

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2016 and 2015



The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
June 30, 2016 and 2015

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows.....	12
Notes to Financial Statements	13
Required Supplementary Information	
Schedule of the Authority’s Proportionate Share of the Net Pension Liability.....	37
Schedule of the Authority’s Contributions.....	38
Other Information	
Combining Schedules – Balance Sheet Information	39
Combining Schedules – Statement of Revenues, Expenses and Changes in Net Position Information	41
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 <i>Government Auditing Standards</i>	43
Schedule of Findings and Responses	45

Independent Auditor's Report

Board of Trustees
The Beaver County Hospital Authority
Beaver, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of The Beaver County Hospital Authority (the Authority), a component unit of Beaver County, Oklahoma, as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2016 and 2015, 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.

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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits 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 as a whole. 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 audits 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 February 28, 2017, 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

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

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, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and restricted cash increased in 2016 by \$302,531 and 11.4% and decreased in 2015 by \$111,063 or 4.0%.
- The Authority's net position increased in 2016 by \$230,739 or 5.3% and decreased in 2015 by \$1,256,410 or 22.3%. In 2015, the decrease in net position includes 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 2016 and 2015 of \$643,274 and \$1,414,019, respectively. The operating loss in 2016 decreased by \$770,745 or 54.5% over the operating loss reported in 2015. The operating loss in 2015 increased by \$690,565 or 95.5% over the operating loss reported in 2014.
- Nonoperating revenues decreased in 2016 and 2015 by \$435,869 and \$297,243 or 33.3% and 18.5%, 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, deferred inflows and outflows of resources 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 increased by \$230,739 or 5.3% in 2016 over 2015 and decreased by \$1,256,410 or 22.3% in 2015 over 2014 as shown in Table 1.

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

	2016	2015	2014
Assets			
Cash and restricted cash	\$ 2,958,088	\$ 2,655,557	\$ 2,766,620
Short-term certificates of deposit	249,508	249,500	249,500
Patient accounts receivable, net	916,617	788,074	1,380,157
Other current assets	683,425	728,553	1,084,011
Capital assets, net	<u>1,447,403</u>	<u>1,701,112</u>	<u>1,800,554</u>
Total assets	6,255,041	6,122,796	7,280,842
Deferred Outflows of Resources			
	<u>359,056</u>	<u>448,910</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 6,614,097</u>	<u>\$ 6,571,706</u>	<u>\$ 7,280,842</u>
Liabilities			
Long-term debt, including current maturities	\$ 50,079	\$ 91,632	\$ 161,792
Other current liabilities	<u>1,542,429</u>	<u>1,107,938</u>	<u>1,478,551</u>
Total liabilities	<u>1,592,508</u>	<u>1,199,570</u>	<u>1,640,343</u>
Deferred Inflows of Resources			
	<u>406,761</u>	<u>988,047</u>	<u>-</u>
Net Position			
Net investment in capital assets	1,397,324	1,609,480	1,059,426
Restricted – expendable for			
Capital acquisitions	3,451	3,436	1,824
Specific operating activities	634,800	554,449	531,760
Unrestricted	<u>2,579,253</u>	<u>2,216,724</u>	<u>4,047,489</u>
Total net position	<u>4,614,828</u>	<u>4,384,089</u>	<u>5,640,499</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,614,097</u>	<u>\$ 6,571,706</u>	<u>\$ 7,280,842</u>

In 2016, cash and restricted cash increased by \$302,531 or 11.4% as compared to 2015. This increase primarily resulted from cash flows provided by noncapital financing activities exceeding net cash used in operating activities and capital and related financing activities.

Capital assets, net of accumulated depreciation decreased by \$253,709 or 14.9% in 2016 compared to 2015. The decrease in capital assets was primarily due to purchasing fewer capital assets in 2016 compared to 2015.

Other current liabilities increased by \$434,491 or 39.2% in 2016 compared to 2015. This increase was primarily due to an increase in amounts due to third parties of \$143,000 and an increase in net pension liability of \$152,572 in 2016 compared to 2015.

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 outstanding patient accounts receivable and general improvements in collection efforts.

Capital assets, net of accumulated depreciation decreased by \$99,442 or 5.5% in 2015 compared to 2014. The decrease in capital assets was primarily due to making fewer capital acquisitions in 2015 than in 2014.

Additionally, due to implementation of 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*, the Authority recorded deferred inflows and outflows of resources as well as a net position liability during 2015.

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.

Operating Results and Changes in the Authority's Net Position

In 2016, the Authority's net position increased by \$230,739 as shown in Table 2. This increase is made up of several different components and represents an increase of \$263,810 compared with the decrease in net position in 2015 of \$33,071.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	\$ 5,823,695	\$ 4,905,034	\$ 5,667,283
Community pharmacy revenue	2,140,999	2,041,572	1,868,027
Other operating revenues	<u>144,154</u>	<u>61,634</u>	<u>141,281</u>
Total operating revenues	<u>8,108,848</u>	<u>7,008,240</u>	<u>7,676,591</u>
Operating Expenses			
Salaries and wages and employee benefits	4,366,189	4,100,684	4,240,853
Purchased services and professional fees	781,069	758,713	722,195
Supplies and other	3,226,514	3,186,985	3,125,542
Depreciation	<u>378,350</u>	<u>375,877</u>	<u>311,455</u>
Total operating expenses	<u>8,752,122</u>	<u>8,422,259</u>	<u>8,400,045</u>
Operating Loss	<u>(643,274)</u>	<u>(1,414,019)</u>	<u>(723,454)</u>
Nonoperating Revenues (Expenses)			
County appropriations – unrestricted	451,053	930,760	1,262,082
County appropriations – restricted	313,763	320,318	294,252
Investment income	13,578	15,566	37,772
Noncapital grants and gifts	97,990	47,739	22,755
Interest expense	<u>(2,371)</u>	<u>(4,501)</u>	<u>(9,736)</u>
Total nonoperating revenues (expenses)	<u>874,013</u>	<u>1,309,882</u>	<u>1,607,125</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts	230,739	(104,137)	883,671
Capital Gifts	<u>-</u>	<u>71,066</u>	<u>36,361</u>
Increase (Decrease) in Net Position	<u>\$ 230,739</u>	<u>\$ (33,071)</u>	<u>\$ 920,032</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 2016 decreased by \$770,745 or 54.5% as compared to 2015. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$918,661 or 18.7%
- An increase in salaries and wages and employee benefits of \$265,505 or 6.5%

The increase in net patient service revenue was primarily due to higher patient volumes in 2016 compared to 2015 and the nursing home obtaining approval to accept skilled Medicare patients.

The increase in salaries and wages and employee benefits was primarily due to higher patient volumes in 2016 compared to 2015.

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.

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 consistent in 2016 as compared to 2015. The Authority recognized a decrease in its sales tax appropriations in 2016 compared to 2015 of \$479,707 or 51.5% and 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 2016, no capital gifts were received. In 2015, the Authority recognized \$71,066 for the purchase of emergency medical services equipment.

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 2016 and 2015 and the changes in accounts receivable discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016 and 2015, the Authority had \$1,447,403 and \$1,701,112, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2016, the Authority purchased new capital assets costing \$124,641. In 2015, the Authority purchased new capital assets costing \$277,266.

Debt

At June 30, 2016 and 2015, the Authority had \$50,079 and \$91,632, respectively, in a note payable and a master lease agreement outstanding as discussed in *Note 8* to the financial statements. No additional debt was incurred in 2016 or 2015.

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, 2016 and 2015

Assets and Deferred Outflows of Resources

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash	\$ 2,319,837	\$ 2,097,672
Restricted cash	638,251	557,885
Short-term certificates of deposit	249,508	249,500
Patient accounts receivable, net of allowance; 2016 – \$430,000, 2015 – \$382,000	916,617	788,074
County appropriations receivable	108,140	233,738
Supplies	481,411	454,433
Prepaid expenses and other	93,874	40,382
Total current assets	<u>4,807,638</u>	<u>4,421,684</u>
Capital Assets, Net	<u>1,447,403</u>	<u>1,701,112</u>
Total assets	6,255,041	6,122,796
Deferred Outflows of Resources	<u>359,056</u>	<u>448,910</u>
Total assets and deferred outflows of resources	<u>\$ 6,614,097</u>	<u>\$ 6,571,706</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 33,091	\$ 42,396
Accounts payable	396,740	312,785
Accrued expenses	539,117	524,153
Estimated amounts due to third-party payers	185,000	2,000
Total current liabilities	<u>1,153,948</u>	<u>881,334</u>
Long-Term Debt	16,988	49,236
Net Pension Liability	<u>421,572</u>	<u>269,000</u>
Total liabilities	<u>1,592,508</u>	<u>1,199,570</u>
Deferred Inflows of Resources	<u>406,761</u>	<u>988,047</u>
Net Position		
Net investment in capital assets	1,397,324	1,609,480
Restricted – expendable for		
Capital acquisitions	3,451	3,436
Specific operating activities	634,800	554,449
Unrestricted	2,579,253	2,216,724
Total net position	<u>4,614,828</u>	<u>4,384,089</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,614,097</u>	<u>\$ 6,571,706</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, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – \$791,070, 2015 – \$231,543	\$ 5,823,695	\$ 4,905,034
Community pharmacy revenue	2,140,999	2,041,572
Other	144,154	61,634
Total operating revenues	8,108,848	7,008,240
Operating Expenses		
Salaries and wages	3,651,722	3,518,838
Employee benefits	714,467	581,846
Purchased services and professional fees	781,069	758,713
Supplies and other	3,226,514	3,186,985
Depreciation	378,350	375,877
Total operating expenses	8,752,122	8,422,259
Operating Loss	(643,274)	(1,414,019)
Nonoperating Revenues (Expenses)		
County appropriations – unrestricted	451,053	930,760
County appropriations – restricted	313,763	320,318
Investment income	13,578	15,566
Noncapital grants and gifts	97,990	47,739
Interest expense	(2,371)	(4,501)
Total nonoperating revenues (expenses)	874,013	1,309,882
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts	230,739	(104,137)
Capital Gifts	-	71,066
Increase (Decrease) in Net Position	230,739	(33,071)
Net Position, Beginning of Year	4,384,089	4,417,160
Net Position, End of Year	\$ 4,614,828	\$ 4,384,089

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 8,019,151	\$ 7,803,830
Payments to suppliers and contractors	(4,004,098)	(3,964,827)
Payments to employees	(4,690,085)	(4,540,917)
Other receipts and payments, net	144,154	61,634
Net cash used in operating activities	(530,878)	(640,280)
Noncapital Financing Activities		
Noncapital grants and gifts	97,990	47,739
County appropriations received	890,414	1,361,639
Net cash provided by noncapital financing activities	988,404	1,409,378
Capital and Related Financing Activities		
Capital gifts	-	71,066
Interest paid on long-term debt	(2,371)	(4,501)
Principal paid on long-term debt	(41,553)	(70,160)
Purchase of capital assets	(124,641)	(892,963)
Proceeds from the disposal of capital assets	-	831
Net cash used in capital and related financing activities	(168,565)	(895,727)
Investing Activities		
Interest income received	13,570	15,566
Net cash provided by investing activities	13,570	15,566
Increase (Decrease) in Cash	302,531	(111,063)
Cash, Beginning of Year	2,655,557	2,766,620
Cash, End of Year	\$ 2,958,088	\$ 2,655,557
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 2,319,837	\$ 2,097,672
Restricted cash	638,251	557,885
	\$ 2,958,088	\$ 2,655,557

See Notes to Financial Statements

	<u>2016</u>	<u>2015</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (643,274)	\$ (1,414,019)
Depreciation	378,350	375,877
Accrued self-insurance costs	13,854	40,669
Provision for uncollectible accounts	791,070	231,543
Changes in operating assets and liabilities		
Patient accounts receivable, net	(919,613)	360,540
Supplies, prepaid expenses and other	(80,470)	(18,244)
Estimated amounts due to/from third-party payers	183,000	265,141
Accounts payable and accrued expenses	85,065	(66,585)
Pension liability	<u>(338,860)</u>	<u>(415,202)</u>
Net cash used in operating activities	<u>\$ (530,878)</u>	<u>\$ (640,280)</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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. Separate financial statements for EMS are not publicly available.

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.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Basis of Accounting and Presentation

The accompanying 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 and deferred outflows of resources, and liabilities and deferred inflows 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, 2016 and 2015, 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.

Through June 30, 2016, the Authority was 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. See *Note 6* to the financial statements for further information on self-insured coverage.

In July 2016, the Authority purchased commercial coverage for workers' compensation.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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 acquisition 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.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Cost-Sharing Multiple-Employer 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 expendable 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.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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 5% and 12% of its financial support from county appropriations related to sales taxes during the years ended June 30, 2016 and 2015, 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% of its financial support from ad valorem tax revenue during both of the years ended June 30, 2016 and 2015.

Electronic Health Records Incentive Programs

The Electronic Health Records Incentive Programs, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provide 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 on 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 on an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the programs.

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 and received revenue of approximately \$560,000 during the year ended June 30, 2014.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

The Authority plans to attest to meeting the requirements under the Medicaid second-year program during fiscal year 2017.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess 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, 2016 and 2015, the Authority recognized approximately \$53,000 and \$78,000, 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 2016.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement 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, 2014.
- **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.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Approximately 71% 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, 2016 and 2015, 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, 2016 and 2015, none of the Authority’s bank balances of approximately \$3,253,000 and \$2,973,000, 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:

	2016	2015
Carrying value		
Deposits	\$ 3,207,596	\$ 2,905,057
Included in the following balance sheet captions		
Cash	\$ 2,319,837	\$ 2,097,672
Restricted cash	638,251	557,885
Short-term certificates of deposit	249,508	249,500
	\$ 3,207,596	\$ 2,905,057

Investment Income

Investment income for the years ended June 30, 2016 and 2015, consisted of interest income.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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:

	2016	2015
Medicare	\$ 633,089	\$ 512,562
Medicaid	136,071	101,353
Other third-party payers	121,908	171,855
Patients	455,549	384,304
	<u>1,346,617</u>	<u>1,170,074</u>
Less allowance for uncollectible amounts	<u>430,000</u>	<u>382,000</u>
	<u><u>\$ 916,617</u></u>	<u><u>\$ 788,074</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 52,731	\$ -	\$ -	\$ -	\$ 52,731
Buildings and land improvements	2,637,068	10,883	-	-	2,647,951
Equipment	2,896,543	113,758	-	-	3,010,301
	<u>5,586,342</u>	<u>124,641</u>	<u>-</u>	<u>-</u>	<u>5,710,983</u>
Less accumulated depreciation					
Buildings and land improvements	2,313,160	50,348	-	(254,160)	2,109,348
Equipment	1,572,070	328,002	-	254,160	2,154,232
	<u>3,885,230</u>	<u>378,350</u>	<u>-</u>	<u>-</u>	<u>4,263,580</u>
Capital assets, net	<u><u>\$ 1,701,112</u></u>	<u><u>\$ (253,709)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,447,403</u></u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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

Note 6: Workers' Compensation Claims

For the years ended June 30, 2016 and 2015, the Authority was self-insured for costs associated with workers' compensation claims and purchased commercial insurance coverage for claims in excess of certain retention limits. The Authority had 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. In July 2016, the Authority transitioned from self-insured to commercial coverage for workers' compensation.

Activity in the Authority's accrued workers' compensation claims liability during 2016 and 2015 is summarized below:

	2016	2015
Balance, beginning of year	\$ 50,000	\$ 9,000
Current year claims incurred and changes in estimates for claims incurred in prior years	44,299	106,456
Claims and expenses paid	(30,299)	(65,456)
Balance, end of year	\$ 64,000	\$ 50,000

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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, 2016 and 2015, 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 the line 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:

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank	\$ 10,455	\$ -	\$ (10,455)	\$ -	\$ -
Master lease agreement	81,177	-	(31,098)	50,079	33,091
	<u>\$ 91,632</u>	<u>\$ -</u>	<u>\$ (41,553)</u>	<u>\$ 50,079</u>	<u>\$ 33,091</u>
	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>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Note Payable to Bank

The Authority had one note payable to bank due January 2016, with principal and interest payable monthly at 3.02%. The note was secured by certain equipment and was paid in full during 2016.

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, 2016 and 2015, totaled \$0 and \$87,034, respectively, net of accumulated depreciation of \$0 and \$57,140, respectively. All capital leases were paid in full during 2015, and the Authority did not enter into any new capital leases in 2016.

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, 2016 and 2015, had total costs of \$201,140 and accumulated depreciation of \$95,781 and \$67,047, respectively. The following is a schedule by year of future minimum lease payments under the master lease agreement, including interest at 3.54%, together with the present value of the future minimum lease payments, as of June 30, 2016:

Year Ending June 30,		
2017	\$	34,330
2018		17,164
Total minimum lease payments		51,494
Less amount representing interest		1,415
Present value of future minimum lease payments	\$	50,079

Note 9: Line of Credit

The Authority had a \$450,000 revolving line of credit that expired in June 2016. No amounts were drawn on this line of credit. Subsequent to year-end, the Authority renewed this line of credit through June 2017.

Note 10: Restricted Net Position

At June 30, 2016 and 2015, \$634,800 and \$554,449, 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, 2016 and 2015, \$3,451 and \$3,436, respectively, was available for the purpose of capital acquisitions of the Nursing Home.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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:

	2016	2015
Charity allowances	\$ 22,000	\$ 57,000
Medicaid welfare	-	94,000
	\$ 22,000	\$ 151,000

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.

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.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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.

Retirement benefits for employees are calculated as 2% of the employee's final average salary multiplied by 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.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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, 2016. For the year ended June 30, 2016, the Authority contributed 11.5% and employees contributed 8.5% of eligible compensation. For the years ended June 30, 2016 and 2015, contributions to the pension plan from the Authority were \$352,497 and \$433,516, respectively. For the years ended June 30, 2016 and 2015, contributions to the pension plan from employees were approximately \$262,000 and \$249,000, respectively.

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

At June 30, 2016 and 2015, the Authority reported a liability of \$421,572 and \$269,000, respectively, for its proportionate share of the net pension liability. The net pension liability as of June 30, 2016 and 2015, was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014, respectively. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the pension plan during the measurement period relative to the actual contributions of all participating employers. At June 30, 2016 and 2015, the Authority's proportion was 0.11720625% and 0.14654281%, respectively.

For the years ended June 30, 2016 and 2015, the Authority recognized pension expense of \$13,637 and \$18,315, respectively. At June 30, 2016 and 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 46,874	\$ -	\$ 89,059
Change in proportion	-	168,660	-	-
Change in assumptions	6,559	-	15,394	-
Net difference between projected and actual earnings on pension plan investments	-	191,227	-	898,988
Contributions made since measurement date	352,497	-	433,516	-
Total	\$ 359,056	\$ 406,761	\$ 448,910	\$ 988,047

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

At June 30, 2016 and 2015, the Authority reported \$352,497 and \$433,516, respectively, 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 years ending June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2016, will be recognized in pension expense as follows:

2017	\$ (204,442)
2018	(180,765)
2019	(102,004)
2020	<u>87,009</u>
Total	<u>\$ (400,202)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

	<u>2015</u>	<u>2014</u>
Inflation	3.0%	3.0%
Salary increase	4.5%–8.4%	4.5%–8.4%
Investment rate of return	7.5%	7.5%
Actuarial cost method	Entry age normal	Entry age normal

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

The actuarial assumptions used in the June 30, 2015 and 2014, valuation 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 Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for the years ended June 30, 2016 and 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.

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%)
Authority's proportionate share of the net pension liability (asset)	<u>\$ 1,570,885</u>	<u>\$ 421,572</u>	<u>\$ (555,527)</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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, 2016 and 2015, the Authority reported a payable of approximately \$53,000 and \$51,000 for the outstanding amount of contributions to the pension plan required for the years ended June 30, 2016 and 2015, 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 2016, the agreement was automatically renewed for a period of one year. The Authority paid approximately \$53,000 each year to NewLight Healthcare, LLC in 2016 and 2015.

Effective July 2016, the Authority terminated its financial services agreement with NewLight Healthcare, LLC.

Note 15: 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, 2016 and 2015

The following tables include combining balance sheet information for the Authority and its blended component unit as of June 30, 2016 and 2015:

	June 30, 2016			
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash	\$ 2,319,837	\$ -	\$ -	\$ 2,319,837
Restricted cash	638,251	-	-	638,251
Short-term certificates of deposit	249,508	-	-	249,508
Patient accounts receivable, net	916,617	-	-	916,617
County appropriations receivable	108,140	-	-	108,140
Due from related parties	-	634,800	(634,800)	-
Supplies	481,411	-	-	481,411
Prepaid expenses and other	93,874	-	-	93,874
	4,807,638	634,800	(634,800)	4,807,638
Total current assets	4,807,638	634,800	(634,800)	4,807,638
Capital Assets, Net	1,354,645	92,758	-	1,447,403
Total assets	6,162,283	727,558	(634,800)	6,255,041
Deferred Outflows of Resources	359,056	-	-	359,056
Total assets and deferred outflows of resources	\$ 6,521,339	\$ 727,558	\$ (634,800)	\$ 6,614,097

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

June 30, 2016

	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
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Liabilities, Deferred Inflows of Resources and Net Position

Current Liabilities

Current maturities of long-term debt	\$ 33,091	\$ -	\$ -	\$ 33,091
Accounts payable	396,740	-	-	396,740
Accrued expenses	539,117	-	-	539,117
Due to related parties	634,800	-	(634,800)	-
Estimated amounts due to third-party payers	185,000	-	-	185,000

Total current liabilities	1,788,748	-	(634,800)	1,153,948
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Long-Term Debt

	16,988	-	-	16,988
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Net Pension Liability

	421,572	-	-	421,572
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Total liabilities	2,227,308	-	(634,800)	1,592,508
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Deferred Inflows of Resources

	406,761	-	-	406,761
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Net Position

Net investment in capital assets	1,304,566	92,758	-	1,397,324
Restricted – expendable for				
Capital acquisitions	3,451	-	-	3,451
Specific operating activities	-	634,800	-	634,800
Unrestricted	2,579,253	-	-	2,579,253

Total net position	3,887,270	727,558	-	4,614,828
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Total liabilities, deferred inflows of resources and net position	\$ 6,521,339	\$ 727,558	\$ (634,800)	\$ 6,614,097
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The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

June 30, 2015

	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
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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

Total current assets	4,421,684	554,449	(554,449)	4,421,684
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Capital Assets, Net

	1,555,528	145,584	-	1,701,112
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Total assets	5,977,212	700,033	(554,449)	6,122,796
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Deferred Outflows of Resources

	448,910	-	-	448,910
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Total assets and deferred outflows of resources	\$ 6,426,122	\$ 700,033	\$ (554,449)	\$ 6,571,706
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The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

June 30, 2015

	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
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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
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Long-Term Debt

	49,236	-	-	49,236
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Net Pension Liability

	269,000	-	-	269,000
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Total liabilities	1,743,564	10,455	(554,449)	1,199,570
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Deferred Inflows of Resources

	988,047	-	-	988,047
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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
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Total liabilities, deferred inflows of resources and net position	\$ 6,426,122	\$ 700,033	\$ (554,449)	\$ 6,571,706
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The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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, 2016 and 2015:

	Year Ended June 30, 2016			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	\$ 5,823,695	\$ -	\$ -	\$ 5,823,695
Community pharmacy revenue	2,140,999	-	-	2,140,999
Other	330,038	-	(185,884)	144,154
Total operating revenues	<u>8,294,732</u>	<u>-</u>	<u>(185,884)</u>	<u>8,108,848</u>
Operating Expenses				
Salaries and wages	3,651,722	-	-	3,651,722
Employee benefits	714,467	-	-	714,467
Purchased services and professional fees	781,069	185,884	(185,884)	781,069
Supplies and other	3,226,514	-	-	3,226,514
Depreciation	325,524	52,826	-	378,350
Total operating expenses	<u>8,699,296</u>	<u>238,710</u>	<u>(185,884)</u>	<u>8,752,122</u>
Operating Loss	<u>(404,564)</u>	<u>(238,710)</u>	<u>-</u>	<u>(643,274)</u>
Nonoperating Revenues (Expenses)				
County appropriations – unrestricted	451,053	-	-	451,053
County appropriations – restricted	37,073	276,690	-	313,763
Investment income	13,578	-	-	13,578
Noncapital grants and gifts	97,990	-	-	97,990
Interest expense	(2,371)	-	-	(2,371)
Total nonoperating revenues (expenses)	<u>597,323</u>	<u>276,690</u>	<u>-</u>	<u>874,013</u>
Increase in Net Position	192,759	37,980	-	230,739
Net Position, Beginning of Year	<u>3,694,511</u>	<u>689,578</u>	<u>-</u>	<u>4,384,089</u>
Net Position, End of Year	<u>\$ 3,887,270</u>	<u>\$ 727,558</u>	<u>\$ -</u>	<u>\$ 4,614,828</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

	Year Ended June 30, 2015			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	\$ 4,905,034	\$ -	\$ -	\$ 4,905,034
Community pharmacy revenue	2,041,572	-	-	2,041,572
Other	216,629	-	(154,995)	61,634
	<u>7,163,235</u>	<u>-</u>	<u>(154,995)</u>	<u>7,008,240</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	3,186,985	-	-	3,186,985
Depreciation	298,451	77,426	-	375,877
	<u>8,344,833</u>	<u>232,421</u>	<u>(154,995)</u>	<u>8,422,259</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)
	<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	<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, 2016 and 2015

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, 2016 and 2015:

	Year Ended June 30, 2016			
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
Net Cash Used in Operating Activities	\$ (264,643)	\$ (266,235)	\$ -	\$ (530,878)
Net Cash Provided by Noncapital Financing Activities	711,714	276,690	-	988,404
Net Cash Used in Capital and Related Financing Activities	(158,110)	(10,455)	-	(168,565)
Net Cash Provided by Investing Activities	13,570	-	-	13,570
Increase in Cash	302,531	-	-	302,531
Cash, Beginning of Year	2,655,557	-	-	2,655,557
Cash, End of Year	<u>\$ 2,958,088</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,958,088</u>
	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>

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

	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.11721%	0.14655%
Authority's proportionate share of the net pension liability	\$ 421,572	\$ 269,000
Authority's covered-employee payroll	\$ 3,651,722	\$ 3,518,838
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	11.54%	7.64%
Plan fiduciary net position as a percentage of the total pension liability	89.48%	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 Governmental Accounting Standards Board (GASB) Statement No. 68.

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

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 352,499	\$ 433,516
Contributions in relation to the statutorily required contribution	<u>352,499</u>	<u>433,516</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 3,651,722	\$ 3,518,838
Contributions as a percentage of covered-employee payroll	9.65%	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 Statement No. 68.

Other Information

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2016

	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	\$ 2,063,657	\$ 256,180	\$ -	\$ 2,319,837	\$ -	\$ -	\$ 2,319,837
Restricted cash	634,800	3,451	-	638,251	-	-	638,251
Short-term certificates of deposit	199,508	50,000	-	249,508	-	-	249,508
Patient accounts receivable, net of allowance; \$430,000	706,362	210,255	-	916,617	-	-	916,617
Due from related parties	11,300	6,386	(17,686)	-	634,800	(634,800)	-
County appropriations receivable	53,154	54,986	-	108,140	-	-	108,140
Supplies	465,208	16,203	-	481,411	-	-	481,411
Prepaid expenses and other	93,522	352	-	93,874	-	-	93,874
Total current assets	4,227,511	597,813	(17,686)	4,807,638	634,800	(634,800)	4,807,638
Capital Assets, Net	922,179	432,466	-	1,354,645	92,758	-	1,447,403
Total assets	5,149,690	1,030,279	(17,686)	6,162,283	727,558	(634,800)	6,255,041
Deferred Outflows of Resources	190,623	168,433	-	359,056	-	-	359,056
Total assets and deferred outflows of resources	<u>\$ 5,340,313</u>	<u>\$ 1,198,712</u>	<u>\$ (17,686)</u>	<u>\$ 6,521,339</u>	<u>\$ 727,558</u>	<u>\$ (634,800)</u>	<u>\$ 6,614,097</u>
Liabilities, Deferred Inflows of Resources and Net Position							
Current Liabilities							
Current maturities of long-term debt	\$ 33,091	\$ -	\$ -	\$ 33,091	\$ -	\$ -	\$ 33,091
Accounts payable	287,309	109,431	-	396,740	-	-	396,740
Due to related parties	641,186	11,300	(17,686)	634,800	-	(634,800)	-
Accrued expenses	328,178	210,939	-	539,117	-	-	539,117
Estimated amounts due to third-party payers	185,000	-	-	185,000	-	-	185,000
Total current liabilities	1,474,764	331,670	(17,686)	1,788,748	-	(634,800)	1,153,948
Long-Term Debt	16,988	-	-	16,988	-	-	16,988
Net Pension Liability	223,813	197,759	-	421,572	-	-	421,572
Total liabilities	1,715,565	529,429	(17,686)	2,227,308	-	(634,800)	1,592,508
Deferred Inflows of Resources	215,949	190,812	-	406,761	-	-	406,761
Net Position							
Net investment in capital assets	872,100	432,466	-	1,304,566	92,758	-	1,397,324
Restricted – expendable for							
Capital acquisitions	-	3,451	-	3,451	-	-	3,451
Specific operating activities	-	-	-	-	634,800	-	634,800
Unrestricted	2,536,699	42,554	-	2,579,253	-	-	2,579,253
Total net position	3,408,799	478,471	-	3,887,270	727,558	-	4,614,828
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,340,313</u>	<u>\$ 1,198,712</u>	<u>\$ (17,686)</u>	<u>\$ 6,521,339</u>	<u>\$ 727,558</u>	<u>\$ (634,800)</u>	<u>\$ 6,614,097</u>

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 – Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended June 30, 2016

	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; \$791,070	\$ 3,428,529	\$ 2,395,166	\$ -	\$ 5,823,695	\$ -	\$ -	\$ 5,823,695
Community pharmacy revenue	2,140,999	-	-	2,140,999	-	-	2,140,999
Other	272,722	97,525	(40,209)	330,038	-	(185,884)	144,154
Total operating revenues	<u>5,842,250</u>	<u>2,492,691</u>	<u>(40,209)</u>	<u>8,294,732</u>	<u>-</u>	<u>(185,884)</u>	<u>8,108,848</u>
Operating Expenses							
Salaries and wages	2,258,799	1,392,923	-	3,651,722	-	-	3,651,722
Employee benefits	410,707	303,760	-	714,467	-	-	714,467
Purchased services and professional fees	696,792	84,277	-	781,069	185,884	(185,884)	781,069
Supplies and other	2,517,183	749,540	(40,209)	3,226,514	-	-	3,226,514
Depreciation	264,676	60,848	-	325,524	52,826	-	378,350
Total operating expenses	<u>6,148,157</u>	<u>2,591,348</u>	<u>(40,209)</u>	<u>8,699,296</u>	<u>238,710</u>	<u>(185,884)</u>	<u>8,752,122</u>
Operating Loss	<u>(305,907)</u>	<u>(98,657)</u>	<u>-</u>	<u>(404,564)</u>	<u>(238,710)</u>	<u>-</u>	<u>(643,274)</u>
Nonoperating Revenues (Expenses)							
County appropriations – unrestricted	224,584	226,469	-	451,053	-	-	451,053
County appropriations – restricted	37,073	-	-	37,073	276,690	-	313,763
Investment income	11,840	1,738	-	13,578	-	-	13,578
Noncapital grants and gifts	95,255	2,735	-	97,990	-	-	97,990
Interest expense	(2,371)	-	-	(2,371)	-	-	(2,371)
Total nonoperating revenues (expenses)	<u>366,381</u>	<u>230,942</u>	<u>-</u>	<u>597,323</u>	<u>276,690</u>	<u>-</u>	<u>874,013</u>
Increase in Net Position	<u>60,474</u>	<u>132,285</u>	<u>-</u>	<u>192,759</u>	<u>37,980</u>	<u>-</u>	<u>230,739</u>
Net Position, Beginning 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>
Net Position, End of Year	<u>\$ 3,408,799</u>	<u>\$ 478,471</u>	<u>\$ -</u>	<u>\$ 3,887,270</u>	<u>\$ 727,558</u>	<u>\$ -</u>	<u>\$ 4,614,828</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	(37,554)	216,629	-	(154,995)	61,634
Total operating revenues	5,237,465	1,963,324	(37,554)	7,163,235	-	(154,995)	7,008,240
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	(37,554)	3,186,985	-	-	3,186,985
Depreciation	248,041	50,410	-	298,451	77,426	-	375,877
Total operating expenses	6,048,780	2,333,607	(37,554)	8,344,833	232,421	(154,995)	8,422,259
Operating Loss	(811,315)	(370,283)	-	(1,181,598)	(232,421)	-	(1,414,019)
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)	557,343	469,442	-	1,026,785	283,097	-	1,309,882
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts	(253,972)	99,159	-	(154,813)	50,676	-	(104,137)
Capital Gifts	71,066	-	-	71,066	-	-	71,066
Increase (Decrease) in Net Position	(182,906)	99,159	-	(83,747)	50,676	-	(33,071)
Net Position, Beginning of Year	3,531,231	247,027	-	3,778,258	638,902	-	4,417,160
Net Position, End of Year	\$ 3,348,325	\$ 346,186	\$ -	\$ 3,694,511	\$ 689,578	\$ -	\$ 4,384,089

**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), a component unit of Beaver County, Oklahoma, which comprise the balance sheet as of June 30, 2016, 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 February 28, 2017.

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 2016-1 through 2016-8 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 February 28, 2017.

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
February 28, 2017

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2016

Reference Number	Finding
2016-1	<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 material reconciling items and are not being performed accurately.</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. As a result, reported balances did not reflect the actual cash balances at month-end.</p> <p>Recommendation – Management should ensure monthly bank reconciliations are effectively 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, 2016

Reference Number	Finding
2016-2	<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, 2016

Reference Number	Finding
2016-3	<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 revenues, cash receipts and accounts receivable transactions cycle (inflows); and the payroll transactions cycle.</p> <p>Context – The nursing home office manager has access rights 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, 2016

Reference Number	Finding
2016-4	<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. In addition, there is no review of journal entries prepared by the comptroller.</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, accounts payable and accrued liabilities, and there is no review of journal entries prepared by the comptroller.</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, 2016

Reference Number	Finding
2016-5	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant estimates in the financial statements.</p> <p>Condition – Management’s procedures for evaluating and recording significant estimates do not produce materially accurate results. In addition, there is no review performed on estimates prepared by the comptroller.</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 comptroller is performed.</p> <p>Recommendation – Management should periodically evaluate the methodologies used to prepare significant 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 comptroller.</p>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2016

Reference Number	Finding
2016-6	<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>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2016

Reference Number	Finding
2016-7	<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, 2016

Reference Number	Finding
2016-8	<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 comptroller has access rights allowing this individual to perform user activities in the accounting system related to the outflows and payroll transactions cycles as well as access to assets and reconciling responsibilities. In addition, there is no review of journal entries prepared by the comptroller.</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>