

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



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A Component Unit of Jackson County, Oklahoma
June 30, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
Jackson County Memorial Hospital Authority
Altus, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Jackson County Memorial Hospital Authority (the Authority) and its discretely presented component unit, JCMH Health Care Corporation, collectively, a component unit of Jackson County, Oklahoma, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Jackson County Memorial Hospital Authority and its discretely presented component unit as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 16* to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
December 19, 2016

Jackson County Memorial Hospital Authority
A Component Unit of Jackson 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 Jackson County Memorial 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. Unless otherwise noted, information and financial data included in the management's discussion and analysis relates solely to the Authority and does not include the Authority's discretely presented component unit, JCMH Health Care Corporation. Unless otherwise indicated, dollar amounts are in thousands.

Financial Highlights

- Cash, cash equivalents and investments decreased in 2016 by \$1,474 or 13% and increased in 2015 by \$1,166 or 11%.
- Patient accounts receivable increased in 2016 by \$391 or 5% and decreased in 2015 by \$1,227 or 14%.
- The Authority's net position decreased in 2016 by \$1,111 or 4% and in 2015 by \$1,375 or 4%.
- The Authority reported an operating loss of \$2,251 and \$3,751 in 2016 and 2015, respectively. The operating loss in 2016 improved by \$1,500 or 40% compared to the 2015 amount. The operating loss in 2015 worsened by \$1,313 or 54% compared to the operating loss for 2014.

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 Jackson County Memorial Hospital Foundation (the Foundation), a nonprofit corporation organized and operated for the exclusive benefit and support of the Authority, is a component unit included in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the accompanying financial statements. JCMH Health Care Corporation (the Corporation), a nonprofit corporation organized for the purpose of carrying out the objectives of the Authority and to enhance and support the health care services to the community of Altus, Oklahoma, and the surrounding Jackson County, Oklahoma, area, is included in the Authority's financial statements as a component unit using the discrete presentation method. 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 authority's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. The Authority's total net position—the difference between assets and liabilities—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 and cash equivalents 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 and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position decreased in 2016 by \$1,111 or 4% over 2015 and decreased by \$1,375 or 4% in 2015 over 2014 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position (Amounts in Thousands)

	2016	2015	2014
Assets			
Cash, cash equivalents and investments	\$ 10,247	\$ 11,721	\$ 10,555
Patient accounts receivable, net	7,792	7,401	8,628
Other current assets	3,281	3,260	3,585
Capital assets, net	12,310	13,754	15,182
Other noncurrent assets	3,346	3,318	3,020
	<u>36,976</u>	<u>39,454</u>	<u>40,970</u>
Total assets	<u>\$ 36,976</u>	<u>\$ 39,454</u>	<u>\$ 40,970</u>
Liabilities			
Long-term debt (including current maturities)	\$ 15	\$ 118	\$ 262
Other current liabilities	8,718	9,982	9,979
	<u>8,733</u>	<u>10,100</u>	<u>10,241</u>
Total liabilities	<u>8,733</u>	<u>10,100</u>	<u>10,241</u>
Net Position			
Net investment in capital assets	12,294	13,396	14,764
Restricted expendable	1,712	1,948	400
Unrestricted	14,237	14,010	15,565
	<u>28,243</u>	<u>29,354</u>	<u>30,729</u>
Total net position	<u>28,243</u>	<u>29,354</u>	<u>30,729</u>
Total liabilities and net position	<u>\$ 36,976</u>	<u>\$ 39,454</u>	<u>\$ 40,970</u>

Significant changes in the Authority's 2016 assets are found in cash, cash equivalents and investments as well as in capital assets. The decrease in cash, cash equivalents and investments of \$1,474 or 13% was due primarily to a decrease in Medicare and Medicaid reimbursement from open cost reports. The decrease in capital assets of \$1,444 or 11% is the result of further depreciation on existing capital assets with fewer capital additions in 2016 compared to 2015. The most significant change in the Authority's liabilities in 2016 compared to 2015 was the decrease of \$650 or 74% in estimated amounts due to third-party payers due to a large payable amount on the 2015 Medicare cost report that did not occur in 2016.

Significant changes in the Authority's 2015 assets are found in patient accounts receivable, net; cash, cash equivalents and investments; and capital assets, net. Patient accounts receivable decreased by approximately \$1,227 or 14% primarily due to general decreases in volume during the current year. The increase in cash, cash equivalents and investments of \$1,166 or 11% was due primarily to cost-cutting efforts and a decrease in employees in 2015. The decrease in capital assets, net of \$1,428 or 9% compared to 2014 was primarily due to depreciation expense exceeding capital asset additions during the year. There were no significant changes in the Authority's 2015 liabilities as compared to 2014.

Operating Results and Changes in the Authority's Net Position

In 2016, the Authority's net position decreased by \$1,111 or 4% as shown in Table 2. This decrease is made up of several different components and represents an improvement of \$264 compared with the decrease in net position for 2015 of \$1,375. The Authority's change in net position in 2015 of \$1,375 represented an improvement of \$1,123 compared to the decrease in net position in 2014 of \$2,498.

Table 2: Operating Results and Changes in Net Position (Amounts in Thousands)

	2016	2015	2014
Operating Revenues			
Net patient service revenue	\$ 62,751	\$ 58,344	\$ 61,458
Other operating revenues	<u>1,770</u>	<u>2,574</u>	<u>2,727</u>
Total operating revenues	<u>64,521</u>	<u>60,918</u>	<u>64,185</u>
Operating Expenses			
Salaries, wages and employee benefits	42,292	39,893	40,668
Purchased services and professional fees	5,238	5,148	5,760
Depreciation and amortization	2,338	2,651	2,696
Other operating expenses	<u>16,904</u>	<u>16,977</u>	<u>17,499</u>
Total operating expenses	<u>66,772</u>	<u>64,669</u>	<u>66,623</u>
Operating Loss	<u>(2,251)</u>	<u>(3,751)</u>	<u>(2,438)</u>
Nonoperating Revenues (Expenses)			
Investment income	55	52	44
Noncapital gifts and grants	34	149	43
Interest expense	(2)	(12)	(23)
Gain (loss) on investments in joint ventures	<u>546</u>	<u>185</u>	<u>(129)</u>
Total nonoperating revenues (expenses)	<u>633</u>	<u>374</u>	<u>(65)</u>
Capital Gifts	<u>507</u>	<u>2,002</u>	<u>5</u>
Decrease in Net Position	<u>\$ (1,111)</u>	<u>\$ (1,375)</u>	<u>\$ (2,498)</u>

Operating Loss

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 the past three years, the Authority has reported an operating loss.

The operating loss for 2016 improved by \$1,500 or 40% as compared to 2015. The primary components of the smaller operating loss are:

- An increase in net patient service revenue of \$4,336 or 7%. This increase is due primarily to the Authority having increased patient volumes in 2016 versus 2015
- An increase in salaries, wages and employee benefits of \$2,399 or 6%. This increase is due primarily to an increase in the number of overall employees due to increased patient volumes

The operating loss for 2015 of \$3,751 worsened from the operating loss for 2014 of \$2,438. The primary components of the larger operating loss for 2015 were:

- A decrease in net patient service revenue of \$3,114 or 5%
- A decrease in salaries, wages and employee benefits of \$775 or 2%

- A decrease in purchased services and professional fees of approximately \$612 or 11%

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income, noncapital gifts and grants, gain (loss) on investments in joint ventures and interest expense. Interest expense continues to decrease each year with no new capital leases or other debt issued in 2016 and 2015. The Authority's noncapital gifts and grants for 2016 and 2015 were \$34 and \$149, respectively, while capital gifts in 2016 and 2015 were \$507 and \$2,002, respectively. The Authority received \$500 for the purchase of capital assets in 2016 as compared to \$2,000 received in 2015. The Authority recognized \$546 and \$185 in income in 2016 and 2015, respectively, related to its joint venture investments.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating losses, nonoperating revenues and expenses and the changes in net patient accounts receivable as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016 and 2015, the Authority had \$12,310 and \$13,754, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. The Authority had capital asset additions of \$901 and \$1,225 in 2016 and 2015, respectively.

Debt

At June 30, 2016 and 2015, the Authority only had debt relating to capital leases. During both 2016 and 2015, the Authority purchased no equipment under capital leases. At June 30, 2016 and 2015, the Authority had \$15 and \$118, respectively, outstanding under capital lease obligations as detailed in *Note 8* to the financial statements.

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 Authority's chief financial officer by telephoning 580.379.5510.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Balance Sheets
June 30, 2016 and 2015

Assets

	2016		2015 (Restated – Note 16)	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Current Assets				
Cash and cash equivalents	\$ 5,956,463	\$ 6,128,456	\$ 8,713,329	\$ 2,839,755
Short-term investments	3,765,341	3,259,826	2,482,182	5,891,695
Restricted investments – current	525,000	-	525,000	-
Patient accounts receivable, net of allowance; 2016 – \$6,959,000, 2015 – \$7,255,000	7,792,305	-	7,401,336	-
Trade accounts receivable, net of allowance; 2016 – \$97,000, 2015 – \$71,000	-	298,254	-	220,348
Due from the Authority	-	-	-	35,647
Other receivables – related parties	635,562	-	746,339	-
Other receivables	204,084	-	112,113	722
Supplies	1,480,483	334,417	1,512,739	287,605
Prepaid expenses and other	960,719	-	889,016	21,098
	21,319,957	10,020,953	22,382,054	9,296,870
Capital Assets, Net	12,309,578	15,301,644	13,753,637	15,179,100
Other Assets				
Investments in joint ventures	3,319,836	-	3,135,089	-
Other	26,744	119,009	182,590	133,885
	3,346,580	119,009	3,317,679	133,885
Total assets	\$ 36,976,115	\$ 25,441,606	\$ 39,453,370	\$ 24,609,855

Liabilities and Net Position

	2016		2015 (Restated – Note 16)	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Current Liabilities				
Current maturities of long-term debt	\$ 15,343	\$ -	\$ 104,051	\$ -
Accounts payable	1,295,044	50,794	1,598,161	593,400
Due to the Authority	-	398,974	-	-
Accrued payroll and other expenses	7,223,123	-	7,533,635	-
Estimated amounts due to third-party payers	200,000	-	850,000	-
Total current liabilities	8,733,510	449,768	10,085,847	593,400
Long-Term Debt	-	-	13,520	-
Total liabilities	8,733,510	449,768	10,099,367	593,400
Net Position				
Net investment in capital assets	12,294,235	15,301,644	13,395,774	15,179,100
Restricted expendable for operations	525,000	-	525,000	-
Restricted expendable for capital expenditures	1,186,713	-	1,423,186	-
Unrestricted	14,236,657	9,690,194	14,010,043	8,837,355
Total net position	28,242,605	24,991,838	29,354,003	24,016,455
Total liabilities and net position	\$ 36,976,115	\$ 25,441,606	\$ 39,453,370	\$ 24,609,855

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016		2015	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; 2016 – \$7,277,815, 2015 – \$5,451,140	\$ 62,751,424	\$ -	\$ 58,343,843	\$ -
Medical equipment and supplies sales and rentals, net of provision for uncollectible accounts; 2016 – \$64,703, 2015 – \$58,132	-	1,571,626	-	1,365,685
Lease revenue	-	770,450	-	768,467
Scanner services revenue	-	1,829,704	-	2,068,933
Retirement center revenue	-	1,554,932	-	1,593,432
Other	1,769,784	-	2,574,416	-
Total operating revenues	<u>64,521,208</u>	<u>5,726,712</u>	<u>60,918,259</u>	<u>5,796,517</u>
Operating Expenses				
Salaries and wages	33,339,822	-	31,645,600	-
Employee benefits	8,951,746	-	8,247,116	-
Purchased services and professional fees	5,238,171	824,196	5,148,199	782,777
Supplies and other	16,903,593	2,979,294	16,976,741	2,952,588
Depreciation and amortization	2,339,442	939,365	2,651,520	916,796
Total operating expenses	<u>66,772,774</u>	<u>4,742,855</u>	<u>64,669,176</u>	<u>4,652,161</u>
Operating Income (Loss)	<u>(2,251,566)</u>	<u>983,857</u>	<u>(3,750,917)</u>	<u>1,144,356</u>
Nonoperating Revenues (Expenses)				
Investment income	55,269	53,026	52,045	53,889
Noncapital gifts and grants	33,614	(61,500)	148,990	(188,183)
Interest expense	(1,540)	-	(11,829)	-
Gain on investments in joint ventures	545,492	-	184,522	-
Total nonoperating revenues (expenses)	<u>632,835</u>	<u>(8,474)</u>	<u>373,728</u>	<u>(134,294)</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts	(1,618,731)	975,383	(3,377,189)	1,010,062
Capital Gifts to the Authority from the Corporation	-	-	2,000,000	(2,000,000)
Capital Gifts	<u>507,333</u>	<u>-</u>	<u>2,406</u>	<u>-</u>
Increase (Decrease) in Net Position	(1,111,398)	975,383	(1,374,783)	(989,938)
Net Position, Beginning of Year	<u>29,354,003</u>	<u>24,016,455</u>	<u>30,728,786</u>	<u>25,006,393</u>
Net Position, End of Year	<u>\$ 28,242,605</u>	<u>\$ 24,991,838</u>	<u>\$ 29,354,003</u>	<u>\$ 24,016,455</u>

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

	2016		2015 (Restated – Note 16)	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Operating Activities				
Receipts from and on behalf of patients	\$ 61,710,455	\$ 1,829,704	\$ 60,145,220	\$ 2,068,933
Receipts from and on behalf of customers – medical equipment and supplies sales and rentals	-	1,490,728	-	1,313,302
Receipts from and on behalf of residents – retirement center	-	1,558,646	-	1,585,507
Receipts from equipment and medical office space leasing	-	770,450	-	768,467
Payments to suppliers and contractors	(21,763,190)	(3,789,881)	(22,487,533)	(3,703,844)
Payments to employees	(42,927,080)	-	(40,004,861)	-
Other receipts and payments, net	1,782,293	(110,664)	2,700,055	28,187
Net cash provided by (used in) operating activities	<u>(1,197,522)</u>	<u>1,748,983</u>	<u>352,881</u>	<u>2,060,552</u>
Noncapital Financing Activities				
Noncapital gifts and grants received (made)	33,614	(61,500)	148,990	(188,183)
Net cash provided by (used in) noncapital financing activities	<u>33,614</u>	<u>(61,500)</u>	<u>148,990</u>	<u>(188,183)</u>
Capital and Related Financing Activities				
Principal paid on long-term debt	(102,228)	-	(144,928)	-
Interest paid on long-term debt	(1,540)	-	(11,829)	-
Purchase of capital assets	(1,140,817)	(1,085,717)	(1,140,338)	(143,081)
Proceeds from sale of capital assets	11,439	2,040	12,937	5,101
Capital gifts to the Authority from the Corporation	-	-	2,000,000	(2,000,000)
Capital gifts	507,333	-	2,406	-
Net cash provided by (used in) capital and related financing activities	<u>(725,813)</u>	<u>(1,083,677)</u>	<u>718,248</u>	<u>(2,137,980)</u>
Investing Activities				
Purchases of short-term investments	(3,555,875)	(5,335,779)	(2,276,825)	(5,812,381)
Sales of short-term investments	2,274,890	7,967,648	3,335,615	5,268,962
Investment income received	53,095	53,026	52,498	53,889
Distributions (contributions) to joint ventures, net	360,745	-	(107,223)	-
Net cash provided by (used in) investing activities	<u>(867,145)</u>	<u>2,684,895</u>	<u>1,004,065</u>	<u>(489,530)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(2,756,866)</u>	<u>3,288,701</u>	<u>2,224,184</u>	<u>(755,141)</u>
Cash and Cash Equivalents, Beginning of Year	<u>8,713,329</u>	<u>2,839,755</u>	<u>6,489,145</u>	<u>3,594,896</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,956,463</u>	<u>\$ 6,128,456</u>	<u>\$ 8,713,329</u>	<u>\$ 2,839,755</u>

See Notes to Financial Statements

	2016		2015 (Restated – Note 16)	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating income (loss)	\$ (2,251,566)	\$ 983,857	\$ (3,750,917)	\$ 1,144,356
Items not requiring cash				
Depreciation and amortization	2,339,442	939,365	2,651,520	916,796
Provision for uncollectible accounts	7,277,815	64,703	5,451,140	58,132
(Gain) loss on sale of capital assets	(6,297)	36,644	(10,846)	3,563
Accrued self-insurance costs	(325,000)	-	(53,000)	-
Loss on abandonment of construction project costs	-	-	-	11,253
Changes in				
Patient, trade and other accounts receivable, net	(7,649,978)	(141,887)	(4,088,278)	(118,440)
Supplies, prepaid expenses and other assets	116,399	9,933	182,008	3,742
Estimated amounts due to/from third-party payers	(650,000)	-	575,000	-
Due from the Authority	-	(110,664)	-	28,198
Accounts payable and accrued expenses	(48,337)	(32,968)	(603,746)	12,952
	<u>\$ (1,197,522)</u>	<u>\$ 1,748,983</u>	<u>\$ 352,881</u>	<u>\$ 2,060,552</u>
Supplemental Cash Flows Information				
Capital asset acquisitions included in accounts payable	\$ -	\$ -	\$ 240,292	\$ -

Jackson County Memorial Hospital Authority
A Component Unit of Jackson 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

Jackson County Memorial Hospital Authority (the Authority) was created under a trust indenture dated July 1, 1981, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of Jackson County, Oklahoma. The Authority is a component unit of Jackson County, Oklahoma, and the Board of County Commissioners appoints the members of the Authority's Board of Trustees.

The Authority operates Jackson County Memorial Hospital (the Hospital) under a bargain lease agreement with Jackson County, Oklahoma. The lease term is from July 1, 1981 to June 30, 2031, or until such date as all indebtedness incurred by the Authority has been paid.

The Hospital, located in Altus, Oklahoma, primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Jackson County and the surrounding area. It also operates a home health agency, a skilled nursing facility and various outpatient clinics in the same geographic area.

Reporting Entity

The Jackson County Memorial Hospital Foundation (the Foundation) is a nonprofit corporation organized and operated for the exclusive benefit and support of the Authority. The Foundation and the Authority operate under the same governing Board of Trustees. Accordingly, the Foundation is included as a component unit in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the accompanying financial statements.

JCMH Health Care Corporation (the Corporation) is a legally separate nonprofit corporation formed in 1986 under the provisions of the *Oklahoma Nonprofit Corporations Act*. The Corporation's purpose is to carry out the objectives of the Authority and to enhance the health care services to the community of Altus, Oklahoma, and surrounding areas. Upon dissolution of the Corporation, its assets remaining after payment or adequate provision for the payment of all liabilities and obligations of the Corporation shall be distributed to the Authority. The Board of Trustees of the Authority appoints the members of the Corporation's Board of Trustees. The Corporation is considered a component unit of the Authority and is discretely presented in the Authority's financial statements. See *Note 15* for condensed disclosures specific to the Corporation. Complete financial statements of the Corporation may be obtained by contacting its management at 580.379.5510.

The Authority and the Foundation have a fiscal year-end of June 30. The Corporation has a fiscal year-end of December 31. All information in the accompanying financial statements and footnotes related to the Corporation is as of and for the years ended December 31, 2015 and 2014, respectively.

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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 liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from voluntary nonexchange transactions (principally, noncapital and capital gifts) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Investment income, voluntary nonexchange transactions 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 and liabilities 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 and 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, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

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; employee disability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and employee health claims. Settled claims have not exceeded any commercial insurance coverage in any of the three preceding years.

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

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Investments and Investment Income

Investments are carried at fair value. Fair value is determined using quoted market prices. Investments in non-negotiable certificates of deposit are carried at amortized cost. Investment income includes dividend and interest income, realized gains and losses on investments sold and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts 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. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

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

Capital Assets

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

Buildings and improvements	3–40 years
Equipment	2–10 years

Investments in Joint Ventures

The Authority has ownership (equity) interests in three joint ventures – Heartland Healthcare Reciprocal Risk Retention Group (Heartland); Cancer Centers of Southwest Oklahoma, LLC (CCSO); and MSO Healthcare of Oklahoma, LLC (MSO). The investments in the joint ventures are recorded using the equity method of accounting (cost plus equity in the joint venture's undistributed net income or loss since acquisition).

See *Note 14* for additional information regarding the Heartland, CCSO and MSO joint ventures.

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Compensated Absences

Authority 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 payroll taxes, computed using rates in effect at that date.

Net Position

Net position of the Authority is classified in 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 noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable.

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 and includes estimated retroactive 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

The Authority is generally exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law as a political subdivision of the state of Oklahoma. However, the Authority is subject to federal income tax on any unrelated business taxable income.

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The Internal Revenue Service has recognized both the Foundation and the Corporation as exempt from income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Code Section 501(c)(3). Both the Foundation and the Corporation are subject to federal and state income taxes on any unrelated business income resulting from their respective operations. At December 31, 2015, the Corporation had approximately \$735,000 of unused unrelated business income operating loss carryforwards, which expire between 2019 and 2034.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for three years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year 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 program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In fiscal year 2015, the Authority completed the second-year requirements under the Medicare and Medicaid programs. The Authority completed the third-year requirements for the Medicare and Medicaid programs on September 30, 2015. The Authority recognized revenue related to EHR incentive programs, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015, as follows:

	2016	2015
Medicare Hospital Incentive Payment	\$ 625,000	\$ 984,000
Medicaid Hospital Incentive Payment	26,000	289,000
Medicare Physician Incentive Payment	-	23,000
Medicaid Physician Incentive Payment	-	8,000
	\$ 651,000	\$ 1,304,000

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Supplemental Hospital Offset Payment Program

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

SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The amounts noted in the table below for the years ended June 30, 2016 and 2015, represent the approximate amounts received and paid by the Authority. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different than the amounts received in 2016 and 2015.

	2016	2015
SHOPP funds received	\$ 3,061,000	\$ 3,566,000
SHOPP assessment fees paid	1,748,000	1,846,000
Net SHOPP benefit	\$ 1,313,000	\$ 1,720,000

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. The 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 and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. 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 the year ended June 30, 2014.

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

Approximately 49% and 52% 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, Investments 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 generally requires collateralization of all deposits with the Federal Deposit Insurance Corporation (FDIC) and other acceptable collateral in specific amounts.

At June 30, 2016 and 2015, none of the Authority’s bank balances of approximately \$10,201,000 and \$11,283,000, respectively, were exposed to custodial credit risk. At June 30, 2016 and 2015, the Authority’s bank balances in excess of FDIC limits were collateralized by irrevocable letters of credit from the Federal Home Loan Bank. The above amounts exclude deposits held by the Authority’s blended component unit, the Foundation. The Foundation had bank balances of approximately \$356,000 and \$351,000 at June 30, 2016 and 2015, respectively. As a nongovernmental entity, the blended component unit is not subject to collateralization requirements. At June 30, 2016 and 2015, approximately \$106,000 and \$101,000, respectively, of the blended component unit’s bank balances exceeded FDIC limits but were collateralized by irrevocable letters of credit from the Federal Home Loan Bank.

Investments

The Authority’s investment policy generally limits investments to direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and U.S. government bond mutual funds.

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At June 30, 2016 and 2015, the Authority had the following investments and maturities:

Type	Fair Value	Maturities in Years		
		Less than 1	1-5	6-10
2016				
U.S. government bond mutual funds	\$ 102,254	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,254</u>
Accrued investment income	<u>11,181</u>			
	<u>\$ 113,435</u>			
2015				
U.S. government bond mutual funds	\$ 100,080	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,080</u>
Accrued investment income	<u>2,730</u>			
	<u>\$ 102,810</u>			

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s investment policy generally limits investment maturities to no more than 24 months. The U.S. government bond mutual funds are presented as an investment with a maturity of six to ten years based on the weighted-average maturity of the underlying investments.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy does not address credit risk. At June 30, 2016 and 2015, the Authority’s investments in U.S. government bond mutual funds were not rated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investment policy does not address how securities are to be held.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2016 and 2015, the Authority had only one investment.

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Summary of Carrying Values

The carrying values of deposits and investments are included in the accompanying balance sheets as follows:

	2016	2015 (Restated – Note 16)
Carrying value		
Deposits	\$ 10,131,469	\$ 11,615,801
Investments	113,435	102,810
Cash on hand	1,900	1,900
	\$ 10,246,804	\$ 11,720,511
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 5,956,463	\$ 8,713,329
Short-term investments	3,765,341	2,482,182
Restricted cash and investments – current	525,000	525,000
	\$ 10,246,804	\$ 11,720,511

Investment Income

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

	2016	2015
Interest and dividends	\$ 53,095	\$ 52,498
Net increase (decrease) in fair value of investments	2,174	(453)
	\$ 55,269	\$ 52,045

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Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2016 and 2015, consisted of:

	2016	2015
Patients and third-party payers	\$ 12,889,043	\$ 13,317,222
Medicare	1,566,024	922,192
Medicaid	296,238	416,922
	14,751,305	14,656,336
Less allowance for uncollectible amounts	6,959,000	7,255,000
	\$ 7,792,305	\$ 7,401,336

Note 5: Capital Assets

Capital assets activity of the Authority for the years ended June 30, 2016 and 2015, was:

	2016				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Land	\$ 3,629,514	\$ -	\$ -	\$ -	\$ 3,629,514
Buildings, improvements and fixed equipment	28,923,127	62,473	7,193	(9,251)	28,983,542
Major moveable equipment	28,049,049	13,217	848,465	(951,952)	27,958,779
Construction in progress	521,940	824,835	(855,658)	-	491,117
	61,123,630	900,525	-	(961,203)	61,062,952
Less accumulated depreciation					
Buildings, improvements and fixed equipment	23,648,312	1,020,003	-	(9,251)	24,659,064
Major moveable equipment	23,721,681	1,319,439	-	(946,810)	24,094,310
	47,369,993	2,339,442	-	(956,061)	48,753,374
Capital assets, net	\$ 13,753,637	\$ (1,438,917)	\$ -	\$ (5,142)	\$ 12,309,578

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	2015				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Land	\$ 3,629,514	\$ -	\$ -	\$ -	\$ 3,629,514
Buildings, improvements and fixed equipment	28,509,546	189,470	224,111	-	28,923,127
Major moveable equipment	27,855,469	636,488	172,248	(615,156)	28,049,049
Construction in progress	519,141	399,158	(396,359)	-	521,940
	<u>60,513,670</u>	<u>1,225,116</u>	<u>-</u>	<u>(615,156)</u>	<u>61,123,630</u>
Less accumulated depreciation					
Buildings, improvements and fixed equipment	22,476,045	1,086,362	85,905	-	23,648,312
Major moveable equipment	22,855,493	1,565,158	(85,905)	(613,065)	23,721,681
	<u>45,331,538</u>	<u>2,651,520</u>	<u>-</u>	<u>(613,065)</u>	<u>47,369,993</u>
Capital assets, net	<u>\$ 15,182,132</u>	<u>\$ (1,426,404)</u>	<u>\$ -</u>	<u>\$ (2,091)</u>	<u>\$ 13,753,637</u>

Note 6: Medical Malpractice Coverage and Claims

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 accrual for medical malpractice claims has been made at June 30, 2016 or 2015. It is reasonably possible that this estimate could change materially in the near term.

The Authority is a member of Heartland Healthcare Reciprocal Risk Retention Group (Heartland), an entity approved by the state of Vermont to provide hospital professional liability and general liability coverage to its subscribers. Heartland was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Heartland members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. See *Note 14* for additional information about Heartland.

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Note 7: Self-Insured Claims

The Authority sponsors workers' compensation coverage for its employees. Through June 30, 2015, the Authority was self-insured to the extent of the deductible amount under the excess risk insurance policy the Authority had obtained. Coverage limits under the self-insured plan were \$350,000 per occurrence with an employer's annual liability limit of \$1,000,000 per occurrence. Effective July 1, 2015, the Authority purchased commercial insurance coverage for workers' compensation.

The Authority sponsors a health care plan for its employees and is self-insured to the extent of the deductible amount under the excess risk insurance policy the Authority has obtained. Coverage limits under the plan are \$250,000 per person per year with a \$1,750,000 annual benefit per person.

Losses from asserted and unasserted claims identified under the Authority's incident reporting system are accrued based on estimates that incorporate the Authority's past claims experience as well as other considerations, including the nature of each claim or incident, relevant trend factors and other economic and social factors. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

Activity in the Authority's self-insured plans' accrued liabilities during the years ended June 30, 2016 and 2015, is summarized as follows:

	Workers' Compensation	Employee Health Care Benefits
2016		
Balance, beginning of year	\$ 792,000	\$ 807,000
Current year claims incurred and changes in estimates for claims incurred in prior years	946,967	5,441,454
Claims and expenses paid	<u>(1,203,967)</u>	<u>(5,509,454)</u>
Balance, end of year	<u>\$ 535,000</u>	<u>\$ 739,000</u>
2015		
Balance, beginning of year	\$ 467,000	\$ 1,185,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,082,741	4,371,931
Claims and expenses paid	<u>(757,741)</u>	<u>(4,749,931)</u>
Balance, end of year	<u>\$ 792,000</u>	<u>\$ 807,000</u>

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The above self-insured plans' accrued liability amounts are included in accrued payroll and other expenses on the accompanying balance sheets.

At June 30, 2016, the Authority also recorded a receivable of approximately \$57,000 related to an amount due to the Authority under the excess risk insurance policy for self-insured health care. This amount is included in other receivables on the accompanying balance sheets. There were no amounts due to the Authority under this policy at June 30, 2015.

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 and 2015:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2016					
Capital lease obligations	<u>\$ 117,571</u>	<u>\$ -</u>	<u>\$ (102,228)</u>	<u>\$ 15,343</u>	<u>\$ 15,343</u>
2015					
Capital lease obligations	<u>\$ 262,499</u>	<u>\$ -</u>	<u>\$ (144,928)</u>	<u>\$ 117,571</u>	<u>\$ 104,051</u>

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2016 and 2015, totaled \$105,002 and \$630,723, net of accumulated depreciation of \$97,127 and \$559,926, respectively. The remaining payments under the capital leases, including interest at 1.8%, are due in 2017 and total \$15,447, including interest of \$104.

Note 9: Restricted and Designated Net Position

At June 30, 2016 and 2015, the Authority had restricted net position as follows:

	2016	2015
Restricted under workers' compensation agreement	\$ 525,000	\$ 525,000
Restricted for capital expenditures	<u>1,186,713</u>	<u>1,423,186</u>
Total restricted net position	<u>\$ 1,711,713</u>	<u>\$ 1,948,186</u>

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At June 30, 2016 and 2015, approximately \$5,598,000 and \$7,309,000, respectively, of unrestricted net position has been designated by the Authority's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may, at its discretion, later use these assets for other purposes.

Note 10: Charity Care

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.

The estimated uncompensated costs associated with charity care services were approximately \$996,000 and \$1,754,000 for the years ended June 30, 2016 and 2015, respectively. The costs of charity care are estimated by applying the cost-to-charge ratio from the Authority's most recent Medicare cost report to gross uncompensated charges.

In addition to uncompensated charges, the Authority provides services to other individuals, various community agencies and the broader community. These services are provided at no charge to the public and include such items as health education and promotion, blood pressure and cholesterol screening and health assessments. Costs related to these services are not separately identifiable and are included in expenses.

Note 11: Retirement Plan

The Authority contributes to a defined contribution retirement plan (the Plan) covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the Plan. The Plan is administered by the Authority's Board of Trustees and provides retirement and death benefits to participating employees and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Authority's Board of Trustees. The required contribution rate for participating employees for 2016 and 2015 was 4% of a participating employee's compensation (as defined in the plan document).

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The approximate contributions actually made by employees and the Authority for the years ended June 30, 2016 and 2015, were as follows:

	2016	2015
Employees' contributions	\$ 2,923,000	\$ 2,891,000
Authority's contributions	1,932,000	1,905,000
	\$ 4,855,000	\$ 4,796,000

Note 12: Contingencies and Other Matters

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 programs (discussed elsewhere in these notes) 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 claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Related-Party Transactions

The primary services the Corporation (including its wholly owned subsidiary) provides to the Authority are CT scan services, rental of building space and the sale of durable medical equipment and supplies to patients of the Authority.

The following are the significant related-party transactions between the Authority and the Corporation:

The Corporation provided CT scan services to the Authority of approximately \$1,867,000 and \$1,896,000 for the years ended June 30, 2016 and 2015, respectively. Included in accounts payable of the Authority for unpaid CT scan services provided by the Corporation was approximately \$151,000 and \$145,000 as of June 30, 2016 and 2015, respectively.

The Authority provides various management and administrative services to the Corporation for which the Authority is reimbursed. During 2016 and 2015, the Authority billed the Corporation approximately \$2,384,000 and \$2,278,000, respectively. Included in other receivables – related parties of the Authority at June 30, 2016 and 2015, are \$635,562 and \$746,339, respectively, due from the Corporation for providing the various management and administrative services.

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The Authority leases building space from the Corporation under a one-year operating lease agreement. Rent expense under this lease was approximately \$531,000 for the years ended June 30, 2016 and 2015.

The Corporation gave gifts of approximately \$0 and \$2,117,000 to the Authority for the years ended June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, \$0 and \$2,000,000, respectively, were included in capital gifts to the Authority from the Corporation on the accompanying statements of revenues, expenses and changes in net position. For the year ended June 30, 2015, approximately \$117,000 of these gifts were included in noncapital gifts and grants.

Note 14: Investments in Joint Ventures

The Authority has an ownership (equity) interest in three joint ventures, which are described below:

Cancer Centers of Southwest Oklahoma, LLC (CCSO)

The Authority is an approximate 29% ownership member of CCSO. The Authority's investment in CCSO amounted to approximately \$1,507,000 and \$1,551,000 at June 30, 2016 and 2015, respectively. CCSO was formed to develop and operate three facilities specializing in providing cancer treatment services for the residents of southwest Oklahoma.

Financial position and results of operations summarized from CCSO's audited financial statements for the fiscal years ended June 30, 2016 and 2015, are shown below:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 11,802,801	\$ 11,041,374
Capital assets and other long-term assets, net	<u>19,714,119</u>	<u>21,432,687</u>
Total assets	31,516,920	32,474,061
Total liabilities	<u>26,257,423</u>	<u>27,062,809</u>
Net position	<u>\$ 5,259,497</u>	<u>\$ 5,411,252</u>
Revenues	<u>\$ 34,082,464</u>	<u>\$ 29,660,283</u>
Excess of revenues over expenses	<u>\$ 1,548,245</u>	<u>\$ 620,105</u>

Complete financial statements of CCSO may be obtained by contacting the Authority's management at 580.379.5510.

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Heartland Healthcare Reciprocal Risk Retention Group (Heartland)

The Authority is a subscriber (member) of Heartland and has an approximate 23% ownership (equity) interest in Heartland. Heartland was formed as an unincorporated association approved by the state of Vermont to provide hospital professional liability and general liability coverage to its subscribers. The Authority's investment in Heartland amounted to approximately \$1,610,000 and \$1,479,000 at June 30, 2016 and 2015, respectively.

The Authority purchases its professional liability (medical malpractice) and general liability insurance coverages from Heartland (see *Note 6*). For the years ended June 30, 2016 and 2015, the Authority paid approximately \$656,000 and \$615,000, respectively, to Heartland for the coverage.

Financial position and results of operations summarized from Heartland's audited financial statements for the fiscal years ended December 31, 2015 and 2014, are shown below:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 877,140	\$ 1,051,118
Investments, at fair value	12,434,552	13,119,231
Other assets	<u>520,654</u>	<u>581,494</u>
Total assets	<u>13,832,346</u>	<u>14,751,843</u>
Unpaid losses and loss adjustment expenses	5,792,220	5,561,263
Other liabilities	<u>175,527</u>	<u>232,697</u>
Total liabilities	<u>5,967,747</u>	<u>5,793,960</u>
Subscribers' surplus	<u>\$ 7,864,599</u>	<u>\$ 8,957,883</u>
Revenues	<u>\$ 2,748,275</u>	<u>\$ 3,049,140</u>
Net income	<u>\$ 315,412</u>	<u>\$ 59,386</u>

Complete financial statements of Heartland may be obtained by contacting the Authority's management at 580.379.5510.

MSO Healthcare of Oklahoma, LLC (MSO)

The Authority is an approximate 25% ownership member of MSO. The Authority's investment in MSO amounted to approximately \$128,000 and \$76,000 at June 30, 2016, and 2015, respectively. MSO was formed in January 2014 for the purpose of providing high-quality, cost-effective management services to the health care providers of Oklahoma. MSO had no significant operations in 2016 or 2015.

Jackson County Memorial Hospital Authority
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Complete financial statements of MSO may be obtained by contacting the Authority's management at 580.379.5510.

Note 15: JCMH Health Care Corporation

The following information relates to the Authority's discretely presented component unit, JCMH Health Care Corporation (the Corporation), and is as of and for the years ended December 31, 2015 and 2014.

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 Corporation's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with FDIC insurance and other acceptable collateral in specific amounts.

At December 31, 2015 and 2014, none of the Corporation's bank balances of \$9,539,888 and \$8,775,983, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits and investments are included in the December 31, 2015 and 2014, balance sheets as follows:

	2015	2014 (Restated – Note 16)
Carrying value		
Deposits	\$ 9,387,382	\$ 8,730,550
Cash on hand	900	900
	\$ 9,388,282	\$ 8,731,450
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 6,128,456	\$ 2,839,755
Short-term investments	3,259,826	5,891,695
	\$ 9,388,282	\$ 8,731,450

Short-term investments at December 31, 2015 and 2014, consisted of certificates of deposit.

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Investment Income

Investment income for the years ended December 31, 2015 and 2014, consisted of interest income.

Capital Assets

Capital assets activity for the years ended December 31, 2015 and 2014, was:

	2015			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 1,487,169	\$ 1,000	\$ -	\$ 1,488,169
Buildings and improvements	19,061,085	43,660	(1,732)	19,103,013
Furniture, fixtures and equipment	5,372,397	1,041,057	(1,609,005)	4,804,449
	<u>25,920,651</u>	<u>1,085,717</u>	<u>(1,610,737)</u>	<u>25,395,631</u>
Less accumulated depreciation				
Buildings and improvements	7,282,786	626,805	(1,488)	7,908,103
Furniture, fixtures and equipment	3,458,765	297,684	(1,570,565)	2,185,884
	<u>10,741,551</u>	<u>924,489</u>	<u>(1,572,053)</u>	<u>10,093,987</u>
Capital assets, net	<u>\$ 15,179,100</u>	<u>\$ 161,228</u>	<u>\$ (38,684)</u>	<u>\$ 15,301,644</u>
	2014			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 1,487,169	\$ -	\$ -	\$ 1,487,169
Buildings and improvements	19,047,582	20,157	(6,654)	19,061,085
Furniture, fixtures and equipment	5,309,369	122,758	(59,730)	5,372,397
Construction in progress	2,056	2,946	(5,002)	-
	<u>25,846,176</u>	<u>145,861</u>	<u>(71,386)</u>	<u>25,920,651</u>
Less accumulated depreciation				
Buildings and improvements	6,679,074	609,202	(5,490)	7,282,786
Furniture, fixtures and equipment	3,209,247	292,717	(43,199)	3,458,765
	<u>9,888,321</u>	<u>901,919</u>	<u>(48,689)</u>	<u>10,741,551</u>
Capital assets, net	<u>\$ 15,957,855</u>	<u>\$ (756,058)</u>	<u>\$ (22,697)</u>	<u>\$ 15,179,100</u>

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Property Rentals

The Corporation leases medical office building (MOB) and physicians' clinic space to unrelated third parties under long-term noncancelable operating leases that expire through 2018.

At December 31, 2015, the future minimum rental commitments under the above-described operating leases were approximately:

2016	\$ 202,000
2017	95,000
2018	<u>67,000</u>
	<u><u>\$ 364,000</u></u>

The Corporation also leases space in the MOB and another building to the Authority (see *Note 13*).

Note 16: Restatement of Prior Year's Financial Statements

The 2015 financial statements of the primary government have been restated for an error of \$4,820,035 related to the classification of a deposit account. Additionally, the 2014 financial statements of the Corporation have been restated for an error of \$913,674 related to the classification of the same type of deposit account. These amounts were previously reported as a short-term investment and should have been recorded as a cash equivalent. These restatements had no impact on previously reported net position or change in net position.

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

Note 17: Combining Component Unit Information

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

	June 30, 2016		
	Jackson County Memorial Hospital Authority	Jackson County Memorial Hospital Foundation	Total
Assets			
Current assets	\$ 20,964,547	\$ 355,410	\$ 21,319,957
Capital assets, net	12,309,578	-	12,309,578
Other assets	3,340,872	5,708	3,346,580
Total assets	<u>\$ 36,614,997</u>	<u>\$ 361,118</u>	<u>\$ 36,976,115</u>
Liabilities and Net Position			
Current liabilities	\$ 8,733,510	-	\$ 8,733,510
Total liabilities	<u>8,733,510</u>	<u>-</u>	<u>8,733,510</u>
Net position			
Net investment in capital assets	12,294,235	-	12,294,235
Restricted expendable	1,381,302	330,411	1,711,713
Unrestricted	14,205,950	30,707	14,236,657
Total net position	<u>27,881,487</u>	<u>361,118</u>	<u>28,242,605</u>
Total liabilities and net position	<u>\$ 36,614,997</u>	<u>\$ 361,118</u>	<u>\$ 36,976,115</u>

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

	June 30, 2015		
	Jackson County Memorial Hospital Authority	Jackson County Memorial Hospital Foundation	Total
Assets			
Current assets	\$ 22,030,589	\$ 351,465	\$ 22,382,054
Capital assets, net	13,753,637	-	13,753,637
Other assets	3,299,181	18,498	3,317,679
Total assets	\$ 39,083,407	\$ 369,963	\$ 39,453,370
Liabilities and Net Position			
Current liabilities	\$ 10,085,847	\$ -	\$ 10,085,847
Long-term debt	13,520	-	13,520
Total liabilities	10,099,367	-	10,099,367
Net position			
Net investment in capital assets	13,395,774	-	13,395,774
Restricted expendable	1,820,934	127,252	1,948,186
Unrestricted	13,767,332	242,711	14,010,043
Total net position	28,984,040	369,963	29,354,003
Total liabilities and net position	\$ 39,083,407	\$ 369,963	\$ 39,453,370

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

The following tables include condensed 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. All depreciation and amortization expense for the years ended June 30, 2016 and 2015, is related to the Authority.

	Year Ended June 30, 2016		
	Jackson County Memorial Hospital Authority	Jackson County Memorial Hospital Foundation	Total
Operating revenues	\$ 64,521,208	\$ -	\$ 64,521,208
Operating expenses	<u>66,729,563</u>	<u>43,211</u>	<u>66,772,774</u>
Operating loss	(2,208,355)	(43,211)	(2,251,566)
Nonoperating revenues	605,802	27,033	632,835
Capital gifts	<u>500,000</u>	<u>7,333</u>	<u>507,333</u>
Decrease in net position	(1,102,553)	(8,845)	(1,111,398)
Net position, beginning of year	<u>28,984,040</u>	<u>369,963</u>	<u>29,354,003</u>
Net position, end of year	<u>\$ 27,881,487</u>	<u>\$ 361,118</u>	<u>\$ 28,242,605</u>

	Year Ended June 30, 2015		
	Jackson County Memorial Hospital Authority	Jackson County Memorial Hospital Foundation	Total
Operating revenues	\$ 60,918,259	\$ -	\$ 60,918,259
Operating expenses	<u>64,629,711</u>	<u>39,465</u>	<u>64,669,176</u>
Operating loss	(3,711,452)	(39,465)	(3,750,917)
Nonoperating revenues	346,501	27,227	373,728
Capital gifts	<u>2,000,000</u>	<u>2,406</u>	<u>2,002,406</u>
Decrease in net position	(1,364,951)	(9,832)	(1,374,783)
Net position, beginning of year	<u>30,348,991</u>	<u>379,795</u>	<u>30,728,786</u>
Net position, end of year	<u>\$ 28,984,040</u>	<u>\$ 369,963</u>	<u>\$ 29,354,003</u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson 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:

	Jackson County Memorial Hospital Authority	Jackson County Memorial Hospital Foundation	Total
2016			
Net cash used in operating activities	\$ (1,167,101)	\$ (30,421)	\$ (1,197,522)
Net cash provided by noncapital financing activities	8,703	24,911	33,614
Net cash provided by (used in) capital and related financing activities	(733,146)	7,333	(725,813)
Net cash used in investing activities	<u>(863,960)</u>	<u>(3,185)</u>	<u>(867,145)</u>
Increase (decrease) in cash and cash equivalents	(2,755,504)	(1,362)	(2,756,866)
Cash and cash equivalents, beginning of year	<u>8,452,918</u>	<u>260,411</u>	<u>8,713,329</u>
Cash and cash equivalents, end of year	<u>\$ 5,697,414</u>	<u>\$ 259,049</u>	<u>\$ 5,956,463</u>
2015 (Restated – Note 16)			
Net cash provided by (used in) operating activities	\$ 385,372	\$ (32,491)	\$ 352,881
Net cash provided by noncapital financing activities	124,187	24,803	148,990
Net cash provided by capital and related financing activities	715,842	2,406	718,248
Net cash provided by investing activities	<u>1,001,935</u>	<u>2,130</u>	<u>1,004,065</u>
Increase (decrease) in cash and cash equivalents	2,227,336	(3,152)	2,224,184
Cash and cash equivalents, beginning of year	<u>6,225,582</u>	<u>263,563</u>	<u>6,489,145</u>
Cash and cash equivalents, end of year	<u>\$ 8,452,918</u>	<u>\$ 260,411</u>	<u>\$ 8,713,329</u>

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

Board of Trustees
Jackson County Memorial Hospital Authority
Altus, 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 Jackson County Memorial Hospital Authority (the Authority) and its discretely presented component unit, JCMH Health Care Corporation (the Corporation), collectively, a component unit of Jackson 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 basic financial statements, and have issued our report thereon dated December 19, 2016, which contained an *Emphasis of Matter* paragraph regarding a correction of an error.

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

Our consideration of internal control 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 a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-1 to be a material weakness.

Board of Trustees
Jackson County Memorial Hospital Authority

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-2 to be a significant deficiency.

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 December 19, 2016, and the Corporation's management in a separate letter dated May 27, 2016.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
December 19, 2016

Jackson County Memorial Hospital Authority
A Component Unit of Jackson 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 – A restatement to the prior year’s financial statements was required to correct material misstatements in the accompanying financial statements.</p> <p>Context – A new depository account was created with a bank; however, the account was included with short-term investments rather than presented as a cash equivalent.</p> <p>Effect – A material misstatement in the financial statements occurred and was not prevented or detected in a timely manner.</p> <p>Cause – Classification procedures were not sufficient to properly record balances in the correct grouping for financial reporting purposes.</p> <p>Recommendation – Management should ensure classification procedures include the requisite steps to ensure new transactions and accounts are properly classified.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will perform the evaluation and implement corrections that are considered cost-beneficial within the next year.</p>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson 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 individual has incompatible duties in the revenues, cash receipts and accounts receivable transactions cycle of the Authority.</p> <p>Context – The assistant director of patient accounting has the ability to receive cash or checks when payment on accounts is made, is custodian of cash or checks, records discounts or adjustments to charges and credits patient accounts for payments received, has the ability to prepare the cash receipts list and is responsible for reconciling the cash receipts listing to bank deposit records.</p> <p>Effect – Potential material misstatements in the financial statements or material misappropriations 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 revenues, cash receipts and accounts receivable 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 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>