Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.

Independent Auditor's Reports and Financial Statements

December 31, 2014

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Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
December 31, 2014

Contents

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Independent Auditor's Report

Board of Trustees
Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Shattuck, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (the Hospital), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc., as of December 31, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 11*, the Hospital has suffered recurring losses from operations and a declining revenue base, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in *Note 11*. The accompanying 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 Matter

Management has omitted the management's 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 February 14, 2019, 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 that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's 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.

BKD, LLP

Tulsa, Oklahoma
February 14, 2019

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Balance Sheet
December 31, 2014

Assets

Current Assets	
Cash	$ 619,805
Short-term investments	261,202
Patient accounts receivable, net of allowance of $1,230,000	936,958
County appropriations and other receivables	250,279
Estimated amounts due from third-party payers	30,000
Supplies and prepaid expenses	237,409
Total current assets	2,335,653
Noncurrent Cash and Investments	
Restricted for debt service	415,548
Held by county for operations	113,318
Total noncurrent cash and investments	528,866
Capital Assets, Net	9,708,174
Total assets	$ 12,572,693

Liabilities and Net Position

Current Liabilities	
Current maturities of long-term debt	$ 651,654
Accounts payable	517,576
Accrued expenses	368,563
Interest payable	4,544
Total current liabilities	1,542,337
Long-Term Debt	5,982,499
Total liabilities	7,524,836
Net Position	
Net investment in capital assets	3,046,520
Restricted – expendable for debt service	415,548
Restricted – expendable for operations	363,597
Unrestricted	1,222,192
Total net position	5,047,857
Total liabilities and net position	$ 12,572,693

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2014

Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts of $1,192,996	$ 5,636,733
Other	1,190,730
Total operating revenues	6,827,463
Operating Expenses	
Salaries, wages and employee benefits	3,831,829
Supplies and other expenses	4,618,761
Depreciation	808,584
Total operating expenses	9,259,174
Operating Loss	(2,431,711)
Nonoperating Revenues (Expenses)	
County appropriations – unrestricted	1,352,392
Investment income	1,576
Noncapital gifts	103,870
Interest expense	(313,811)
Total nonoperating revenues (expenses)	1,144,027
Deficiency of Revenues over Expenses and Decrease in Net Position	(1,287,684)
Net Position, Beginning of Year	6,335,541
Net Position, End of Year	$ 5,047,857

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Statement of Cash Flows
Year Ended December 31, 2014

Operating Activities	
Receipts from and on behalf of patients	$ 5,695,497
Payments to suppliers and contractors	(4,445,157)
Payments to employees	(3,808,396)
Other receipts and payments, net	1,211,364
Net cash used in operating activities	(1,346,692)
Noncapital Financing Activities	
Noncapital gifts	103,870
County appropriations supporting operations	1,277,226
Net cash provided by noncapital financing activities	1,381,096
Capital and Related Financing Activities	
Principal paid on long-term debt	(442,531)
Interest paid on long-term debt	(313,811)
Purchase of capital assets	(73,809)
Net cash used in capital and related financing activities	(830,151)
Investing Activities	
Purchase of noncurrent cash and investments	(816,825)
Proceeds from sale of noncurrent cash and investments	815,826
Income on investments	1,576
Net cash provided by investing activities	577
Decrease in Cash	(795,170)
Cash, Beginning of Year	1,796,131
Cash, End of Year	$ 1,000,961
Reconciliation of Cash to the Balance Sheet	
Cash in current assets	$ 619,805
Cash in noncurrent cash and investments	
Restricted for debt service	267,838
Held by county for operations	113,318
Total cash	$ 1,000,961

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

Operating loss	$	(2,431,711)
Items not requiring cash		
Provision for uncollectible accounts		1,192,996
Depreciation		808,584
Changes in operating assets and liabilities		
Patient accounts receivable, net		(985,569)
Supplies, prepaid expenses and other receivables		58,081
Estimated amounts due to third-party payers		(130,000)
Accounts payable and accrued expenses		140,927
Net cash used in operating activities	$	(1,346,692)

Supplemental Cash Flows Information

Capital assets in accounts payable	$	22,957
Prepaid expenses in accounts payable	$	35,388

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Shattuck Hospital Authority (the Authority) was created under a trust indenture dated August 6, 1964, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of Shattuck, Oklahoma.

The Authority operates Newman Memorial Hospital, Inc. (the Hospital), a not-for-profit corporation, under an operation and maintenance contract. The contract term is from June 1, 1973 to July 1, 2003, or until such date as all indebtedness incurred by the Authority has been paid.

The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services in Shattuck, Oklahoma. Through February 2014, it also operated a home health agency in the same geographic area.

Basis of Accounting and Presentation

The accompanying financial statements 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. County appropriations, investment income and interest on capital assets-related debt 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014, the Hospital had no cash equivalents.

Investments and Investment Income

Short-term investments and noncurrent cash and investments include certificates of deposit carried at amortized cost. Investment income includes interest income on investments.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts due from patients, third-party payers and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

Capital Assets

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

The following estimated useful lives are being used by the Hospital:

Land improvements	5–40 years
Buildings, improvements and fixed equipment	5–40 years
Major moveable equipment	3–20 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date, if any, is included in long-term liabilities.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

County Appropriations

During 2010, the citizens of Ellis County, Oklahoma (the County), approved a ½-cent sales tax for a five-year period from October 1, 2010 to September 30, 2015. In 2014, the Hospital received approximately 16% of its financial support from county appropriations related to the sales tax. Unexpended funds related to county appropriations are reflected on the accompanying balance sheet as held by county for operations.

Subsequent to year-end, the citizens of the County approved a ⅔-cent sales tax from October 1, 2015 to September 30, 2018, and a ½-cent sales tax from October 1, 2018 to September 30, 2020. The proceeds of this sales tax can be used exclusively for the ongoing operation and maintenance expenses of the Hospital.

Electronic Health Records Incentive Programs

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

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

In 2014, the Hospital completed the second-year requirements under the Medicare and Medicaid programs and has recorded revenue of approximately $1,076,000, which is included in other operating revenues in the accompanying statement of revenues, expenses and changes in net position.

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; medical malpractice; 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 three preceding years.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Income Taxes

As a governmental entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Supplemental Hospital Offset Payment Program

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

During the year ended December 31, 2014, the Hospital had the following activity related to the SHOPP:

SHOPP funds received	$ 216,000
SHOPP assessment fees paid	224,000
Net benefit under SHOPP	$ (8,000)

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statement of revenues, expenses and changes in net position.

The annual amounts to be received and paid by the Hospital over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. In 2016, the Hospital was approved by CMS to be a critical access hospital (CAH). As a CAH, the Hospital is no longer required to pay the SHOPP assessment fees.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patient's acuity. 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 December 31, 2014.

- **Medicaid** – Inpatient services and substantially all outpatient services rendered to the state's Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors with no retroactive adjustment.

Approximately 46% of the Hospital's gross patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2014. Laws and regulations governing 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.

Note 3: Deposits and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At December 31, 2014, none of the Hospital's bank balances of approximately $1,650,000 were uninsured or uncollateralized. No legal opinion has been obtained regarding the enforceability of the collateral arrangements. These amounts do not include funds held by the County on behalf of the Hospital.

The carrying values of deposits are included in the accompanying balance sheet as follows:

Cash	$	619,805
Short-term investments		261,202
Noncurrent cash and investments		528,866
	$	1,409,873

Investment Income

Investment income for the year ended December 31, 2014, consisted primarily of interest income.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2014, consisted of:

Patients	$ 509,870
Insurance carriers	1,410,191
Medicare	175,369
Medicaid	71,528
	2,166,958
Less allowance for uncollectible accounts	1,230,000
Patient accounts receivable, net	$ 936,958

Note 5: Capital Assets

Capital assets activity for the year ended December 31, 2014, was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 41,025	$ -	$ -	$ -	$ 41,025
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	12,485,288	-	-	-	12,485,288
Major moveable equipment	10,447,810	77,710	-	-	10,525,520
	23,012,868	77,710	-	-	23,090,578
Less accumulated depreciation					
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	3,865,270	349,219	-	-	4,214,489
Major moveable equipment	8,669,805	459,365	-	-	9,129,170
	12,573,820	808,584	-	-	13,382,404
Capital assets, net	$ 10,439,048	$ (730,874)	$ -	$ -	$ 9,708,174

Note 6: Long-Term Debt

The following is a summary of long-term debt transactions for the Hospital for the year ended December 31, 2014:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
USDA mortgage	$ 1,015,074	$ -	$ (44,844)	$ 970,230	$ 47,016
USDA construction loans	4,561,597	-	(69,352)	4,492,245	72,117
Note payable to bank	424,074	-	(117,715)	306,359	306,359
Capital lease obligation	1,075,939	-	(210,620)	865,319	226,162
Total long-term debt	$ 7,076,684	$ -	$ (442,531)	$ 6,634,153	$ 651,654

USDA Mortgage and Construction Loans

The Authority entered into a mortgage obligation with the U.S. Department of Agriculture (USDA), which is secured by a first mortgage on the Hospital's property and a pledge of the Hospital's gross revenues; with principal and interest of $7,674 payable monthly through June 2030; interest at 4.75%.

The Authority entered into three construction loan obligations with the USDA, which are secured by a pledge of the Hospital's gross revenues; with principal and interest of $20,875 collectively payable monthly through 2046; interest at 4.00%.

The debt service requirements, based on the loan terms and the amount funded as of December 31, 2014, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2015	$ 342,587	$ 119,133	$ 223,454
2016	342,587	124,355	218,232
2017	342,587	129,806	212,781
2018	342,587	135,498	207,089
2019	342,588	141,441	201,147
2020–2024	1,712,935	805,975	906,960
2025–2029	1,674,565	966,058	708,507
2030–2034	1,252,495	712,086	540,409
2035–2039	1,252,495	869,455	383,040
2040–2044	1,252,498	1,061,604	190,894
2045–2046	410,888	397,064	13,824
	$ 9,268,812	$ 5,462,475	$ 3,806,337

Note Payable to Bank

The note payable to bank is due on demand, but if no demand is made the note is due June 2017, with principal and interest payable monthly, including interest at the Shattuck National Bank Base Adjustable Daily Rate minus 1.75% (4.25% at December 31, 2014). The note payable is secured by substantially all assets of the Hospital and a guaranty by the Authority. The debt service requirements, assuming no demand is made, as of December 31, 2014, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2015	$ 133,735	$ 122,906	$ 10,829
2016	133,735	128,327	5,408
2017	55,763	55,126	637
	$ 323,233	$ 306,359	$ 16,874

Capital Lease Obligation

At December 31, 2014, the Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2014, totaled $1,189,627, net of accumulated depreciation of $376,715. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 7% together with the present value of the future minimum lease payments as of December 31, 2014:

Year Ending December 31,	
2015	$ 279,549
2016	279,549
2017	279,549
2018	139,259
Total minimum lease payments	977,906
Less amount representing interest	112,587
Present value of future minimum lease payments	$ 865,319

Note 7: Charity Care and Other Community Benefits

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs relating to charity care services for the year ended December 31, 2014, were approximately $41,000.

The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges based on the most recently filed Medicare cost report. In addition to uncompensated charges, the Hospital also commits significant time and resources to endeavors and critical services that meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments and community educational services.

Note 8: Retirement Plan

The Hospital contributes to a defined contribution pension plan covering all employees who meet the eligibility requirements. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan provides retirement and death benefits to plan members and their beneficiaries. The Hospital's funding policy is to contribute one-third of an employee's annual contribution up to a maximum match of 2% of the employee's annual salary. Subsequent to year-end, the Hospital discontinued the employer-matching contribution. Participant interests are fully vested in their contributions and the Hospital's contributions immediately. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll are 4.0% and 0.5%, respectively, for the year ended December 31, 2014. Contributions actually made by plan members and the Hospital aggregated approximately $129,000 and $17,000, respectively, for 2014.

Note 9: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. Through June 30, 2009, the Hospital was self-insured for health claims of participating employees and dependents up to $30,000 per claim with an annual aggregate. Effective July 1, 2009, the Hospital switched to a plan under which it was self-insured for health claims of participating employees and dependents from $750 up to $5,000 per employee per year. Effective July 1, 2014, the Hospital eliminated the self-insured component of the health insurance program. Commercial stop-loss insurance coverage is purchased for claims in excess of the individual claim and aggregate annual amounts. A provision was accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2014 is summarized as follows:

Balance, beginning of year	$	21,316
Current year claims incurred and changes in estimates for claims incurred in prior years		9,841
Claims and plan expenses paid		(21,157)
Balance, end of year	$	10,000

Note 10: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 11: Management's Consideration of Going Concern Matters

The Hospital has incurred losses for several years and has had negative cash flows from operating activities. The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year. These include reviewing service lines, expenses and staffing as well as the conversion to CAH status in 2016. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.

Note 12: Subsequent Events

In 2016, the Hospital was approved by CMS to be deemed a CAH. The Hospital also closed its operating room and obstetric service lines in 2015. In addition, the Hospital entered into management agreements with certain firms to provide management of the operations of the Hospital. NewLight Healthcare served as the management agreement contractor from September 2015 to April 2016. Peoples Choice Hospital was the contracted management agreement partner with the Hospital from May 2016 to June 2017. The Ellis County Commissioners Board approved $1.4 million as assistance funds to the Hospital.

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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*

Independent Auditor's Report

Board of Trustees
Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Shattuck, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (the Hospital), which comprise the balance sheet as of December 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2019, which contained an *Emphasis of Matter* paragraph regarding substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time and an *Other Matter* paragraph regarding omission of required supplementary information.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 Hospital'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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2014-1, 2014-2, 2014-3, 2014-4, 2014-5 and 2014-6 that we consider to be material weaknesses.

Board of Trustees
Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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*.

Hospital's Responses to the Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

BKD, LLP

Tulsa, Oklahoma
February 14, 2019

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2014

Reference Number	Finding
2014-1	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant allowances and estimates in the financial statements. Condition – Management's procedures for recording significant estimates related to patient accounts receivable and sales tax receivable were not sufficient to identify necessary adjustments. Context – Material journal entries were required to correct misstatements related to the allowance for patient accounts receivable and sales tax receivable. Effect – Potentially material misstatements in the financial statements could occur. Cause – The processes of preparing estimates of allowances for contractual adjustments and bad debts and sales tax receivable were inadequate. Recommendation – Management should evaluate the procedures in place used to estimate significant allowances and estimates in the financial statements. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to periodically evaluate the methodologies used in accurately estimating allowances and estimates.

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2014

Reference Number	Finding
2014-2	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control to provide accurate recording and classification of accounting transactions.
	Condition – The Hospital does not have a process by which accounts payable are accrued on a monthly basis.
	Context – Management did not properly record accounts payable during the year.
	Effect – Month-end and unaudited year-end financial statements are misstated by a potentially material amount.
	Cause – During the year, the accrual of invoices received was not properly handled. At year-end, there were a significant number of invoices that were not properly accrued into accounts payable.
	Recommendation – Management should consider implementing procedures, such as reviewing open purchase orders and monthly expenses, to ensure accounts payable are accurately recorded on a monthly basis.
	Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested actions and make any changes deemed appropriate within the next year.

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2014

Reference Number	Finding
2014-3	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Reconciliation processes surrounding cash accounts are inadequate. Context – The monthly bank reconciliation process did not result in the timely identification of reconciling items. Effect – Errors or misappropriations could occur and not be prevented or detected and could result in material misappropriations of assets or material errors in the financial statements. Cause – Bank reconciliations prepared during the year contained unidentified variances; therefore, the bank reconciliations did not reflect the actual cash balances at month-end. Recommendation – Management should ensure monthly bank reconciliations are used to identify errors in the accounting records and make any required entries to correct errors. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will implement the recommended changes to the bank reconciliation processes.

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2014

Reference Number	Finding
2014-4	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control to provide accurate recording and classification of accounting transactions. Condition – Several adjusting journal entries were required to correct material misstatements in the accompanying financial statements. Context – Errors existed in several balance sheet accounts related to errors in reconciliations and control accounts not reconciling to supporting documentation. Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – The reconciliation processes in place were not sufficient to properly state balances, including inventory, capital assets and accrued liabilities. Recommendation – Management should ensure its month-end close process includes a comparison of the general ledger accounts to the underlying supporting documents. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will perform the evaluation and implement corrections that are deemed appropriate within the next year.

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2014

Reference Number	Finding
2014-5	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over authorization of accounting transactions. Condition – Supporting documentation for certain transactions occurring during the year could not be produced. Context – An invoice for a material amount to a vendor and several smaller invoices could not be provided by management to support cash disbursement amounts. Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – Management was unable to locate supporting documentation for certain requested invoices. Without proper supporting documentation, one cannot determine the appropriateness of the invoice, proper approval of payment and recording of expense. Recommendation – Management should ensure all underlying supporting documents be maintained in a systematic method to document authorization and approval of expenditures. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will perform the evaluation and implement corrections that are deemed appropriate within the next year.

Shattuck Hospital Authority
d/b/a Newman Memorial Hospital, Inc.
Schedule of Findings and Responses
Year Ended December 31, 2014

Reference Number	Finding
2014-6	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control to provide accurate recording and classification of accounting transactions.

Condition – Management has established various internal control policies and procedures for recording and classifying accounting transactions. These policies and procedures were not followed consistently throughout the year.

Context – Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.

Effect – Various established internal control procedures were not completed routinely on a monthly basis during the year, including:

- Timely preparation and review of monthly bank reconciliations
- Timely maintenance of capital asset records
- Review of journal entries by someone other than the preparer
- Timely review of patient accounts receivable detail
- Timely review of payroll expenditures prior to disbursement

Cause – Turnover in senior management resulted in established internal control policies and procedures not being performed routinely during the year.

Recommendation – Management should ensure all established internal controls are performed throughout the year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to follow all established internal control policies and procedures.