Alva Hospital Authority
d/b/a Share Medical Center

Independent Auditor's Reports and Financial Statements

June 30, 2016 and 2015

BKD LLP
CPAs & Advisors

Alva Hospital Authority
d/b/a Share Medical Center
June 30, 2016 and 2015

Contents

Independent Auditor's Report

Board of Trustees
Alva Hospital Authority
d/b/a Share Medical Center
Alva, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of Alva Hospital Authority d/b/a Share Medical Center (the Authority) 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 basic 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alva Hospital Authority d/b/a Share Medical Center as of June 30, 2016 and 2015, and the changes in its financial 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

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern. As discussed in *Note 15*, the Authority has suffered recurring operating losses and has negative working capital that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in *Note 15*. 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
December 15, 2016

Alva Hospital Authority
d/b/a Share Medical Center
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

Introduction

This management's discussion and analysis of the financial performance of Alva Hospital Authority d/b/a Share Medical Center (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's cash, cash equivalents and short-term deposits decreased by $65,490 or 7% in 2016 and decreased by $475,003 or 32% in 2015.
- The Authority's patient accounts receivable increased by $56,775 or 5% in 2016 and decreased by $157,683 or 12% in 2015.
- The Authority's net position decreased by $848,079 or 12% in 2016 and increased by $90,397 or 1% in 2015.
- The Authority reported operating losses in 2016 of $1,920,577 and in 2015 of $1,362,485. The operating results in 2016 decreased by $558,092 or 41% from the operating results reported in 2015.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any authority's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. The Authority's total net position—the difference between assets and deferred outflows of resources and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and deferred outflows of resources and liabilities reported in the balance sheet. The Authority's net position decreased by $848,079 or 12% in 2016 over 2015 and increased by $90,397 or 1% in 2015 over 2014 as shown in Table 1.

Table 1: Assets and Deferred Outflows of Resources, Liabilities and Net Position

	2016	2015	2014
Assets and Deferred Outflows of Resources			
Cash and cash equivalents	$ 945,325	$ 794,820	$ 1,271,440
Short-term deposits	-	215,995	214,378
Patient accounts receivable, net	1,253,731	1,196,956	1,354,639
Other current assets	487,522	793,747	373,335
Capital assets, net	12,394,552	13,115,280	13,899,505
Other noncurrent assets	152,364	125,907	35,473
Deferred outflows of resources	478,159	512,313	546,467
Total assets and deferred outflows of resources	$ 15,711,653	$ 16,755,018	$ 17,695,237
Liabilities			
Long-term debt, including current maturities	$ 8,154,139	$ 8,548,587	$ 9,147,794
Other current liabilities	1,576,514	1,377,352	1,808,761
Total liabilities	9,730,653	9,925,939	10,956,555
Net Position			
Net investment in capital assets	6,528,092	6,888,526	7,327,198
Restricted expendable	374,110	319,318	767,363
Unrestricted	(921,202)	(378,765)	(1,355,879)
Total net position	5,981,000	6,829,079	6,738,682
Total liabilities and net position	$ 15,711,653	$ 16,755,018	$ 17,695,237

The Authority's cash, cash equivalents and short-term deposits decreased in 2016 due primarily to using cash reserves to partially fund operating losses. The Authority experienced a $285,000 decrease in estimated amounts due from third-party payers due to receiving interim payments on prior year cost reports and electronic health records incentive payments. Other current liabilities increased in 2016 by $199,162 due to a $152,527 increase in accounts payable as a result of managing cash flows through payables disbursements and a $60,000 increase in accrued interest representing annual interest accrued in the note payable to trust.

The Authority's cash, cash equivalents and short-term investments decreased in 2015 due primarily to using cash reserves to fund operating losses and paying down accounts payable. The decrease in patient accounts receivable in 2015 of $157,683 is due to the Authority's focused efforts on cleaning up outstanding accounts receivable and increased collection efforts. Other current liabilities decreased in 2015 by $431,409 due to paying down accounts payable.

Operating Results and Changes in the Authority's Net Position

In 2016, the Authority's net position decreased by $848,079 or 12% as shown in Table 2. This decrease is made up of several different components and represents a decrease of $938,476 or 1,038% compared with the increase in net position for 2015 of $90,397.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	$ 9,680,173	$ 9,724,520	$ 8,927,597
Other operating revenues	1,769,700	2,151,682	2,116,056
Total operating revenues	11,449,873	11,876,202	11,043,653
Operating Expenses			
Salaries and wages and employee benefits	7,251,061	6,989,974	6,681,011
Purchased services and professional fees	1,860,751	1,751,870	1,177,831
Depreciation	1,043,508	1,033,882	1,099,226
Supplies and other	3,215,130	3,462,961	2,779,916
Total operating expenses	13,370,450	13,238,687	11,737,984
Operating Loss	(1,920,577)	(1,362,485)	(694,331)
Nonoperating Revenues (Expenses)			
Investment income	4,994	6,251	272,962
Noncapital gifts	60,614	71,315	59,508
Noncapital appropriations – City of Alva	1,340,650	1,785,802	1,023,192
Contribution expense	-	-	(250,000)
Interest expense	(361,337)	(438,702)	(366,272)
Total nonoperating revenues (expenses)	1,044,921	1,424,666	739,390
Capital Appropriations – City of Alva	-	-	658,525
Capital Grants and Gifts	27,577	28,216	15,484
Increase (Decrease) in Net Position	$ (848,079)	$ 90,397	$ 719,068

Operating Loss

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services.

These recurring operating losses combined with the negative working capital raises substantial doubt about whether the Authority has the ability to continue as a going concern. Management's plans in regard to these matters are described in *Note 15*.

The operating loss for 2016 increased by $558,092 or 41% as compared to 2015. The primary components of the increased operating loss are:

- A decrease in other operating revenue of $381,982 or 18%
- An increase in salaries, wages and employee benefits of $261,087 or 4%
- A decrease in supplies and other expenses of $247,831 or 7%

Other operating revenue decreased as a result of the Authority recognizing electronic health records incentive payments of approximately $783,000 during 2016 compared to $1,228,000 during 2015.

Salaries and wages increased as a result of increased staffing levels during 2016, and employee benefits increased as a result of higher employee health insurance premiums of approximately 15% during 2016.

Supplies and other expenses decreased due to the Authority's decision to terminate the outsourcing agreement and bring their patient billing back in-house and due to a one-time penalty incurred during 2015 to the Internal Revenue Service related to the late filing of employee W-2 documents.

The operating loss for 2015 increased by $668,154 or 96% as compared to 2014. The primary components of the increased operating loss are:

- An increase in net patient service revenue of $796,923 or 9%
- An increase in purchased services and professional fees of $574,039 or 49%
- An increase in supplies and other expenses of $683,045 or 25%

Net patient service revenue increased in 2015 due to an increase in inpatient days of 13%, an increase in certain outpatient departments of 16% and the opening of an urgent care clinic during 2015.

Purchased services and professional fees increased due to an increase in volumes in the current year and the Authority entering into a contract related to physical therapy services.

Supplies and other expenses increased due to an increase in pharmaceutical supplies in addition to the increase in volumes related to inpatient and outpatient services noted above.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and noncapital grants and gifts. Noncapital appropriations decreased by $445,152 or 25% in fiscal year 2016 compared to an increase of $104,085 in capital and noncapital appropriations in fiscal year 2015.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating loss and nonoperating revenues and expenses for 2016 and 2015 as well as cash used to service debt and purchase capital assets.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016 and 2015, the Authority had $12,394,552 and $13,115,280, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2016 and 2015, the Authority purchased new equipment costing $322,780 and $249,657, respectively.

Debt

As detailed in *Note 8*, the Authority had $8,154,139 and $8,548,587 in revenue bonds and notes payable outstanding at June 30, 2016 and 2015, respectively. The Authority did not issue any new debt during 2016 or 2015.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by telephoning 580.327.2800.

Alva Hospital Authority
d/b/a Share Medical Center
Balance Sheets
June 30, 2016 and 2015

Assets and Deferred Outflows of Resources

	2016	2015
Current Assets		
Cash and cash equivalents	$ 438,180	$ 389,067
Short-term deposits	-	215,995
Patient accounts receivable, net of allowance; 2016 – $1,237,000, 2015 – $1,048,000	1,253,731	1,196,956
Other receivables	83,143	131,410
Estimated amounts due from third-party payers	145,000	430,000
Supplies	153,855	120,942
Prepaid expenses and other	105,524	111,395
Total current assets	2,179,433	2,595,765
Noncurrent Cash and Cash Equivalents		
Held by trustee for debt service	309,520	309,520
Restricted for specific operating activities	139,327	37,935
Restricted for capital acquisition	58,298	58,298
	507,145	405,753
Capital Assets, Net	12,394,552	13,115,280
Deferred Outflows of Resources	478,159	512,313
Interest in Assets at Communities Foundation of Oklahoma, Inc.	152,364	125,907
Total assets and deferred outflows of resources	$ 15,711,653	$ 16,755,018

Liabilities and Net Position

	2016	2015
Current Liabilities		
Outstanding checks in excess of bank balance	$ 54,260	$ 67,972
Current maturities of long-term debt	1,878,585	1,863,514
Accounts payable	801,706	663,591
Accrued expenses	720,548	645,789
Total current liabilities	3,455,099	3,240,866
Long-Term Debt	6,275,554	6,685,073
Total liabilities	9,730,653	9,925,939
Net Position		
Net investment in capital assets	6,528,092	6,888,526
Restricted – expendable for		
Debt service	51,614	51,632
Capital acquisitions	71,196	73,045
Specific operating activities	251,300	194,641
Unrestricted	(921,202)	(378,765)
Total net position	5,981,000	6,829,079
Total liabilities and net position	$ 15,711,653	$ 16,755,018

Alva Hospital Authority
d/b/a Share Medical Center
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – $1,209,794, 2015 – $1,177,830	$ 9,680,173	$ 9,724,520
Other	1,769,700	2,151,682
Total operating revenues	11,449,873	11,876,202
Operating Expenses		
Salaries and wages	6,002,968	5,817,634
Employee benefits	1,248,093	1,172,340
Purchased services and professional fees	1,860,751	1,751,870
Supplies and other	3,215,130	3,462,961
Depreciation	1,043,508	1,033,882
Total operating expenses	13,370,450	13,238,687
Operating Loss	(1,920,577)	(1,362,485)
Nonoperating Revenues (Expenses)		
Investment income	4,994	6,251
Noncapital gifts	60,614	71,315
Noncapital appropriations – City of Alva	1,340,650	1,785,802
Interest expense	(361,337)	(438,702)
Total nonoperating revenues (expenses)	1,044,921	1,424,666
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	(875,656)	62,181
Capital Grants and Gifts	27,577	28,216
Increase (Decrease) in Net Position	(848,079)	90,397
Net Position, Beginning of Year	6,829,079	6,738,682
Net Position, End of Year	$ 5,981,000	$ 6,829,079

Alva Hospital Authority
d/b/a Share Medical Center
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	$ 9,908,398	$ 9,225,203
Payments to suppliers and contractors	(4,974,502)	(5,595,212)
Payments to and on behalf of employees	(7,236,302)	(6,860,957)
Other receipts and payments, net	1,769,700	2,151,682
Net cash used in operating activities	(532,706)	(1,079,284)
Noncapital Financing Activities		
Change in outstanding checks in excess of bank balance	(13,712)	(27,273)
Interest paid on lines of credit	(5,716)	(68,340)
Noncapital gifts	60,614	71,315
Noncapital appropriations – City of Alva	1,388,917	1,809,618
Principal paid on lines of credit	(400,000)	(394,500)
Proceeds from draws on lines of credit	400,000	175,000
Net cash provided by noncapital financing activities	1,430,103	1,565,820
Capital and Related Financing Activities		
Capital grants and gifts	27,577	28,216
Principal paid on long-term debt	(394,448)	(379,707)
Interest paid on long-term debt	(261,467)	(276,208)
Purchase of capital assets	(313,086)	(249,657)
Net cash used in capital and related financial activities	(941,424)	(877,356)
Investing Activities		
Contribution to Communities Foundation of Oklahoma, Inc.	(25,000)	(90,245)
Net change in short-term deposits	215,995	(1,617)
Interest on investments	3,537	6,062
Net cash provided by (used in) investing activities	194,532	(85,800)
Increase (Decrease) in Cash and Cash Equivalents	150,505	(476,620)
Cash and Cash Equivalents, Beginning of Year	794,820	1,271,440
Cash and Cash Equivalents, End of Year	$ 945,325	$ 794,820

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 438,180	$ 389,067
Noncurrent cash and cash equivalents	507,145	405,753
	$ 945,325	$ 794,820
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (1,920,577)	$ (1,362,485)
Depreciation	1,043,508	1,033,882
Provision for uncollectible accounts	1,209,794	1,177,830
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,266,569)	(1,020,147)
Other receivables	-	11,760
Supplies and prepaid expenses	(27,042)	(25,988)
Estimated amounts due from third-party payers	285,000	(657,000)
Accounts payable and accrued expenses	143,180	(237,136)
Net cash used in operating activities	$ (532,706)	$ (1,079,284)
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 9,694	$ -

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

Nature of Operations and Reporting Entity

Alva Hospital Authority d/b/a Share Medical Center (the Authority) was created under a trust indenture dated October 1, 1968, as a public trust under the provisions of Title 60 of the Oklahoma statutes for the benefit of the City of Alva, Oklahoma (the City). The Authority's sole activity is to operate Share Medical Center under a bargain lease agreement with the City. The City has leased its presently existing and hereafter acquired hospital facilities to the Authority pursuant to a lease agreement dated November 19, 1968, as amended, for a term extending to and including November 19, 2068, and so long thereafter as any indebtedness of the Authority secured by it remains outstanding.

The Authority consists of a 25-bed general acute care hospital facility and an 80-bed convalescent home. The Authority primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in northwestern Oklahoma. It also operates a home health agency in the same geographical area.

The Authority entered into a management services agreement with Alva Utility Authority during 2013 to manage the administrative, financial and operational activities of Homestead Retirement Community (Homestead) for a five-year period with the option to extend.

Reporting Entity

The accompanying financial statements present the Authority and its blended component unit, an entity for which the Authority is considered to be financially accountable. The blended component unit is, in substance, part of the Authority's operations, even though it is a legally separate entity. Thus, the blended component unit is appropriately presented as funds of the Authority.

Blended Component Unit

Share Medical Center Foundation, Inc. (the Foundation) is a legally separate, tax-exempt component unit of the Authority. The Foundation's primary function is to raise and hold funds to support the Authority and its programs. The board of the Foundation is self-perpetuating. Although the Authority does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Authority. Because these restricted resources held by the Foundation can only be used by or for the benefit of the Authority, the Foundation is considered a component unit of the Authority and is included in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the accompanying financial statements. The Foundation does not issue separate financial statements.

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, deferred outflows of resources and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, city appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as city appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources 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 Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted of money market accounts with bankers.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; 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.

Investment Income

Investment income includes interest income.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	5–20 years
Buildings and improvements	5–40 years
Equipment	3–20 years

Compensated Absences

Authority policies permit most employees to accumulate paid leave 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 paid leave 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.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position consists of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, 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 Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive 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 Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. The Foundation is generally exempt from income taxes under Section 501 of the IRC. However, the Authority and the Foundation are subject to federal income tax on any unrelated business taxable income.

City Appropriations

Effective September 1, 2004, the citizens of the City approved a 1.25% sales tax, with no expiration date, to be used for capital improvements of the Authority. Effective December 1, 2013, the citizens of the City approved a change in the use of the sales tax to be used for debt service payments with any excess to be available for operations and maintenance of the Authority.

The Authority received approximately 10.4% and 13.0% of its financial support from city appropriations related to the sales taxes in 2016 and 2015, respectively. Revenue from city appropriations is recognized in the year in which the sales taxes are earned and is reflected as noncapital appropriations – City of Alva.

Electronic Health Records Incentive Programs

The Electronic Health Records Incentive Programs, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provide 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 three years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs is 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 upon 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 Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2016, the Authority completed the third-year requirements under the Medicare program. In 2015, the Authority completed the second-year requirements under the Medicare and Medicaid programs. During 2016 and 2015, the Authority recorded revenue of approximately $783,000 and $1,228,000, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation. In addition to the SHOPP, there is a separate voluntary pool created to assist hospitals that did not receive sufficient SHOPP funds to cover the assessment fees paid. The Oklahoma Hospital Association (OHA) Foundation receives voluntary contributions from Oklahoma hospitals and remits funds to those providers that did not receive SHOPP funds to reimburse them for the assessment fees paid.

During the years ended June 30, 2016 and 2015, the Authority had the following activity related to the SHOPP:

	2016	2015
SHOPP funds received	$ 140,000	$ 109,000
OHA Foundation funds received	127,000	160,000
SHOPP assessment fees paid	(267,000)	(269,000)
Net SHOPP benefit	$ -	$ -

The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different from the net amounts received in 2016. SHOPP and OHA Foundation revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. 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 patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2014.

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

Approximately 33% and 35% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2016 and 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires that all deposits of public trusts be insured with federal depository insurance or collateralized.

At June 30, 2016 and 2015, none of the Authority's bank balances of approximately $913,000 and $807,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At June 30, 2016 and 2015, the Authority had investments of $309,520 in money market mutual funds.

Interest Rate Risk – Interest rate risk is the exposure to fair value losses arising from rising interest rates. The money market mutual funds are considered an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2016 and 2015, the Authority's investments in money market mutual funds were not rated.

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

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2016 and 2015, all of the Authority's investments were in money market mutual funds and were held in Bank of Oklahoma Short-Term Cash Funds.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Authority had no investments denominated in foreign currency at June 30, 2016 and 2015.

Summary of Carrying Values

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

	2016	2015
Carrying value		
Deposits	$ 635,805	$ 485,300
Investments	309,520	309,520
	$ 945,325	$ 794,820
Included in the following balance sheet captions		
Cash and cash equivalents	$ 438,180	$ 389,067
Noncurrent cash and cash equivalents	507,145	405,753
	$ 945,325	$ 794,820

Investment Income

Investment income for the years ended June 30, 2016 and 2015, consisted of interest income of $4,994 and $6,251, respectively.

Note 4: Patient Accounts Receivable

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

	2016	2015
Medicare	$ 547,626	$ 477,164
Medicaid	276,453	414,266
Other third-party payers	443,344	429,895
Patients	1,223,308	923,631
	2,490,731	2,244,956
Less allowance for uncollectible accounts	1,237,000	1,048,000
	$ 1,253,731	$ 1,196,956

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 132,829	$ -	$ -	$ -	$ 132,829
Land improvements	86,208	-	-	-	86,208
Buildings and improvements	15,003,180	15,000	-	-	15,018,180
Equipment	9,545,253	216,568	-	932	9,762,753
Construction in progress	932	91,212	-	(932)	91,212
	24,768,402	322,780	-	-	25,091,182
Less accumulated depreciation					
Land improvements	85,687	373	-	-	86,060
Buildings and improvements	3,925,946	353,302	-	-	4,279,248
Equipment	7,641,489	689,833	-	-	8,331,322
	11,653,122	1,043,508	-	-	12,696,630
Capital assets, net	$ 13,115,280	$ (720,728)	$ -	$ -	$ 12,394,552

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 132,829	$ -	$ -	$ -	$ 132,829
Land improvements	86,208	-	-	-	86,208
Buildings and improvements	15,003,180	-	-	-	15,003,180
Equipment	9,246,594	224,782	-	73,877	9,545,253
Construction in progress	49,934	24,875	-	(73,877)	932
	24,518,745	249,657	-	-	24,768,402
Less accumulated depreciation					
Land improvements	85,292	395	-	-	85,687
Buildings and improvements	3,572,894	353,052	-	-	3,925,946
Equipment	6,961,054	680,435	-	-	7,641,489
	10,619,240	1,033,882	-	-	11,653,122
Capital assets, net	$ 13,899,505	$ (784,225)	$ -	$ -	$ 13,115,280

Note 6: Medical Malpractice Claims

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

Note 7: Line of Credit

The Authority has a $500,000 revolving line of credit expiring in December 2016, which is collateralized by substantially all of the Authority's assets. Interest at 4.25% is payable at maturity. This line of credit was paid in full in March 2016. Subsequent to year-end, the Authority made additional draws on the line of credit in the amount of $200,000.

The following is a summary of line of credit transactions for the Authority for the years ended June 30:

	2016	2015
Beginning balance	$ -	$ 219,500
Additions	400,000	175,000
Deductions	(400,000)	(394,500)
Ending balance	$ -	$ -

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30:

2016	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Refunding Note, Series 2013	$ 6,868,711	$ -	$ (364,664)	$ 6,504,047	$ 347,771
Note payable to bank (A)	179,876	-	(29,784)	150,092	30,814
Note payable to trust (B)	1,500,000	-	-	1,500,000	1,500,000
	$ 8,548,587	$ -	$ (394,448)	$ 8,154,139	$ 1,878,585

2015	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Refunding Note, Series 2013	$ 7,219,799	$ -	$ (351,088)	$ 6,868,711	$ 333,716
Note payable to bank (A)	208,495	-	(28,619)	179,876	29,798
Note payable to trust (B)	1,500,000	-	-	1,500,000	1,500,000
	$ 8,928,294	$ -	$ (379,707)	$ 8,548,587	$ 1,863,514

Revenue Refunding Note, Series 2013

The Sales Tax and Hospital Revenue Refunding Note, Series 2013 (the Revenue Refunding Note) in the original amount of $7,500,000 is dated August 1, 2013, and bears interest at 3.8%. Principal and interest are payable monthly starting October 2013 through June 2029 in the amount of $51,614 per month. Proceeds from the issuance of the Revenue Refunding Note were primarily used to refinance the outstanding balance of the Revenue Bonds Payable, Series 2005 (Series 2005 Bonds). The Revenue Refunding Note is secured by a pledge of the sales tax revenue and certain revenues derived from the operations of Share Medical Center.

The Note Indenture requires that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The Note Indenture also requires the Authority to comply with certain restrictive covenants, including maintaining an average annual debt service coverage ratio of at least 1.20 to 1.00 and restrictions on incurrence of additional debt.

In August 2013, the Authority issued the Revenue Refunding Note in the amount of $7,500,000 which, along with other available funds, were used to defease $7,280,000 of the outstanding Series 2005 Bonds by purchasing securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advanced refunding transaction resulted in an extinguishment of debt since the Authority was legally released from its obligation on the Series 2005 Bonds at the time of defeasance. Accordingly, the Series 2005 Bonds, aggregating $6,385,000 and $6,695,000 at June 30, 2016 and 2015, respectively, remain outstanding but are excluded from the Authority's balance sheets.

Aggregate cash flows on the refunded Series 2005 Bonds from the refunding date through maturity of the Revenue Refunding Note total approximately $10,738,000 while aggregate cash flows for the Revenue Refunding Note total approximately $10,014,000 resulting in a positive net cash flow differential for the refunding transaction of approximately $724,000. The economic gain (generally defined as the present value of the net cash flow discounted at the effective interest rate of the new debt) equals approximately $106,000.

The 2013 advance refunding transaction resulted in an accounting loss on the extinguishment of the long-term debt of approximately $572,000. This loss on refunding is shown as deferred outflows of resources on the accompanying balance sheets and is being amortized using the straight-line method over the life of the respective new bond issue.

The Revenue Refunding Note debt service requirements as of June 30, 2016, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2017	$ 567,753	$ 347,771	$ 219,982
2018	619,370	392,139	227,231
2019	619,368	407,300	212,068
2020	619,368	423,050	196,318
2021	619,367	439,408	179,959
2022–2026	3,096,838	2,465,441	631,397
2027–2029	2,167,004	2,028,938	138,066
	$ 8,309,068	$ 6,504,047	$ 1,805,021

Notes Payable

(A) Due December 2020, principal and interest at 4.5% (beginning December 2015) payable monthly, secured by certain equipment.

(B) Due on demand, principal due upon demand and interest at 4% due annually.

The notes payable debt service requirements as of June 30, 2016, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2017	$ 1,596,945	$ 1,530,814	$ 66,131
2018	36,944	32,229	4,715
2019	36,944	33,710	3,234
2020	36,944	35,258	1,686
2021	18,321	18,081	240
	$ 1,726,098	$ 1,650,092	$ 76,006

Note 9: Charity Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which 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 these services are as follows:

	2016	2015
Charity allowances	$ 45,000	$ 69,000
State Medicaid programs	251,000	615,000
	$ 296,000	$ 684,000

The cost of uncompensated care is estimated by applying the ratio of costs to gross charges to the gross uncompensated charges from the most recent Medicare cost report.

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which 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, home health programs, community educational services and various support groups.

Note 10: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority’s Board of Trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority’s governing body. The Authority did not make any contributions to the plan during 2016 or 2015. Contributions actually made by plan members during 2016 and 2015 were approximately $187,000 and $156,000, respectively.

Note 11: Interest in Assets at Communities Foundation of Oklahoma, Inc.

The Foundation has transferred assets to Communities Foundation of Oklahoma, Inc. (Communities Foundation) and retained a beneficial interest in those assets. The Foundation is entitled to receive the interest annually. The Foundation may request a return of principal funds contributed to the Communities Foundation in accordance with the agency fund agreement. The Foundation has granted variance power to the Communities Foundation's board of directors to modify any restriction of the donor as to distributions of the funds if the board of directors determines such restrictions to be unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. The fair value of the retained beneficial interest included in the accompanying balance sheets was $152,364 and $125,907 at June 30, 2016 and 2015, respectively.

Because the Communities Foundation has variance power over contributions received from third parties amounting to approximately $26,500 and $28,000 at June 30, 2016 and 2015, respectively, these amounts are not reported as assets by the Foundation even though the Foundation is designated as a beneficiary by the donors.

Note 12: Disclosures About Fair Value of Assets

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2016 and 2015:

- Money market mutual funds of $309,520 as of 2016 and 2015 are valued using quoted market prices (Level 1 inputs).
- Interest in assets at Communities Foundation of $152,364 and $125,907 as of 2016 and 2015, respectively, is valued using net asset value (NAV) (Level 3 inputs). See *Note 11* for a description of this category. There are no unfunded commitments as of 2016 and 2015.

Note 13: Contingencies

Litigation

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

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Note 14: Combining Component Unit Information

As discussed in *Note 1*, the Authority's sole activity is to operate Share Medical Center. The Foundation is a blended component unit of the Authority.

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

	June 30, 2016			
	Authority	Foundation	Eliminations	Combined Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	$ 290,201	$ 147,979	$ -	$ 438,180
Patient accounts receivable, net	1,253,731	-	-	1,253,731
Other receivables	83,143	-	-	83,143
Estimated amounts due from third-party payers	145,000	-	-	145,000
Supplies	153,855	-	-	153,855
Prepaid expenses and other	105,524	-	-	105,524
Total current assets	2,031,454	147,979	-	2,179,433
Noncurrent Cash and Cash Equivalents				
Held by trustee for debt service	309,520	-	-	309,520
Restricted for specific operating activities	139,327	-	-	139,327
Restricted for capital acquisition	58,298	-	-	58,298
	507,145	-	-	507,145
Capital Assets, Net	12,394,552	-	-	12,394,552
Deferred Outflows of Resources	478,159	-	-	478,159
Interest in Assets at Communities Foundation of Oklahoma, Inc.	-	152,364	-	152,364
Total assets and deferred outflows of resources	$ 15,411,310	$ 300,343	$ -	$ 15,711,653

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	June 30, 2016			
	Authority	Foundation	Eliminations	Combined Total
Liabilities and Net Position				
Current Liabilities				
Outstanding checks in excess of bank balance	$ 54,260	$ -	$ -	$ 54,260
Current maturities of long-term debt	1,878,585	-	-	1,878,585
Accounts payable	801,706	-	-	801,706
Accrued expenses	720,548	-	-	720,548
Total current liabilities	3,455,099	-	-	3,455,099
Long-Term Debt	6,275,554	-	-	6,275,554
Total liabilities	9,730,653	-	-	9,730,653
Net Position				
Net investment in capital assets	6,528,092	-	-	6,528,092
Restricted – expendable for				
Debt service	51,614	-	-	51,614
Capital acquisitions	58,298	12,898	-	71,196
Specific operating activities	139,327	111,973	-	251,300
Unrestricted	(1,096,674)	175,472	-	(921,202)
Total net position	5,680,657	300,343	-	5,981,000
Total liabilities and net position	$ 15,411,310	$ 300,343	$ -	$ 15,711,653

	June 30, 2015			
	Authority	Foundation	Eliminations	Combined Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	$ 192,080	$ 196,987	$ -	$ 389,067
Short-term deposits	215,995	-	-	215,995
Patient accounts receivable, net	1,196,956	-	-	1,196,956
Other receivables	131,410	-	-	131,410
Estimated amounts due from third-party payers	430,000	-		430,000
Supplies	120,942	-	-	120,942
Prepaid expenses and other	111,395	-	-	111,395
Total current assets	2,398,778	196,987	-	2,595,765
Noncurrent Cash and Cash Equivalents				
Held by trustee for debt service	309,520	-	-	309,520
Restricted for specific operating activities	37,935	-	-	37,935
Restricted for capital acquisition	58,298	-	-	58,298
	405,753	-	-	405,753
Capital Assets, Net	13,109,828	5,452	-	13,115,280
Deferred Outflows of Resources	512,313	-	-	512,313
Interest in Assets at Communities Foundation of Oklahoma, Inc.	-	125,907	-	125,907
Total assets and deferred outflows of resources	$ 16,426,672	$ 328,346	$ -	$ 16,755,018

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	June 30, 2015			
	Authority	Foundation	Eliminations	Combined Total
Liabilities and Net Position				
Current Liabilities				
Outstanding checks in excess of bank balance	$ 67,972	$ -	$ -	$ 67,972
Current maturities of long-term debt	1,863,514	-	-	1,863,514
Accounts payable	663,591	-	-	663,591
Accrued expenses	645,789	-	-	645,789
Total current liabilities	3,240,866	-	-	3,240,866
Long-Term Debt	6,685,073	-	-	6,685,073
Total liabilities	9,925,939	-	-	9,925,939
Net Position				
Net investment in capital assets	6,883,074	5,452	-	6,888,526
Restricted – expendable for				
Debt service	51,632	-	-	51,632
Capital acquisitions	58,298	14,747	-	73,045
Specific operating activities	37,935	156,706	-	194,641
Unrestricted	(530,206)	151,441	-	(378,765)
Total net position	6,500,733	328,346	-	6,829,079
Total liabilities and net position	$ 16,426,672	$ 328,346	$ -	$ 16,755,018

The following tables include combining statements of revenues, expenses and changes in net position information for the Authority and its blended component unit for the years ended June 30, 2016 and 2015:

	Year Ended June 30, 2016			
	Authority	Foundation	Eliminations	Combined Total
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	$ 9,680,173	$ -	$ -	$ 9,680,173
Other	1,769,700	-	-	1,769,700
Total operating revenues	11,449,873	-	-	11,449,873
Operating Expenses				
Salaries and wages	6,002,968	-	-	6,002,968
Employee benefits	1,248,093	-	-	1,248,093
Purchased services and professional fees	1,860,751	-	-	1,860,751
Supplies and other	3,204,739	97,728	(87,337)	3,215,130
Depreciation	1,043,508	-	-	1,043,508
Total operating expenses	13,360,059	97,728	(87,337)	13,370,450
Operating Loss	(1,910,186)	(97,728)	87,337	(1,920,577)
Nonoperating Revenues (Expenses)				
Investment income	1,601	3,393	-	4,994
Noncapital gifts	109,196	38,755	(87,337)	60,614
Noncapital appropriations – City of Alva	1,340,650	-	-	1,340,650
Interest expense	(361,337)	-	-	(361,337)
Total nonoperating revenues (expenses)	1,090,110	42,148	(87,337)	1,044,921
Deficiency of Revenues over Expenses Before Capital Grants and Gifts	(820,076)	(55,580)	-	(875,656)
Capital Grants and Gifts	-	27,577	-	27,577
Decrease in Net Position	(820,076)	(28,003)	-	(848,079)
Net Position, Beginning of Year	6,500,733	328,346	-	6,829,079
Net Position, End of Year	$ 5,680,657	$ 300,343	$ -	$ 5,981,000

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	Year Ended June 30, 2015			
	Authority	Foundation	Eliminations	Combined Total
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	$ 9,724,520	$ -	$ -	$ 9,724,520
Other	2,151,682	-	-	2,151,682
Total operating revenues	11,876,202	-	-	11,876,202
Operating Expenses				
Salaries and wages	5,817,634	-	-	5,817,634
Employee benefits	1,172,340	-	-	1,172,340
Purchased services and professional fees	1,751,870	-	-	1,751,870
Supplies and other	3,453,489	133,606	(124,134)	3,462,961
Depreciation	1,033,882	-	-	1,033,882
Total operating expenses	13,229,215	133,606	(124,134)	13,238,687
Operating Loss	(1,353,013)	(133,606)	124,134	(1,362,485)
Nonoperating Revenues (Expenses)				
Investment income	3,855	2,396	-	6,251
Noncapital gifts	139,132	56,317	(124,134)	71,315
Noncapital appropriations – City of Alva	1,785,802	-	-	1,785,802
Interest expense	(438,702)	-	-	(438,702)
Total nonoperating revenues (expenses)	1,490,087	58,713	(124,134)	1,424,666
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	137,074	(74,893)	-	62,181
Capital Grants and Gifts	-	28,216	-	28,216
Increase (Decrease) in Net Position	137,074	(46,677)	-	90,397
Net Position, Beginning of Year	6,363,659	375,023	-	6,738,682
Net Position, End of Year	$ 6,500,733	$ 328,346	$ -	$ 6,829,079

The following tables include condensed combining statements of cash flows information for the Authority and its blended component unit for the years ended June 30, 2016 and 2015:

	Year Ended June 30, 2016			
	Authority	**Foundation**	**Eliminations**	**Combined Total**
Net Cash Used in Operating Activities	$ (434,978)	$ (97,728)	$ -	$ (532,706)
Net Cash Provided by Noncapital Financing Activities	1,391,348	38,755	-	1,430,103
Net Cash Provided by (Used in) Capital and Related Financing Activities	(974,453)	33,029	-	(941,424)
Net Cash Provided by (Used in) Investing Activities	217,596	(23,064)	-	194,532
Increase (Decrease) in Cash and Cash Equivalents	199,513	(49,008)	-	150,505
Cash and Cash Equivalents, Beginning of Year	597,833	196,987	-	794,820
Cash and Cash Equivalents, End of Year	$ 797,346	$ 147,979	$ -	$ 945,325

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	Year Ended June 30, 2015			
	Authority	Foundation	Eliminations	Combined Total
Net Cash Used in Operating Activities	$ (947,328)	$ (131,956)	$ -	$ (1,079,284)
Net Cash Provided by Noncapital Financing Activities	1,509,503	56,317	-	1,565,820
Net Cash Provided by (Used in) Capital and Related Financing Activities	(902,792)	25,436	-	(877,356)
Net Cash Provided by (Used in) Investing Activities	2,238	(88,038)	-	(85,800)
Decrease in Cash and Cash Equivalents	(338,379)	(138,241)	-	(476,620)
Cash and Cash Equivalents, Beginning of Year	936,212	335,228	-	1,271,440
Cash and Cash Equivalents, End of Year	$ 597,833	$ 196,987	$ -	$ 794,820

Note 15: Management's Consideration of Going Concern Matters

The Authority has incurred significant operating losses since 2010 and has negative working capital. The accompanying financial statements have been prepared assuming the Authority 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, including reviewing expenses and evaluating profitability of current and new lines of service. 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 the accompanying financial statements.

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

Board of Trustees
Alva Hospital Authority
d/b/a Share Medical Center
Alva, 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 Alva Hospital Authority d/b/a Share Medical Center (the Authority), which comprise the balance sheet as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2016, which contained an *Emphasis of Matter* paragraph regarding substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2016-1 and 2016-2 to be material weaknesses.

Board of Trustees
Alva Hospital Authority
d/b/a Share Medical Center

Compliance and Other Matters

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

Authority's Responses to the Findings

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

We also noted certain matters that we reported to the Authority's management in a separate letter dated December 15, 2016.

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
December 15, 2016

Alva Hospital Authority
d/b/a Share Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2016

Reference Number	Finding
2016-1	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Journal entries lack documentation of review by someone other than the preparer. Context – Our testing of controls surrounding journal entries indicate a review of journal entries prepared by the chief financial officer during the year was not performed. Effect – 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. Cause – Controls surrounding journal entries are insufficient to ensure the entries are reviewed and the review is documented. Recommendation – Management should review month-end closing procedures to ensure review and documentation of the review of adjusting journal entries are performed in accordance with its policy. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial within the next year.

Alva Hospital Authority
d/b/a Share Medical Center

Schedule of Findings and Responses, continued

Year Ended June 30, 2016

Reference Number	Finding
2016-2	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant estimates in the financial statements. Condition – Management's procedures for evaluating and recording estimated allowances for contractual adjustments and uncollectible accounts within patient accounts receivable do not produce materially accurate results. Context – Management is required to apply consistent, unbiased methodologies to estimate significant balances on the financial statements. Effect – Material journal entries were made to the general ledger to correct misstatements identified related to estimated allowances for contractual adjustments and uncollectible accounts on patient accounts receivable. Cause – Management is not applying consistent or accurate methodologies to estimate accounts receivable allowances during the close process. Recommendation – Management should periodically evaluate the methodology used to estimate significant allowance estimates in the financial statements to determine that methodologies used to prepare estimates are still appropriate when compared to actual results. 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 related to patient accounts receivable.