

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY**
Financial Statements
June 30, 2015 and 2014

With Independent Auditors' Report Thereon

LOVE COUNTY HEALTH CENTER dba MERCY HEALTH LOVE COUNTY

JUNE 30, 2015 AND 2014

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JOHNSTON & BRYANT

Certified Public Accountants

Pete Johnston, C.P.A.
Allen Bryant, Jr., C.P.A.

P.O. Box 1564
Ada, Oklahoma 74821-1564
(580) 332-5549

MEMBER
American Institute of Certified Public Accountants
Oklahoma Society of Certified Public Accountants

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, 2015 and 2014, 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.

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

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 determinable.

Qualified Opinion

In our opinion, except for the possible effects, if any, of the matters 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, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter 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, current liabilities exceed current assets, 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.

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.

The Board of Control
Love County Health Center dba
Mercy Health Love County
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016 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 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 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.

A handwritten signature in cursive script that reads "Johnston & Bryans". The signature is written in dark ink and is positioned to the right of the date and location text.

Ada, Oklahoma
January 21, 2016

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY**
Balance Sheet
June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|----------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash on Hand and in Banks, including Time Deposits | \$ 3,132,335 | \$ 2,930,827 |
| Accounts Receivable - Patients, Less Allowances | 1,641,630 | 1,337,403 |
| Other Receivables | 217,507 | 235,102 |
| Inventories | 219,880 | 195,727 |
| Prepaid Expenses | 96,207 | 106,852 |
| Due Under Cost Contracts | - | 452,515 |
| | <u>5,307,559</u> | <u>5,258,426</u> |
| Property, Plant and Equipment | 10,457,835 | 9,305,599 |
| Less Accumulated Depreciation | <u>(5,748,865)</u> | <u>(5,167,728)</u> |
| Net Property, Plant and Equipment | <u>4,708,970</u> | <u>4,137,871</u> |
| Total Assets | <u>\$ 10,016,529</u> | <u>\$ 9,396,297</u> |
| LIABILITIES AND NET POSITION | | |
| Current Liabilities | | |
| Accounts Payable | \$ 76,813 | \$ 593,618 |
| Due to Other Corporations (Note 14 and 15) | <u>5,345,498</u> | <u>5,624,933</u> |
| Total Current Liabilities | <u>5,422,311</u> | <u>6,218,551</u> |
| Long-Term Debt | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>5,422,311</u> | <u>6,218,551</u> |
| Net Position | | |
| Unrestricted | <u>4,594,218</u> | <u>3,177,746</u> |
| Total Net Position | <u>4,594,218</u> | <u>3,177,746</u> |
| Total Liabilities and Net Position | <u>\$ 10,016,529</u> | <u>\$ 9,396,297</u> |

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, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|---------------------|---------------------|
| Net Patient Service Revenue | \$ 13,307,734 | \$ 10,932,018 |
| Other Operating Revenue | <u>23,372</u> | <u>10,033</u> |
| Total Operating Revenue | <u>13,331,106</u> | <u>10,942,051</u> |
| Expenses | | |
| Nursing Services | 2,517,364 | 1,679,672 |
| Other Professional Services | 6,149,647 | 6,537,305 |
| General Services | 796,592 | 680,596 |
| Administrative Services | 4,446,673 | 3,719,490 |
| Depreciation | <u>534,447</u> | <u>523,851</u> |
| Total Expenses | <u>14,444,723</u> | <u>13,140,914</u> |
| Net (Loss) from Operations | <u>(1,113,617)</u> | <u>(2,198,863)</u> |
| Non-Operating Income (Expenses) | | |
| County Sales Tax | 2,252,744 | 1,312,685 |
| Donations and Grants | 25,000 | 60,000 |
| Other | - | 71,760 |
| Interest Income | 1,872 | 926 |
| E.M.S. Transfers from E.M.S. District | <u>250,473</u> | <u>202,342</u> |
| Total Non-Operating | <u>2,530,089</u> | <u>1,647,713</u> |
| Change in Net Position | 1,416,472 | (551,150) |
| Net Position, Beginning of Year | <u>3,177,746</u> | <u>3,728,896</u> |
| Net Position, End of Year | <u>\$ 4,594,218</u> | <u>\$ 3,177,746</u> |

See accompanying notes.

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

Statement of Cash Flows

Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|---------------|---------------|
| Operating Activities | | |
| Receipts From and on Behalf of Patients | \$ 13,003,507 | \$ 11,249,788 |
| Other Receipts and Payments | 455,849 | 10,133 |
| Payment to Suppliers and Contractors | (6,743,593) | (2,769,940) |
| Payments to Employees | (7,976,436) | (7,442,884) |
| Net Cash Flow from/(Used in) | | |
| Operating Activities | (1,260,673) | 1,047,097 |
| Cash Flows from Non-Capital Financing Activities | | |
| County Sales Tax Receipts | 2,290,382 | 1,161,878 |
| Donations and Other Recipets | 25,000 | 117,757 |
| E.M.S. Transfers | 250,473 | 202,342 |
| Net Cash Flow from Non-Capital | | |
| Financing Activities | 2,565,855 | 1,481,977 |
| Capital and Related Financing Activities | | |
| Purchase of Capital Assets | (1,105,546) | (1,405,430) |
| Net Cash Flow from Capital and Related | | |
| Investing Activities | (1,105,546) | (1,405,430) |
| Investing Activities | | |
| Interest Income | 1,872 | 926 |
| Net Cash from Investing | | |
| Activities | 1,872 | 926 |
| Net Increase(Decrease) in Cash | 201,508 | 1,124,570 |
| Cash – Beginning of Year | 2,930,827 | 1,806,257 |
| Cash – End of Year | \$ 3,132,335 | \$ 2,930,827 |

See accompanying notes.

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

Statement of Cash Flows
Years Ended June 30, 2015 and 2014

| | 2015 | 2014 |
|--|----------------|----------------|
| Cash Flows from Operating Activities | | |
| Operating (Loss) | \$ (1,113,617) | \$ (2,198,863) |
| Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided By Operating Activities: | | |
| Depreciation | 534,447 | 523,851 |
| Changes in: | | |
| Patient Accounts Receivable | (304,227) | 317,770 |
| Estimated Third Party Payor Settlements | 452,515 | 1,380,760 |
| Supplies, Prepaid Expenses and Other Assets | (33,546) | 35,593 |
| Accounts Payable and Accrued Expenses | (796,245) | 987,986 |
| Net Cash Provided By/(Used in) | | |
| Operating Activities | \$ (1,260,673) | \$ 1,047,097 |

See accompanying notes.

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

Notes to the Financial Statements

June 30, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

Note 5. Capital Assets

Capital asset activity for the years ended June 30, 2015 and 2014 is as follows:

| | 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> |
| | 2014 | | | | |
| | Beginning Balance | Additions | Transfers | Adjustments/ Retirements | Ending Balance |
| Land and Improvements | \$ 73,126 | \$ 23,499 | \$ - | \$ - | \$ 96,625 |
| Building | 2,253,130 | 786,913 | - | - | 3,040,043 |
| Equipment (Fixed and Moveable) | 5,573,913 | 595,018 | - | - | 6,168,931 |
| Total Capital Assets | <u>7,900,169</u> | <u>1,405,430</u> | <u>-</u> | <u>-</u> | <u>9,305,599</u> |
| Less Accumulated Depreciation | <u>(4,657,779)</u> | <u>(523,851)</u> | <u>-</u> | <u>13,902</u> | <u>(5,167,728)</u> |
| Capital Assets - Net | <u>\$ 3,242,390</u> | <u>\$ 881,579</u> | <u>\$ -</u> | <u>\$ 13,902</u> | <u>\$ 4,137,871</u> |

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

Notes to the Financial Statements
June 30, 2015 and 2014

Note 6. Accounts Receivable - Patients

| | 2015 | 2014 |
|-------------------------------|--------------|--------------|
| Gross Accounts Receivable | \$ 5,044,976 | \$ 5,140,723 |
| Less Allowances for Bad Debts | 3,403,346 | (3,803,320) |
| Net Accounts Receivable | \$ 1,641,630 | \$ 1,337,403 |

The allowance for uncollectible accounts is based upon managements estimate.

Note 7. Long-Term Debt

The Hospital had no long-term debt at June 30, 2015 and 2014.

Note 8. Cash and Deposits

At June 30, 2015 bank balances were as follows:

| | 2015 |
|--|--------------|
| Insured (FDIC) | \$ 500,000 |
| Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name | 2,652,123 |
| | - |
| Total Bank Balance | \$ 3,152,123 |
| Carrying Value | \$ 3,132,335 |

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, 2015 and 2014

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, 2015 and 2014.

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, 2015 and 2014

Note 13. Net Patient Service Revenues

Net Patient Service Revenues for the year ended June 30, 2015 and 2014 is computed as follows:

| | 2015 | 2014 |
|--------------------------------|---------------|---------------|
| Gross Patient Service Revenues | \$ 17,845,723 | \$ 17,236,877 |
| Less: | | |
| Bad Debt and Charity | 572,541 | 1,850,368 |
| Administration and Other | 2,765,961 | 1,687,212 |
| Medicare and Medicaid | 1,199,487 | 2,767,279 |
| Net Patient Service Revenue | \$ 13,307,734 | \$ 10,932,018 |

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, 2015 through June 30, 2016. See Note 15.

Note 15. Due to Other Corporations

This full amount is payable to Mercy Memorial Health Center, Inc., the same corporation that currently manages the hospital. See also Note 14. The payable amount at June 30, 2015 and 2014 was \$5,345,498 and \$5,624,939 respectively.

Note 16. Subsequent Events

Management has evaluated subsequent events through January 21, 2016 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, 2015 and 2014

Note 17. Going Concern

At June 30, 2015 and 2014, the hospital's liabilities exceeded current assets by \$114,753 and \$960,131 respectively. Also the hospital incurred operating losses for the years ending June 30, 2015 and 2014 totaling \$(1,113,617) and \$(2,198,863) 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, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|--|--------------------------|--------------------------|
| Medical and Surgical | \$ 1,073,771 | \$ 1,808,553 |
| Central Service and Supply | 376,551 | 443,986 |
| Emergency Room | 2,811,613 | 2,529,759 |
| Laboratory | 3,040,851 | 2,871,676 |
| Radiology and E.K.G. | 2,707,343 | 2,491,348 |
| Pharmacy | 1,969,432 | 1,371,202 |
| Inhalation Therapy | 428,495 | 465,452 |
| Therapy Services | 726,268 | 602,523 |
| Rural Health Clinic | 1,835,215 | 1,897,403 |
| Brigade Service | 1,130,447 | 1,076,556 |
| Emergency Medical Service | <u>1,745,737</u> | <u>1,678,419</u> |
| Total Patient Service Revenue | 17,845,723 | 17,236,877 |
| Less Contractual Adjustments and Bad Debts | | |
| Medicare and Medicaid | 1,199,487 | 2,767,279 |
| Bad Debts | 572,541 | 1,850,368 |
| Other Adjustments | <u>2,765,961</u> | <u>1,687,212</u> |
| Net Patient Service Revenue | <u>\$ 13,307,734</u> | <u>\$ 10,932,018</u> |

See accompanying accountants' report.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY**
Other Revenue
Years Ended June 30, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|------------------|------------------|
| Miscellaneous | \$ <u>23,372</u> | \$ <u>10,003</u> |
| Total Other Operating Revenue | \$ <u>23,372</u> | \$ <u>10,003</u> |

See accompanying accountants' report.

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

Expenses

Years Ended June 30, 2015 and 2014

| | 2015 | | |
|---------------------------------|-----------------------|-----------------------------------|---------------------|
| | Salaries and Wages | Supplies and Other Expenses | Total |
| Nursing Services | | | |
| Medical and Surgical | \$ 1,499,906 | \$ 196,697 | \$ 1,696,603 |
| Total Nursing Services | <u>\$ 1,499,906</u> | <u>\$ 196,697</u> | <u>\$ 1,696,603</u> |
| Other Professional Services | | | |
| Laboratory | \$ 410,049 | \$ 317,625 | \$ 727,674 |
| Emergency Room | 781,270 | 39,491 | 820,761 |
| Radiology and EKG | 223,439 | 121,533 | 344,972 |
| Pharmacy | 32,338 | 194,732 | 227,070 |
| Medical Supplies | 32,158 | 140,467 | 172,625 |
| Respiratory Therapy | 221,550 | 25,742 | 247,292 |
| Therapy Services | - | 371,580 | 371,580 |
| Rural Health Clinic | 1,262,673 | 185,156 | 1,447,829 |
| Adult Day Care | 117,268 | 42,453 | 159,721 |
| Emergency Medical Service | 1,620,887 | 110,408 | 1,731,295 |
| Brigade Service | 634,271 | 85,318 | 719,589 |
| Total Professional Care Expense | <u>\$ 5,335,903</u> | <u>\$ 1,634,505</u> | <u>\$ 6,970,408</u> |
| General Services | | | |
| Operation and Maintenance | \$ 15,840 | \$ 358,790 | \$ 374,630 |
| Medical Records | 99,197 | 25,060 | 124,257 |
| Dietary | 89,986 | 64,419 | 154,405 |
| Housekeeping and Laundry | 92,870 | 50,430 | 143,300 |
| Total General Services | <u>\$ 297,893</u> | <u>\$ 498,699</u> | <u>\$ 796,592</u> |
| Administrative Services | | | |
| Administration and Office | \$ 842,734 | \$ 1,617,918 | \$ 2,460,652 |
| Employees Benefits | - | 1,986,021 | 1,986,021 |
| Total Administrative Services | <u>\$ 842,734</u> | <u>\$ 3,603,939</u> | <u>\$ 4,446,673</u> |

See accompanying accountants' report.

| 2014 | | |
|-----------------------|-----------------------------------|---------------------|
| Salaries and Wages | Supplies and Other Expenses | Total |
| \$ 1,492,340 | \$ 187,332 | \$ 1,679,672 |
| <u>\$ 1,492,340</u> | <u>\$ 187,332</u> | <u>\$ 1,679,672</u> |
| \$ 374,422 | \$ 210,244 | \$ 584,666 |
| 571,975 | 75,940 | 647,915 |
| 211,557 | 53,795 | 265,352 |
| 30,526 | 198,225 | 228,751 |
| 31,340 | 155,499 | 186,839 |
| 222,785 | 20,537 | 243,322 |
| - | 365,872 | 365,872 |
| 1,273,552 | 183,194 | 1,456,746 |
| 70,573 | 6,114 | 76,687 |
| 1,629,795 | 123,428 | 1,753,223 |
| <u>\$ 639,604</u> | <u>\$ 88,328</u> | <u>\$ 727,932</u> |
| <u>\$ 5,056,129</u> | <u>\$ 1,481,176</u> | <u>\$ 6,537,305</u> |
| \$ - | \$ 281,187 | \$ 281,187 |
| 102,290 | 16,901 | 119,191 |
| 73,279 | 61,145 | 134,524 |
| 96,337 | 49,357 | 145,694 |
| <u>\$ 271,906</u> | <u>\$ 408,690</u> | <u>\$ 680,596</u> |
| \$ 622,509 | \$ 1,197,285 | \$ 1,819,794 |
| <u>-</u> | <u>1,899,696</u> | <u>1,899,696</u> |
| <u>\$ 622,509</u> | <u>\$ 3,096,981</u> | <u>\$ 3,719,490</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, 2015, 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 21, 2016.

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 identify deficiencies in internal control that we consider to be material weaknesses. These deficiencies are described in the accompanying schedule of findings and questioned costs items 2015-001 and 2015-002.

The Board of Control
Love County Health Center dba
Mercy Health Love County
Marietta, Oklahoma
Page 2

Compliance and Other Matters

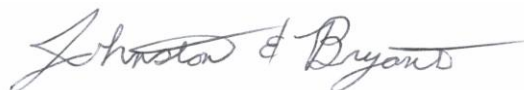
As part of obtaining reasonable assurance about whether Love County Health Center dba, Mercy Health Love County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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*.

Love County Health Center dba Mercy Health Love County's Response to Findings

Love County Health Center dba Mercy Health Love County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Love County Health Center dba Mercy Health Love County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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, 2015

2015-001 Current Year Finding

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.

Responsible Official's Response: The cash account was reconciled to a variance from a prior year and currently is reconciled on a monthly basis with any adjustments made in a timely basis.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY**
Schedule of Findings
Year Ended June 30, 2015

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.

Responsible Official's Response: The recommendations will be implemented for FY2016.

**LOVE COUNTY HEALTH CENTER dba
MERCY HEALTH LOVE COUNTY**
Schedule of Findings
Year Ended June 30, 2015

2014-001 Prior Year Finding

Reconciliation of General Bank Account

Criteria: In order to present materially correct financial statements for use by management for decision making, the general ledger accounts should be properly reconciled on a monthly basis.

Condition: The main checking account was not reconciled to the supporting bank statements on a monthly basis.

Effect or Potential Effect: Once reconciled after year end, the general ledger balance differed by \$171,831.95 to the reconciled bank statement.

Recommendation: Monthly reconciliations of all bank accounts should be provided to hospital management and adjustments should be authorized and made on a timely basis.

Responsible Official's Response: Hospital and management personnel are working on the reconciliation problem and are taking proper steps to insure all bank accounts are reconciled monthly to the general ledger. Hospital personnel are to agree to the reconciliations.

Status: See current year finding 2015-001