

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Financial Statements  
June 30, 2016 and 2015

With Independent Auditors' Report Thereon

**LOVE COUNTY HEALTH CENTER dba MERCY HEALTH LOVE COUNTY**

**JUNE 30, 2016 AND 2015**

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Independent Auditors' Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Love County Health Center dba, Mercy Health Love County, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the 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 auditors 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  
Marietta, Oklahoma  
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for an unmodified opinion on the 2016 financial statements and a qualified opinion on the 2015 financial statements.

### **Basis for Qualified Opinion**

#### **Reconciliation of the General Cash Account at June 30, 2015**

We were unable to obtain sufficient appropriate audit evidence regarding the appropriate entry(s) needed to reconcile the general cash account at June 30 2015 and any resulting effects on the balance sheet and/or the statement of revenues, expenses, and changes in net position.

#### **Accounts Receivable Adult Day Care Center June 30, 2015**

For the year ended June 30, 2015, the Hospital did not record the accounts receivable for its adult day care center. Revenue was recognized as payment was received but was recorded as miscellaneous income, not as a departmental item. The effect of this omission on the financial statements is not reasonably determined.

### **Unmodified Opinion on 2016 and Qualified Opinion on 2015**

In our opinion, except for the effects on the 2015 financial statements described in the Basis for Qualified Opinion Paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Love County Health Center dba Mercy Health Love County, as of June 30, 2016 and 2015, 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 17 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 17. 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.

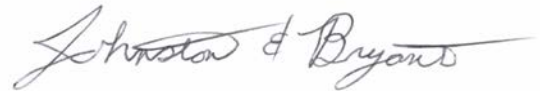
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**Other Information**

The organization has chosen not to prepare management Discussion and Analysis which is required under accounting principles generally accepted in the United States of America. The effect of this omission is not reasonably determinable.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2017 on our consideration of Love County Health Center dba, Mercy Health Love County'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 Love County Health Center dba, Mercy Health Love County's internal control over financial reporting and compliance.



Ada, Oklahoma  
January 16, 2017

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**

Balance Sheet  
June 30, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Currents Assets		
Cash on Hand and in Banks, including Time Deposits	\$ 3,539,397	\$ 3,132,335
Accounts Receivable - Patients, Less Allowances	1,126,347	1,641,630
Other Receivables	115,879	217,507
Inventories	177,329	219,880
Prepaid Expenses	142,552	96,207
Due Under Cost Contracts	-	-
Total Current Assets	5,101,504	5,307,559
Property, Plants and Equipments	11,853,886	10,457,835
Less Accumulated Depreciation	(6,413,879)	(5,748,865)
Net Property, Plant and Equipment	5,440,007	4,708,970
Total Assets	\$ 10,541,511	\$ 10,016,529
<b>LIABILITITES AND NET POSITION</b>		
Current Liabilities		
Accounts Payable	\$ 105,719	\$ 76,813
Due Under Cost Contracts	644,279	-
Due to Other Corporations (Note 14 and 15)	5,198,975	5,345,498
Total Current Liabilities	5,948,973	5,422,311
Long-Term Debt	-	-
Total Liabilities	5,948,973	5,422,311
Net Position		
Unrestricted	4,592,537	4,594,218
Total Net Position	4,592,537	4,594,218
Total Liabilities and Net Position	\$ 10,541,510	\$ 10,016,529

See accompanying notes.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**

Statement of Revenues, Expenses,  
and Changes in Net Position  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net Patient Service Revenue	\$ 12,880,496	\$ 13,307,734
Other Operating Revenue	<u>19,589</u>	<u>23,372</u>
Total Operating Revenue	<u>12,900,085</u>	<u>13,331,106</u>
 Expenses		
Nursing Services	2,904,633	2,517,364
Other Professional Services	6,395,070	6,149,647
General Services	826,050	796,592
Administrative Services	4,113,343	4,446,673
Depreciation	<u>481,234</u>	<u>534,447</u>
Total Expenses	<u>14,720,330</u>	<u>14,444,723</u>
Net (Loss) from Operations	<u>(1,820,245)</u>	<u>(1,113,617)</u>
 Non-Operating Income		
County Sales Tax	1,478,891	2,252,744
Donations and Grants	33,686	25,000
Other	-	-
Interest Income	-	1,872
Transfers from E.M.S. District	<u>305,987</u>	<u>250,473</u>
Total Non-Operating	<u>1,818,564</u>	<u>2,530,089</u>
Change in Net Position	(1,681)	1,416,472
Net Position, Beginning of Year	<u>4,594,218</u>	<u>3,177,746</u>
Net Position, End of Year	<u>\$ 4,592,537</u>	<u>\$ 4,594,218</u>

See accompanying notes.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Statement of Cash Flows  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Receipts From and on Behalf of Patients	\$ 13,395,779	\$ 13,003,507
Other Receipts and Payments	15,797	455,849
Payment to Suppliers and Contractors	(5,272,117)	(6,743,593)
Payments to Employees	<u>(8,440,318)</u>	<u>(7,976,436)</u>
Net Cash Flow from/(Used in)		
Operating Activities	<u>(300,859)</u>	<u>(1,260,673)</u>
Cash Flows from Non-Capital Financing Activities		
County Sales Tax Receipts	1,580,519	2,290,382
Donations and Other Receipts	33,686	25,000
E.M.S. Transfers	<u>305,987</u>	<u>250,473</u>
Net Cash Flow from Non-Capital		
Financing Activities	<u>1,920,192</u>	<u>2,565,855</u>
Capital and Related Financing Activities		
Purchase of Capital Assets (Net of Disposals)	<u>(1,212,271)</u>	<u>(1,105,546)</u>
Net Cash Flow from Capital and Related		
Investing Activities	<u>(1,212,271)</u>	<u>(1,105,546)</u>
Investing Activities		
Interest Income	<u>-</u>	<u>1,872</u>
Net Cash from Investing		
Activities	<u>-</u>	<u>1,872</u>
Net Increase(Decrease) in Cash	407,062	201,508
Cash - Beginning of Year	<u>3,132,335</u>	<u>2,930,827</u>
Cash - End of Year	<u><u>\$ 3,539,397</u></u>	<u><u>\$ 3,132,335</u></u>

See accompanying notes.



**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Statement of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Operating (Loss)	\$ (1,820,245)	\$ (1,113,617)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided By Operating Activities:		
Depreciation	481,234	534,447
Changes in:		
Patient Accounts Receivable	513,283	(304,227)
Estimated Third Party Payor Settlements	-	452,515
Supplies, Prepaid Expenses and Other Assets	(1,792)	(33,546)
Accounts Payable and Accrued Expenses	526,661	(796,245)
Net Cash Provided By/(Used in) Operating Activities	\$ (300,859)	\$ (1,260,673)

See accompanying notes.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2016 and 2015

**Note 1. Ownership**

Mercy Health/Love County 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.

**Note 2. Summary of Significant Accounting Policies**

General Accounting Consideration - Mercy Health/Love County Hospital provides short-term inpatient and outpatient healthcare. A large part of the Hospital services are for patients whose bills are paid in whole or in part by third-party payors, e.g., Medicare, Medicaid, and private insurance carriers. Record keeping, influenced by these third-party payors, requires a higher level of accountability including more financial and statistical information.

Patient Accounts Receivable - Patient service revenue is accounted for at established rates on the accrual basis. The Hospital provides allowances for doubtful receivables equal to the estimated collection losses that will be included in collection of all receivables. The estimated losses are based on historical collection experience coupled with review of the current status of the existing receivables. Preliminary calculations of revenue adjustments relative to third-party contractual agreements are included in the accompanying financial statements. Normal variances between these estimates and final settlements upon audit by third-party payors are included in the statement of revenues and expenses in the year in which the settlement occurs.

Inventory - Inventory is generally stated at cost on the first-in, first-out method.

Property, Plant and Equipment - Property, plant and equipment 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 related assets. The ranges of such useful lives are as follows:

Land Improvements	8-30 Years
Building	10-40 Years
Building Improvements	10-20 Years
Fixed Equipment	5-25 Years
Major Moveable Equipment	5-20 Years

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**

Notes to the Financial Statements

June 30, 2016 and 2015

**Note 2. Summary of Significant Accounting Policies (continued)**

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 disclosures 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.

Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Hospital's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. Under GASB Statement No. 34, the Hospital is required to present a statement of net assets classified between current and non-current assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and non-operating revenue and expenses and statement of cash flows using the direct methods.

Risk Management - The Hospital is exposed to various risk of loss from torts; theft of, damage to, 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 except certain natural disasters.

Income Taxes – The Hospital is exempt as a political subdivision of the state of Oklahoma.

Cash Equivalents – The Hospital considers all liquid investments which have original maturities of six months or less to be cash equivalents.

Medical Malpractice Coverage and Claims - The Hospital pays fixed premiums for annual medical malpractice coverage under occurrence-basis policies. In general, the Hospital bears risks for any individual claims with costs exceeding \$1,000,000 and the excess, if any, over aggregate cost of \$3,000,000 for claims occurring during the policy year. The Hospital accrues the expense of its share of malpractice claim costs, if any, of any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Hospital's own claims experience. No accrual for medical malpractice claims has been made in the accompanying financial statements.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2016 and 2015

**Note 2. Summary of Significant Accounting Policies (continued)**

Proprietary Fund Accounting – The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

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.

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.

**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.

**Note 4. Compensated Absences**

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using regular pay in effect at the balance sheet date plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at that date

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2016 and 2015

**Note 5. Capital Assets**

Capital asset activity for the years ended June 30, 2016 and 2015 is as follows:

	2016				
	Beginning Balance	Additions	Transfers	Adjustments/ Retirements	Ending Balance
Land and Improvements	\$ 280,038	\$ 240,805	\$ -	\$ -	\$ 520,843
Building	4,026,319	240,779	-	-	4,267,098
Equipment (Fixed and Moveable)	6,151,478	914,467	-	-	7,065,945
Total Capital Assets	<u>10,457,835</u>	<u>1,396,051</u>	<u>-</u>	<u>-</u>	<u>11,853,886</u>
Less Accumulated Depreciation	<u>(5,748,865)</u>	<u>(665,014)</u>	<u>-</u>	<u>-</u>	<u>(6,413,879)</u>
Capital Assets - Net	<u>\$ 4,708,970</u>	<u>\$ 731,037</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,440,007</u>
	2015				
	Beginning Balance	Additions	Transfers	Adjustments/ Retirements	Ending Balance
Land and Improvements	\$ 96,625	\$ 183,413	\$ -	\$ -	\$ 280,038
Building	3,040,043	449,678	536,598	-	4,026,319
Equipment (Fixed and Moveable)	6,168,931	472,455	(536,598)	46,690	6,151,478
Total Capital Assets	<u>9,305,599</u>	<u>1,105,546</u>	<u>-</u>	<u>46,690</u>	<u>10,457,835</u>
Less Accumulated Depreciation	<u>(5,167,728)</u>	<u>(534,447)</u>	<u>-</u>	<u>(46,690)</u>	<u>(5,748,865)</u>
Capital Assets - Net	<u>\$ 4,137,871</u>	<u>\$ 571,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,708,970</u>

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2016 and 2015

**Note 6. Accounts Receivable - Patients**

	2016	2015
Gross Accounts Receivable	\$ 4,374,878	\$ 5,044,976
Lsss Allowances for Bad Debt	(3,248,531)	3,403,346
Net Accounts Receivable	\$ 1,126,347	\$ 1,641,630

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

**Note 7. Long-Term Debt**

The Hospital had no long-term debt at June 30, 2016 and 2015.

**Note 8. Cash and Deposits**

At June 30, 2016 bank balances were as follows:

	2016
Insured (FDIC)	\$ 500,000
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	3,120,073
Total Bank Balance	\$ 3,620,073
Carrying Value	\$ 3,539,397

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Hospital holds deposits that are uninsured and un collateralized; uncollateralized 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 and unregistered, with securities held by the counterparty or by its trust department or agent but 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.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2016 and 2015

**Note 9. 403(b) Thrift Plan**

The Hospital adopted a Thrift Plan under Internal Revenue Code Section 403(b) for the benefit of its employees. The plan year end is June 30. The minimum employee contribution accepted in one percent of salary and the maximum is twenty-five percent of the employee's compensation for the limitation year. Employer contributions are made on behalf of each participant who has attained age 21 and completed one year of eligible service. The employer maximum contribution to the plan is five percent of total participants' compensation, with a cap on eligible compensation of \$120,000. Participants become fully vested in the plan after five years of service.

**Note 10. 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 11. 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 12. 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, 2016 and 2015.

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.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2016 and 2015

**Note 13. Net Patient Service Revenues**

Net Patient Service Revenues for the year ended June 30, 2016 and 2015 is computed as follows:

	2016	2015
Gross Patient Service Revenues	\$ 19,443,410	\$ 17,845,723
Less:		
Bad Debt and Charity	2,080,594	572,541
Administration and Other	2,570,229	2,765,961
Medicare and Medicaid	1,912,091	1,199,487
Net Patient Service Revenue	\$ 12,880,496	\$ 13,307,734

**Note 14. 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, 2016 through June 30, 2017. See Note 15.

**Note 15. Due to Other Corporations**

This full amount is payable to Mercy Memorial Health Center, Inc., who also manages the hospital. See also Note 14. The payable amount at June 30, 2016 and 2015 was \$5,198,975 and \$5,345,498 respectively.

**Note 16. Subsequent Events**

Management has evaluated subsequent events through January 16, 2017 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.



**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2016 and 2015

**Note 17. Going Concern**

At June 30, 2016 and 2015, the hospital's current liabilities exceeded current assets by \$847,469 and \$114,753 respectively. Also the hospital incurred operating losses for the years ending June 30, 2016 and 2015 totaling \$(1,820,245) and \$(1,113,617) 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**

Over the past two years, the hospital has lost two physicians and one physician assistant. This has had a substantial impact on the patient utilization of the Hospital. The Hospital has subsequently recruited and retained physicians and is actively pursuing other physician to practice at the facility. Management believes that the addition of the 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.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Net Patient Service Revenue  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Medical and Surgical	\$ 1,412,875	\$ 1,073,771
Adult Day Care	42,451	-
Central Service and Supply	456,649	376,551
Emergency Room	3,222,036	2,811,613
Laboratory	3,326,910	3,040,851
Radiology and E.K.G.	3,355,248	2,707,343
Pharmacy	1,465,010	1,969,432
Inhalation Therapy	589,412	428,495
Therapy Services	806,360	726,268
Rural Health Clinic	1,788,660	1,835,215
Brigade Service	1,118,629	1,130,447
Emergency Medical Service	<u>1,859,170</u>	<u>1,745,737</u>
Total Patient Service Revenue	19,443,410	17,845,723
Less Contractual Adjustments and Bad Debts		
Medicare and Medicaid	1,912,091	1,199,487
Bad Debts	2,080,594	572,541
Other Adjustments	<u>2,570,229</u>	<u>2,765,961</u>
Net Patient Service Revenue	<u>\$ 12,880,496</u>	<u>\$ 13,307,734</u>

See accompanying accountants' report.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Other Revenue  
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Miscellaneous	<u>\$ 19,589</u>	<u>\$ 23,372</u>
Total Other Operating Revenue	<u><u>\$ 19,589</u></u>	<u><u>\$ 23,372</u></u>

See accompanying accountants' report.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Expenses  
Years Ended June 30, 2016 and 2015

	2016		Total
	Salaries and Wages	Supplies and Other Expenses	
Nursing Services			
Medical and Surgical	\$ 1,611,640	\$ 243,518	\$ 1,855,158
Total Nursing Services	<u>\$ 1,611,640</u>	<u>\$ 243,518</u>	<u>\$ 1,855,158</u>
Other Professional Services			
Laboratory	\$ 384,065	\$ 947,393	\$ 1,331,458
Emergency Room	937,307	112,168	1,049,475
Radiology and EKG	236,046	106,238	342,284
Pharmacy	34,640	259,736	294,376
Medical Supplies	33,930	40,004	73,934
Respiratory Therapy	224,175	34,835	259,010
Therapy Services	-	403,774	403,774
Rural Health Clinic	1,527,560	140,315	1,667,875
Adult Day Care	133,884	32,879	166,763
Emergency Medical Service	1,595,516	129,330	1,724,846
Brigade Service	648,741	82,009	730,750
Total Professional Care Expense	<u>\$ 5,755,864</u>	<u>\$ 2,288,681</u>	<u>\$ 8,044,545</u>
General Services			
Operation and Maintenance	\$ 15,840	\$ 347,456	\$ 363,296
Medical Records	117,632	22,602	140,234
Dietary	101,010	75,056	176,066
Housekeeping and Laundry	100,436	46,018	146,454
Total General Services	<u>\$ 334,918</u>	<u>\$ 491,132</u>	<u>\$ 826,050</u>
Administrative Services			
Administration and Office	\$ 737,896	\$ 1,405,885	\$ 2,143,781
Employees Benefits	-	1,969,562	1,969,562
Total Administrative Services	<u>\$ 737,896</u>	<u>\$ 3,375,447</u>	<u>\$ 4,113,343</u>

See accompanying accountants' report.

2015		
Salaries and Wages	Supplies and Other Expenses	Total
\$ 1,499,906	\$ 196,697	\$ 1,696,603
<u>\$ 1,499,906</u>	<u>\$ 196,697</u>	<u>\$ 1,696,603</u>
\$ 410,049	\$ 317,625	\$ 727,674
781,270	39,491	820,761
223,439	121,533	344,972
32,338	194,732	227,292
32,158	140,467	172,625
221,550	25,742	247,292
-	371,580	371,580
1,262,673	185,156	1,447,829
117,268	42,453	159,721
1,620,887	110,408	1,731,295
634,271	85,318	719,589
<u>\$ 5,335,903</u>	<u>\$ 1,634,505</u>	<u>\$ 6,970,630</u>
\$ 15,840	\$ 358,790	\$ 374,630
99,197	25,060	124,257
89,986	64,419	154,405
92,870	50,430	143,300
<u>\$ 297,893</u>	<u>\$ 498,699</u>	<u>\$ 796,592</u>
\$ 842,734	\$ 1,617,918	\$ 2,460,652
-	1,986,021	1,986,021
<u>\$ 842,734</u>	<u>\$ 3,603,939</u>	<u>\$ 4,446,673</u>

**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  
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, 2016, 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 January 16, 2017.

**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. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

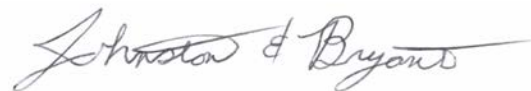
The Board of Control  
Love County Health Center dba  
Mercy Health Love County  
Marietta, Oklahoma  
Page two

### **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  
January 21, 2016

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Schedule of Findings  
Year Ended June 30, 2016

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, 2016

**2015-001 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 monthly basis.

**Condition:** The main checking account was not reconciled to the general ledger on a monthly basis, resulting in correcting entries not being made. The general ledger balance differed to the corrected bank balance by \$332,459 at June 30, 2015. This was also identified as a deficiency for the year ended June 30, 2014.

**Effect or Potential Effect:** The balance of cash in the hospital's general checking account was understated by the above amount. Also, the corresponding effect on related balance sheet accounts and revenue and expense accounts could not be determined.

**Recommendation:** The general cash account must be reconciled on a monthly basis in order to make timely corrections to the general ledger so materially correct financial statements can be presented to management on a timely basis.

**Current Status:** The Hospital has been able to properly reconcile the main checking account in the year ended June 30, 2016.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Schedule of Prior year Audit Findings  
Year Ended June 30, 2016

**2015-002 Accounts Receivable – Adult Day Care Unit**

**Criteria:** in order to present materially correct financial statements and to detect and prevent potential fraud and errors and omissions, accounts receivable for the Adult Day Care Unit must be recorded on a daily basis.

**Condition:** The accounts receivable for the Adult Day Care Unit were not recorded. Revenue for the unit was recorded on a cash basis and posted to the incorrect general ledger account as miscellaneous income.

**Effect or Potential Effect:** The effect on the financial statements was not determinable.

**Recommendation:** Accounts Receivable must be recorded on a daily basis. Payments on accounts are to be posted on a timely basis. Comparison of patient utilization to revenue should be made to insure all revenue is being recorded properly in a general ledger departmental revenue account.

**Current Status:** Adult Day Care Revenue and Accounts Receivable were properly recorded in the year ended June 30, 2016.