

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Financial Statements
June 30, 2018 and 2017

With Independent Auditors' Report Thereon

**LOVE COUNTY HEALTH CENTER dba MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**

JUNE 30, 2018 AND 2017

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Independent Auditors' Report

The Board of Control
Love County Health Center dba
Mercy Health Love County
A Component Unit of Love County, Oklahoma
Marietta, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Love County Health Center dba, Mercy Health Love County (the Hospital), a component unit of Love County, Oklahoma, which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 audit. We conducted our audit 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.

The Board of Control
Love County Health Center dba
Mercy Health Love County
A Component Unit of Love County, Oklahoma
Marietta, Oklahoma
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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 in the first paragraph present fairly, in all material respects, the financial position of the Hospital, as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in United States of America.

Emphasis-of-Matter Regarding Going Concern

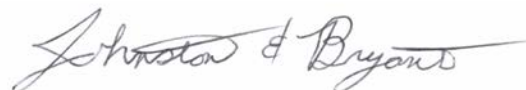
The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 15 to the financial statements, the Hospital has suffered significant losses from operations which raises substantial doubt about its ability to continue as a going concern. Management's plan regarding those matters also are described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Information

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of 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 Hospital's internal control over financial reporting and compliance.



Ada, Oklahoma
November 26, 2018

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**

Balance Sheet
June 30, 2018 and 2017

	2018	2017
ASSETS		
Currents Assets		
Cash on Hand and in Banks, including Time Deposits	\$ 1,976,218	\$ 2,500,549
Accounts Receivable - Patients, Less Allowances	1,663,604	1,282,286
Other Receivables	167,306	89,121
Inventories	199,242	169,945
Prepaid Expenses	128,123	180,441
Due Under Cost Contracts	-	-
Total Current Assets	4,134,493	4,222,342
Property, Plant and Equipment	13,627,639	12,906,268
Less Accumulated Depreciation	(7,764,134)	(7,105,115)
Net Property, Plant and Equipment	5,863,505	5,801,153
Total Assets	\$ 9,997,998	\$ 10,023,495
LIABILITITES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 178,282	\$ 73,563
Due Under Cost Contracts	560,723	79,150
Due to Other Corporations	5,352,410	5,605,615
Total Current Liabilities	6,091,415	5,758,328
Long-Term Debt	-	-
Total Liabilities	6,091,415	5,758,328
Net Position		
Net Investment in Capital Assets	5,863,505	5,801,153
Unrestricted	(1,956,922)	(1,535,986)
Total Net Position	3,906,583	4,265,167
Total Liabilities and Net Position	\$ 9,997,998	\$ 10,023,495

See accompanying notes.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Statement of Revenues, Expenses,
and Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net Patient Service Revenue	\$ 14,090,222	\$ 13,546,652
Other Operating Revenue	<u>38,683</u>	<u>145,394</u>
Total Operating Revenue	<u>14,128,905</u>	<u>13,692,046</u>
 Expenses		
Nursing Services	2,223,186	3,055,632
Other Professional Services	7,937,454	6,655,669
General Services	1,025,330	970,207
Administrative Services	4,450,895	4,150,623
Depreciation	<u>659,019</u>	<u>691,236</u>
Total Expenses	<u>16,295,884</u>	<u>15,523,367</u>
Net (Loss) from Operations	<u>(2,166,979)</u>	<u>(1,831,321)</u>
 Non-Operating Income		
County Sales Tax	1,432,716	1,144,820
Donations and Grants	47,124	57,000
Interest Income	6,672	1,791
Transfers from E.M.S. District	<u>321,883</u>	<u>300,343</u>
Total Non-Operating	<u>1,808,395</u>	<u>1,503,954</u>
 Change in Net Position	(358,584)	(327,367)
 Net Position, Beginning of Year	<u>4,265,167</u>	<u>4,592,534</u>
 Net Position, End of Year	<u>\$ 3,906,583</u>	<u>\$ 4,265,167</u>

See accompanying notes.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Receipts From Services	\$ 13,708,903	\$ 13,390,713
Other Receipts and Payments	38,683	145,394
Payment to Suppliers and Contractors	(6,000,472)	(6,252,361)
Payments to Contract Personnel	(9,348,549)	(8,800,924)
Net Cash Flow (Used in)		
Operating Activities	(1,601,435)	(1,517,178)
Non-Capital Financing Activities		
County Sales Tax Receipts	1,422,795	1,171,578
Donations and Other Receipts	47,124	57,000
E.M.S. Transfers	321,883	300,343
Net Cash Flow from Non-Capital		
Financing Activities	1,791,802	1,528,921
Capital and Related Financing Activities		
Purchase of Capital Assets	(721,371)	(1,052,382)
Net Cash Flow from Capital and Related		
Investing Activities	(721,371)	(1,052,382)
Investing Activities		
Interest Income	6,673	1,791
Net Cash from Investing		
Activities	6,673	1,791
Net (Decrease) Increase in Cash	(524,331)	(1,038,848)
Cash - Beginning	2,500,549	3,539,397
Cash - End	\$ 1,976,218	\$ 2,500,549

See accompanying notes.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Statement of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash		
(Used In) Operating Activities:		
Net (Loss) from Operations	\$ (2,166,979)	\$ (1,831,321)
Depreciation	659,019	691,236
Changes in:		
Patient Accounts Receivable	(381,318)	(155,939)
Estimated Third Party Payor Settlements	481,572	(565,129)
Supplies, Prepaid Expenses and Other Assets	(45,240)	(30,505)
Accounts Payable and Accrued Expenses	(148,489)	374,480
Net Cash Provided By/(Used in) Operating Activities	\$ (1,601,435)	\$ (1,517,178)

See accompanying notes.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 1. Ownership

Mercy Health/Love County Hospital (the Hospital) is a twenty-five bed, short-term, acute care, critical access Hospital owned by Love County, Oklahoma, located in Marietta, Oklahoma. Management of the hospital is composed of a five member board of control appointed by the County Commissioners. The Hospital has entered into a Management Services Agreement with Mercy Memorial Health Center, Inc. Duration of the agreement is renewable annually. Mercy Health/Love County Hospital is a component unit of Love County, Oklahoma.

Note 2. Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements of the Hospital 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 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) and interest income are included in nonoperating revenues and expenses. The Hospital 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents – Investments that have an original maturity of three months or less are considered to be cash equivalents

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 2. Significant Accounting Policies (continued)

Allowance for uncollectible accounts

Patient receivables are uncollateralized customer and third-party payor obligations.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowances that reflects management's best estimate of amounts that will not be collected from patient and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third-parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Inventories

Inventories are valued at a lower cost (first-in, first-out method) or market.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or retirements are included in income in the period of disposition.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The ranges of such useful lives are as follows:

Land improvements	10 years
Building	20-40 years
Equipment	3-20 years

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
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Notes to the Financial Statements
June 30, 2018 and 2017

Note 2. Summary of Significant Accounting Policies (continued)

Net Position

Net position of the Hospital are classified into two components.

Net Position Invested in Capital Assets Net of Related Debt – Invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted Net Position – Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Net Patient Service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operation and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

**LOVE COUNTY HEALTH CENTER dba
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Notes to the Financial Statements
June 30, 2018 and 2017

Note 2. Summary of Significant Accounting Policies (continued)

Risk Management

The Hospital 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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The provision, if any, for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Grants and Contributions

From time to time, the Hospital receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operation purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operation purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Compensated Absences

The Hospital contracts with Mercy Memorial Health Center Inc. for all of its personnel and as such has no related personnel costs.

Income Taxes

The Hospital is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

Note 3. Amounts Payable on Cost Reimbursement Programs

The Hospital renders services to patients under contractual arrangements with the Medicare program. The program's administrative procedures preclude final determination of amounts due the Hospital for services to program patients until after the Hospital's cost reports are audited or otherwise reviewed and settled upon by the respective administrative agencies.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2018 and 2017 is as follows:

	2018		
	Beginning Balance	Changes	Ending Balance
Land and Improvements	\$ 1,371,459	\$ 36,177	\$ 1,407,636
Building	4,982,506	-	4,982,506
Equipment (Fixed and Moveable)	6,552,303	685,194	7,237,497
Total Capital Assets	<u>12,906,268</u>	<u>721,371</u>	<u>13,627,639</u>
Less Accumulated Depreciation	<u>(7,105,115)</u>	<u>(659,019)</u>	<u>(7,764,134)</u>
Capital Assets - Net	<u>\$ 5,801,153</u>	<u>\$ 62,352</u>	<u>\$ 5,863,505</u>
	2017		
	Beginning Balance	Changes	Ending Balance
Land and Improvements	\$ 520,843	\$ 850,616	\$ 1,371,459
Building	4,267,098	715,408	4,982,506
Equipment (Fixed and Moveable)	7,065,945	(513,642)	6,552,303
Total Capital Assets	<u>11,853,886</u>	<u>1,052,382</u>	<u>12,906,268</u>
Less Accumulated Depreciation	<u>(6,413,879)</u>	<u>(691,236)</u>	<u>(7,105,115)</u>
Capital Assets - Net	<u>\$ 5,440,007</u>	<u>\$ 361,146</u>	<u>\$ 5,801,153</u>

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 5. Accounts Receivable - Patients

	2018	2017
Gross Accounts Receivable	\$ 4,447,127	\$ 3,924,759
Less Allowances for Bad Debt and Contractual Adjustments	(2,783,523)	(2,642,473)
Net Accounts Receivable	\$ 1,663,604	\$ 1,282,286

The allowance for uncollectible accounts is based upon management's estimate.

Note 6. Long-Term Debt

The Hospital had no long-term debt at June 30, 2018 and 2017.

Note 7. Cash and Deposits

Custodial Risk

Exposure to custodial risk related to deposits exist when the Hospital holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Hospital's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Hospital holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Hospital's name.

The Hospital's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct obligations of the state municipalities, counties, and school in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 2 U.S.C.A., Section 1823 (e), all financial institutions pledging collateral to the Hospital must have a written collateral agreement approved by the board of directors or loan committee.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 7. Cash and Deposits (continued)

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exist when the Hospital holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Hospital's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exist when the Hospital holds investments that are uninsured or unregistered, with securities held by the counterparty or by its trust department or agent not in the Hospital's name.

The Hospital secures cash deposits in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized; however the Hospital does not have a formal policy for collateralizing cash deposits. At June 30, 2018 the carrying amount of the Hospital's deposits was \$1,976,218 and the bank balance was \$2,020,290. As of June 30, 2018 none of the Hospital's bank balance was exposed to custodial credit risk.

At June 30, 2018, the Hospital held deposits of approximately \$2,020,290 at financial institutions. The Hospital's cash deposits, including interest-bearing accounts, and investments are entirely covered by Federal Depository Insurance (FDIC) or direct obligations of the U.S. Government insured or collateralized with securities held by the Hospital or by its agent in the Hospital's name. Therefore, the Hospital was not exposed to custodial credit risk as defined above.

Investment Credit Risk – The Hospital has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies.
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States Government.
4. Repurchased agreements that have underlying collateral including obligations of the United States Government, its agencies and instrumentalities, or the State of Oklahoma.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 7. Cash and Deposits (continued)

Investment Credit Risk (continued)

5. County, municipal or school Town debt obligations for which an ad valorem tax may be levied.
6. Money market funds regulated by the SEC and in which investments consist of the investments of obligations of the United States, its agencies and instrumentalities.
7. Warrants, bonds or judgments of the Hospital.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Hospital has no formal policy limiting investments based on credit rating. Unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The Hospital had no investment credit risk as of June 30, 2018, as defined above.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Hospital had no investment interest rate risk as defined above.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the Authority. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The Hospital places no limit on the amount it may invest in any one issuer.

At June 30, 2018, the Hospital had 100% concentration of credit risk as defined above.

**LOVE COUNTY HEALTH CENTER dba
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A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 8. Contingencies

During the normal course of business, the Hospital is involved in various claims and lawsuits. In the opinion of management, the potential loss on any claim and lawsuit, net of insurance proceeds, will not be significant to the Hospital's financial position or results of operations.

Note 9. Concentration of Credit Risk

The Hospital operates in South Central Oklahoma, and grants credit without collateral to their patients, most of whom are local residents and are uninsured or under insured.

Note 10. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments at June 30, 2018 and 2017.

The carrying amounts reported in the balance sheet for cash, assets limited as to use, accounts payable and accrued expenses, and estimated amount due to/from Medicare approximate their fair value.

Note 11. Net Patient Service Revenues

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. The 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 Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2016.
- **Medicaid** – The Hospital is reimbursed for services rendered to patients covered by the state Medicaid program on a prospective per discharge or fee schedule method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

**LOVE COUNTY HEALTH CENTER dba
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Notes to the Financial Statements
June 30, 2018 and 2017

Note 11. Net Patient Service Revenues (continued)

Approximately 64.3% and 64.5% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2018 and 2017, 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 Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net Patient Service Revenues for the year ended June 30, 2018 and 2017 is computed as follows:

	2018	2017
Gross Service Revenues	\$ 23,951,676	\$ 22,483,137
Less Adjustments:		
Bad Debt and Charity	1,505,688	1,310,271
Administration and Commercial	3,376,769	3,295,509
Medicare and Medicaid	4,978,997	4,330,705
Net Service Revenue	\$ 14,090,222	\$ 13,546,652

Note 12. Management Agreement

The Hospital is currently managed by Mercy Memorial Health Center, Inc., an Oklahoma not-for profit corporation. The management agreement is renewed annually on July 1 for the succeeding 12 month period. The management agreement was renewed July 1, 2018 through June 30, 2018. See Note 15.

Note 13. Due to Other Corporations

This full amount is payable to Mercy Memorial Health Center, Inc., which also manages the hospital. See also Note 15. The payable amount at June 30, 2018 and 2017 was \$5,352,410 and \$5,605,615 respectively.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY
A Component Unit of Love County, Oklahoma**
Notes to the Financial Statements
June 30, 2018 and 2017

Note 14. Subsequent Events

Management has evaluated subsequent events through November 26, 2018 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

Note 15. Going Concern

At June 30, 2018 and 2017, the hospital's current liabilities exceeded current assets by \$1,956,922 and \$1,535,986 respectively. Also the hospital incurred operating losses for the years ending June 30, 2018 and 2017 totaling \$(2,166,979) and \$(1,831,321) respectively. These losses and the current liabilities exceeding current assets raises substantial doubt as to the entity's ability to continue as a going concern.

Management Response

Management believes that the addition of physicians will have a significant positive impact on the patient utilization which will translate to a more favorable bottom line on the income statement. Also, management is working closely with all providers in efforts to improve reimbursement from third party payers.

Note 16. EMS Contract

The Hospital has a one-year contract with the Love County Emergency Medical Services (EMS) Board of Trustees to provide emergency services to the County's residents. The Hospital receives monthly compensation for services provided under the EMS contract. The contract may be renewed annually upon mutual consent of both parties. Included in operation revenue for the years ended June 30, 2018 and 2017, is \$321,883 and \$300,343 respectively for services rendered under the contract.

Note 17. Chickasaw Nation Contracts

The Hospital currently has contracts with the Chickasaw Nation to provide onsite Emergency medical Services (Ambulance) and Brigade Services (Fire Department) at the Winstar Casino located at Thackerville, OK. For the years ended June 30, 2018 and 2017, the Hospital received \$908,604 and \$778,892 respectively under the Emergency Medical Services Contract. For the years ended June 30, 2018 and 2017, the Hospital received \$967,494 and \$1,008,462 respectively under the Brigade Services Contract.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Board of Control
Love County Health Center dba
Mercy Health Love County
A Component Unit of Love County, Oklahoma
Marietta, Oklahoma

We have audited, in accordance with the 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 Love County Health Center dba, Mercy Health Love County which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Love County Health Center dba, Mercy Health Love County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Love County Health Center dba, Mercy Health Love County's internal control. Accordingly, we do not express an opinion on the effectiveness of Love County Health Center dba, Mercy Health Love County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

The Board of Control
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Compliance and Other Matters

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

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Ada, Oklahoma
November 26, 2018

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY**
Schedule of Current Year Audit Findings
Year Ended June 30, 2018

Current Year Audit Findings – None Noted

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY**
Schedule of Prior Year Audit Findings
Year Ended June 30, 2017

2017-01 Reconciling Cash

Criteria: In order to present materially correct financial statements and to detect and prevent potential fraud and errors and omissions, the bank accounts must be reconciled to the general ledger on a timely basis.

Condition: The June 30, 2017 bank reconciliation for the operating account and the sales tax depository account show several adjustments which needed to be posted to the general ledger in order to reflect the proper balance of these two accounts. There was also an unlocated difference of \$3,678.54 shown on the operating account reconciliation.

Effect or Potential Effect: By not reconciling and adjusting the bank accounts on a monthly basis, misstatement of the hospital cash balances could occur and result in unlocated differences going unresolved.

Recommendation: Both cash accounts need to be reconciled monthly and adjustments, if necessary, should be made on a timely basis in order to reflect the correct cash balance on the financial statements.

Management Response: The hospital is currently working to bring all bank reconciliation to a current status which will allow any adjustments to be made on a timely basis.

Current Status: Bank Accounts were properly reconciled as of June 30, 2018