |
|-------------------------|---|
| 2015-1 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Reconciliation processes surrounding cash accounts are inadequate.</p> <p>Context – The monthly bank reconciliation processes did not result in the timely identification of reconciling items and are not being performed completely.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Bank reconciliations performed during the year identified differences that were not properly corrected by management. In addition, bank reconciliations did not properly reflect outstanding checks at each month-end and, as a result, did not reflect the actual cash balances at month-end.</p> <p>Recommendation – Management should ensure monthly bank reconciliations are used to identify errors in the accounting records and make any required entries to correct errors.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will implement the recommended changes to the bank reconciliation processes.</p> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

| Reference Number | Finding |
|-------------------------|---|
| 2015-2 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One employee’s duties are not adequately segregated among access, recording and monitoring functions in the purchases, cash disbursements and accounts payable transactions cycle (outflows) and in the payroll transactions cycle.</p> <p>Context – The hospital business office manager has access rights allowing this individual to perform user activities in the accounting system related to the outflows and payroll transactions cycles and also has access to assets and reconciling responsibilities.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the outflows and payroll transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or the addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial within the next year.</p> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

| Reference Number | Finding |
|-------------------------|--|
| 2015-3 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One employee’s duties are not adequately segregated among access, recording and monitoring functions in the purchases, cash disbursements and accounts payable transactions cycle (outflows); the revenue, cash receipts and accounts receivable transactions cycle (inflows); and the payroll transactions cycle.</p> <p>Context – The nursing home office manager has access rights allowing this individual to perform nearly all user activities in the accounting system related to the outflows, inflows and payroll transactions cycles and also has access to assets and reconciling responsibilities.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the outflows, inflows and payroll transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or the addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial within the next year.</p> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

| Reference Number | Finding |
|-------------------------|---|
| 2015-4 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One employee’s duties are not adequately segregated among access, accounting and monitoring functions in the payroll transactions cycle.</p> <p>Context – The chief executive officer has access rights allowing this individual to create a new employee, prepare payroll to submit to the payroll processor and perform recording and monitoring duties.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the payroll transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or the addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial within the next year.</p> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

| Reference Number | Finding |
|-------------------------|--|
| 2015-5 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control to provide accurate recording and classification of accounting transactions.</p> <p>Condition – Several adjusting journal entries were required to correct material misstatements in the accompanying financial statements.</p> <p>Context – Errors existed in several balance sheet accounts related to errors in reconciliations and control accounts not reconciling to supporting documentation.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – The reconciliation processes in place were not sufficient to properly state balances, including accounts and appropriations receivable, inventory, capital assets and accrued liabilities.</p> <p>Recommendation – Management should ensure its month-end close process includes a comparison of the general ledger accounts to the underlying supporting documents.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial within the next year.</p> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

| Reference Number | Finding |
|-------------------------|---|
| 2015-6 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant allowances and estimates in the financial statements.</p> <p>Condition – Management’s procedures for evaluating and recording significant allowances and estimates do not produce materially accurate results. In addition, there is no review performed on estimates prepared by the chief financial officer.</p> <p>Context – Management does not have a process that allows for consistent, unbiased methodologies to estimate significant balances on the financial statements.</p> <p>Effect – Material journal entries were made to the general ledger to correct misstatements identified related to estimated allowances for contractual adjustments and uncollectible accounts on patient accounts receivable.</p> <p>Cause – Management is not applying consistent or accurate methodologies to estimate balances in these areas and no review of estimates prepared by the chief financial officer is performed.</p> <p>Recommendation – Management should periodically evaluate the methodologies used to estimate significant allowances and estimates in the financial statements to determine that methodologies used to prepare estimates are still appropriate when compared to actual data. Management should also implement review processes to ensure work performed by employees be reviewed by another qualified individual.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to periodically evaluate the methodologies used in accurately estimating the balances and identifying a qualified individual to review estimates prepared by the chief financial officer.</p> |

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2015

| Reference Number | Finding |
|-------------------------|---|
| 2015-7 | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining the accounting records for Beaver County Emergency Medical Services (EMS), a blended component unit of the Authority.</p> <p>Condition – Management’s procedures for maintaining accurate accrual accounting records are not functioning properly.</p> <p>Context – Management does not maintain accounting records for EMS separate from the Hospital’s accounting records.</p> <p>Effect – Material adjustments were made to EMS’ records to present combining information and schedules as required by the Governmental Accounting Standards Board.</p> <p>Cause – Management is not applying consistent policies to maintain separate accounting records for EMS.</p> <p>Recommendation – Management should consider separating EMS’ accounting records completely from the Hospital’s accounting records or including EMS as a separate company within the Hospital’s accounting records.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to maintain separate records for EMS.</p> |