

**Alva Hospital Authority
d/b/a Share Medical Center**

Independent Auditor's Reports and Financial Statements

June 30, 2019 and 2018



**Alva Hospital Authority
d/b/a Share Medical Center
June 30, 2019 and 2018**

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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 financial statements of Alva Hospital Authority d/b/a Share Medical Center (the Authority) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority'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 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, 2019 and 2018, 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 described in *Note 15*, the Authority has suffered recurring operating losses and has a working capital deficiency, 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 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, as listed in the table of contents, 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 audit 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 February 12, 2020, 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 effectiveness of the Authority'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 Authority's internal control over financial reporting and compliance.

BKD, LLP

Alva Hospital Authority d/b/a Share Medical Center

Management's Discussion and Analysis Years Ended June 30, 2019 and 2018

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, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's cash and cash equivalents increased by \$63,822 or 11% in 2019 and decreased by \$398,604 or 40% in 2018.
- The Authority's patient accounts receivable, net increased by \$61,917 or 4% in 2019 and by \$154,719 or 11% in 2018.
- The Authority's other current assets increased by \$912,443 or 181% in 2019 and by \$89,957 or 22% in 2018.
- The Authority's net position increased by \$513,522 or 8% in 2019 and by \$378,492 or 6% in 2018.
- The Authority reported operating losses of \$610,978 and \$2,435,061 in 2019 and 2018, respectively. The operating results in 2019 improved by \$1,824,083 or 75% compared to the operating results reported in 2018.

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 the current year's revenues and expenses are considered regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. 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 does 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 increased by \$513,522 or 8% in 2019 over 2018 and by \$378,492 or 6% in 2018 over 2017 as shown in Table 1.

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

	2019	2018	2017
Assets and Deferred Outflows of Resources			
Cash and cash equivalents	\$ 673,534	\$ 609,712	\$ 1,008,316
Patient accounts receivable, net	1,613,261	1,551,344	1,396,625
Other current assets	1,417,435	504,992	415,035
Capital assets, net	11,028,723	11,570,416	12,135,098
Other noncurrent assets	260,378	229,853	200,605
Deferred outflows of resources	<u>375,696</u>	<u>409,850</u>	<u>444,005</u>
Total assets and deferred outflows of resources	<u>\$ 15,369,027</u>	<u>\$ 14,876,167</u>	<u>\$ 15,599,684</u>
Liabilities			
Long-term debt, including current maturities	\$ 6,176,339	\$ 6,313,614	\$ 7,744,341
Other current liabilities	<u>1,965,365</u>	<u>1,848,752</u>	<u>1,520,034</u>
Total liabilities	<u>8,141,704</u>	<u>8,162,366</u>	<u>9,264,375</u>
Net Position			
Net investment in capital assets	6,319,406	6,467,112	6,550,349
Restricted expendable	289,294	219,295	549,113
Unrestricted	<u>618,623</u>	<u>27,394</u>	<u>(764,153)</u>
Total net position	<u>7,227,323</u>	<u>6,713,801</u>	<u>6,335,309</u>
Total liabilities and net position	<u>\$ 15,369,027</u>	<u>\$ 14,876,167</u>	<u>\$ 15,599,684</u>

In 2019, the Authority experienced an increase of \$962,000 in amounts due from third-party payors related to the Authority's conversion to critical access hospital (CAH) status during the year and underpayments throughout the period of conversion. Long-term debt, including current maturities decreased by \$137,275 or 2% as regularly scheduled debt service of \$442,275 exceeded additional indebtedness drawn on the lines of credit in the amount of \$305,000.

The Authority's cash and cash equivalents decreased in 2018 due primarily to using cash reserves to partially fund operating losses. The Authority experienced an increase of \$154,719 in patient accounts receivable, net related to general changes in collections activities and payor mix. Long-term debt and accrued expenses decreased in 2018 as a result of the Charles Morton Trust forgiving debt totaling approximately \$1,500,000 and accrued interest of approximately \$233,000.

Operating Results and Changes in the Authority's Net Position

In 2019, the Authority's net position increased by \$513,522 or 8% as shown in Table 2. This increase is made up of several different components and represents an increase of \$135,030 or 36% compared with the increase in net position for 2018 of \$378,492.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	\$ 12,965,529	\$ 10,978,527	\$ 11,293,754
Other operating revenues	980,751	1,046,340	1,392,219
Total operating revenues	<u>13,946,280</u>	<u>12,024,867</u>	<u>12,685,973</u>
Operating Expenses			
Salaries and wages and employee benefits	7,826,531	7,324,034	7,192,511
Purchased services and professional fees	2,711,009	2,687,130	2,182,870
Depreciation	650,598	833,199	1,077,849
Supplies and other	3,369,120	3,615,565	3,439,092
Total operating expenses	<u>14,557,258</u>	<u>14,459,928</u>	<u>13,892,322</u>
Operating Loss	<u>(610,978)</u>	<u>(2,435,061)</u>	<u>(1,206,349)</u>
Nonoperating Revenues (Expenses)			
Investment income	29,458	6,736	5,691
Noncapital gifts	88,348	72,479	165,636
Noncapital appropriations – City of Alva	1,268,044	1,195,731	1,158,966
Gain on forgiveness of debt	-	1,733,873	-
Interest expense	(282,795)	(324,343)	(346,535)
Total nonoperating revenues (expenses)	<u>1,103,055</u>	<u>2,684,476</u>	<u>983,758</u>
Capital Grants and Gifts	<u>21,445</u>	<u>129,077</u>	<u>576,900</u>
Increase in Net Position	<u>\$ 513,522</u>	<u>\$ 378,492</u>	<u>\$ 354,309</u>

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.

The recurring operating losses, identified in Table 2 above, 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 2019 improved by \$1,824,083 or 75% as compared to 2018. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$1,987,002 or 18%
- An increase in salaries, wages and employee benefits of \$502,497 or 7%
- A decrease in supplies and other expenses of \$246,445 or 7%

Net patient service revenue increased primarily as a result of the Authority having increased patient volume for inpatient and outpatient services compared to 2018 and the Authority's conversion to CAH status during 2019.

Salaries, wages and employee benefits increased in 2019 as the result of the hiring of additional employees in order to reduce contract staffing services and market-based wage increases.

Supplies and other expenses decreased primarily as a result of the Authority having to pay only two quarters' worth of Supplement Hospital Offset Payment Program (SHOPP) fees as the Authority's required contributions into the SHOPP ended with its conversion to CAH status in 2019.

The operating loss for 2018 worsened by \$1,228,712 or 102% as compared to 2017. The primary components of the increased operating loss are:

- A decrease in other operating revenues of \$345,879 or 25%
- An increase in purchased services and professional fees of \$504,260 or 23%

Other operating revenues decreased primarily as a result of the Authority recognizing approximately \$382,000 in electronic health records incentive payments in 2017 while recording none in 2018.

Purchased services and professional fees increased as a result of increased utilization of contracted nurses and physicians.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and noncapital appropriations and gifts. Noncapital appropriations increased by \$72,313 or 6% in 2019 due to an increase in sales tax receipts from the City of Alva. Noncapital gifts increased by \$15,869 or 22% during 2019 as a result of an increase in contributions received by the Authority. The Authority also recorded a gain in 2018 of approximately \$1,733,000 related to the forgiveness of debt by the Charles Morton Trust.

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 2019 and 2018 as well as cash used to service debt and purchase capital assets.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2019 and 2018, the Authority had \$11,028,723 and \$11,570,416, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2019 and 2018, the Authority purchased capital assets costing \$109,835 and \$268,517, respectively.

Debt

As detailed in *Note 8*, the Authority had \$5,376,339 and \$5,818,614 in revenue bonds and notes payable outstanding at June 30, 2019 and 2018, respectively. The Authority did not issue any new debt during 2019 or 2018.

Additionally, as detailed in *Note 7*, the Authority had \$800,000 and \$495,000 in lines of credit outstanding at June 30, 2019 and 2018, respectively. The Authority drew \$305,000 and \$495,000 on these lines of credit during 2019 and 2018, respectively.

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, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 252,268	\$ 227,460
Patient accounts receivable, net of allowance; 2019 – \$1,626,000, 2018 – \$1,579,000	1,613,261	1,551,344
Other receivables	95,615	103,794
Estimated amounts due from third-party payors	1,020,000	58,000
Supplies	179,947	184,777
Prepaid expenses and other	121,873	158,421
Total current assets	3,282,964	2,283,796
Noncurrent Cash and Cash Equivalents		
Held by trustee for debt service	309,520	309,520
Restricted for specific operating activities	60,132	21,118
Restricted for capital acquisition	51,614	51,614
	421,266	382,252
Capital Assets, Net	11,028,723	11,570,416
Deferred Outflows of Resources	375,696	409,850
Interest in Assets at Communities Foundation of Oklahoma, Inc.	260,378	229,853
Total assets and deferred outflows of resources	\$ 15,369,027	\$ 14,876,167

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Line of credit	\$ 800,000	\$ 495,000
Current maturities of long-term debt	424,782	407,655
Accounts payable	1,372,707	1,305,994
Accrued expenses	<u>592,658</u>	<u>542,758</u>
Total current liabilities	3,190,147	2,751,407
Long-Term Debt	<u>4,951,557</u>	<u>5,410,959</u>
Total liabilities	<u>8,141,704</u>	<u>8,162,366</u>
Net Position		
Net investment in capital assets	6,319,406	6,467,112
Restricted – expendable for		
Debt service	51,614	51,614
Capital acquisitions	107,263	61,528
Specific operating activities	130,417	106,153
Unrestricted	<u>618,623</u>	<u>27,394</u>
Total net position	<u>7,227,323</u>	<u>6,713,801</u>
Total liabilities and net position	<u>\$ 15,369,027</u>	<u>\$ 14,876,167</u>

**Alva Hospital Authority
d/b/a Share Medical Center**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$1,794,052, 2018 – \$1,921,170	\$ 12,965,529	\$ 10,978,527
Other	980,751	1,046,340
	<u>13,946,280</u>	<u>12,024,867</u>
Operating Expenses		
Salaries and wages	6,887,856	6,373,926
Employee benefits	938,675	950,108
Purchased services and professional fees	2,711,009	2,687,130
Supplies and other	3,369,120	3,615,565
Depreciation	650,598	833,199
	<u>14,557,258</u>	<u>14,459,928</u>
Operating Loss	<u>(610,978)</u>	<u>(2,435,061)</u>
Nonoperating Revenues (Expenses)		
Investment income	29,458	6,736
Noncapital gifts	88,348	72,479
Noncapital appropriations – City of Alva	1,268,044	1,195,731
Gain on forgiveness of debt	-	1,733,873
Interest expense	(282,795)	(324,343)
	<u>1,103,055</u>	<u>2,684,476</u>
Excess of Revenues over Expenses Before Capital Grants and Gifts	492,077	249,415
Capital Grants and Gifts	<u>21,445</u>	<u>129,077</u>
Increase in Net Position	513,522	378,492
Net Position, Beginning of Year	<u>6,713,801</u>	<u>6,335,309</u>
Net Position, End of Year	<u>\$ 7,227,323</u>	<u>\$ 6,713,801</u>

**Alva Hospital Authority
d/b/a Share Medical Center
Statements of Cash Flows
Years Ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 11,941,612	\$ 10,825,808
Payments to suppliers and contractors	(5,986,173)	(5,716,748)
Payments to and on behalf of employees	(7,794,066)	(7,398,402)
Other receipts and payments, net	<u>980,751</u>	<u>1,076,340</u>
Net cash used in operating activities	<u>(857,876)</u>	<u>(1,213,002)</u>
Noncapital Financing Activities		
Interest paid on line of credit	(17,565)	(5,716)
Noncapital gifts	88,348	72,479
Noncapital appropriations – City of Alva	1,276,223	1,184,659
Proceeds from draws on line of credit	<u>305,000</u>	<u>495,000</u>
Net cash provided by noncapital financing activities	<u>1,652,006</u>	<u>1,746,422</u>
Capital and Related Financing Activities		
Capital grants and gifts	21,445	129,077
Principal paid on long-term debt	(442,275)	(425,727)
Interest paid on long-term debt	(213,641)	(254,469)
Purchase of capital assets	(95,700)	(358,393)
Disposal of capital assets	<u>930</u>	<u>-</u>
Net cash used in capital and related financial activities	<u>(729,241)</u>	<u>(909,512)</u>
Investing Activities		
Contribution to Communities Foundation of Oklahoma, Inc.	(30,525)	(29,248)
Interest on investments	<u>29,458</u>	<u>6,736</u>
Net cash used in investing activities	<u>(1,067)</u>	<u>(22,512)</u>
Increase (Decrease) in Cash and Cash Equivalents	63,822	(398,604)
Cash and Cash Equivalents, Beginning of Year	<u>609,712</u>	<u>1,008,316</u>
Cash and Cash Equivalents, End of Year	<u>\$ 673,534</u>	<u>\$ 609,712</u>

See Notes to Financial Statements

	2019	2018
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 252,268	\$ 227,460
Noncurrent cash and cash equivalents	<u>421,266</u>	<u>382,252</u>
	<u><u>\$ 673,534</u></u>	<u><u>\$ 609,712</u></u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (610,978)	\$ (2,435,061)
Depreciation	650,598	833,199
Provision for uncollectible accounts	1,794,052	1,921,170
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,855,969)	(2,075,889)
Supplies and prepaid expenses	41,378	(80,885)
Estimated amounts due from/to third-party payors	(962,000)	2,000
Accounts payable and accrued expenses	<u>85,043</u>	<u>622,464</u>
Net cash used in operating activities	<u><u>\$ (857,876)</u></u>	<u><u>\$ (1,213,002)</u></u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 18,194	\$ 4,060

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2019 and 2018**

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 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.

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. During fiscal year 2018, the management services agreement was extended for an additional five-year period.

Effective July 2018, the Authority was granted critical access hospital (CAH) status by the Centers for Medicare & Medicaid Services (CMS).

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.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2019 and 2018**

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 and 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 and 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, 2019 and 2018, 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.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2019 and 2018**

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, 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 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 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

Deferred Outflows of Resources

The Authority reports the consumption of net position that is applicable to a future period as deferred outflows of resources in a separate section of its balance sheet.

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.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2019 and 2018**

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 payors 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 payors 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,

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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 8% and 9% of its financial support from city appropriations related to the sales tax in 2019 and 2018, 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.

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 currently scheduled to sunset on December 31, 2025. 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. In 2019, the Authority’s conversion to CAH status changed its participation in the SHOPP. CAHs are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds.

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

	2019	2018
SHOPP funds received	\$ 36,000	\$ 70,000
OHA Foundation funds received	109,000	235,000
SHOPP assessment fees paid	(149,000)	(306,000)
Net SHOPP expense	\$ (4,000)	\$ (1,000)

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 benefit to the Authority for 2020 is expected to be approximately \$110,000.

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.

Revisions

Certain immaterial revisions have been made to the 2018 financial statements for misclassification of restricted net position amounts, capital assets and patient accounts receivable balances in the

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footnote disclosure. These revisions did not have a significant impact on the financial statement line items impacted and had no impact on the change in net position.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. The 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, 2017.
- **Medicaid** – The Authority is reimbursed for services rendered to patients covered by the state Medicaid program on a prospective per discharge or fee schedule method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.
- **Other** – Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Approximately 74% and 66% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2019 and 2018, 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.

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At June 30, 2019 and 2018, none of the Authority's bank balances of approximately \$804,000 and \$770,000, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

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Summary of Carrying Values

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

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 364,014	\$ 300,192
Investments	<u>309,520</u>	<u>309,520</u>
	<u>\$ 673,534</u>	<u>\$ 609,712</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 252,268	\$ 227,460
Noncurrent cash and cash equivalents	<u>421,266</u>	<u>382,252</u>
	<u>\$ 673,534</u>	<u>\$ 609,712</u>

Investment Income

Investment income for the years ended June 30, 2019 and 2018, consisted of interest income of \$29,458 and \$6,736, 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 payor agreements. Patient accounts receivable at June 30 consisted of:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 630,075	\$ 603,291
Medicaid	507,631	528,145
Other third-party payors	651,995	717,819
Patients	<u>1,449,560</u>	<u>1,281,089</u>
	3,239,261	3,130,344
Less allowance for uncollectible accounts	<u>1,626,000</u>	<u>1,579,000</u>
	<u>\$ 1,613,261</u>	<u>\$ 1,551,344</u>

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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: Lines of Credit

The Authority periodically borrows funds from banks to finance capital asset acquisitions and manage cash flows from operations. The lines of credit bear interest at predetermined rates, are unsecured and mature in less than one year from issuance.

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

	2019	2018
Beginning balance	\$ 495,000	\$ -
Additions	305,000	495,000
Deductions	-	-
Ending balance	\$ 800,000	\$ 495,000

During 2019 and 2018, the Authority had three separate lines of credit outstanding from a local bank:

- Line of credit in the amount of \$500,000. Original maturity in December 2011, renewed annually through current maturity of December 2020; interest at 5%, payable at maturity. At June 30, 2019 and 2018, the balance on this line of credit was \$500,000 and \$495,000, respectively.
- Line of credit in the amount of \$250,000. Matures July 2019; extended through July 2020; interest at 5%, payable at maturity. At June 30, 2019, the balance on this line of credit was \$250,000.
- Line of credit in the amount of \$300,000. Matures February 2020; extended through February 2021; interest at 5.5%, payable at maturity. At June 30, 2019, the balance on this line of credit was \$50,000. Subsequent to year-end, the Authority drew on the remaining balance of this line of credit.

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Note 8: Long-Term Obligations

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

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Refunding Note, Series 2013	\$ 5,731,869	\$ -	\$ (408,625)	\$ 5,323,244	\$ 389,746
Note payable to bank (A)	86,745	-	(33,650)	53,095	35,036
	<u>\$ 5,818,614</u>	<u>\$ -</u>	<u>\$ (442,275)</u>	<u>\$ 5,376,339</u>	<u>\$ 424,782</u>

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Refunding Note, Series 2013	\$ 6,125,281	\$ -	\$ (393,412)	\$ 5,731,869	\$ 373,945
Note payable to bank (A)	119,060	-	(32,315)	86,745	33,710
Note payable to trust (B)	1,500,000	-	(1,500,000)	-	-
	<u>\$ 7,744,341</u>	<u>\$ -</u>	<u>\$ (1,925,727)</u>	<u>\$ 5,818,614</u>	<u>\$ 407,655</u>

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, was 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

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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 \$5,365,000 and \$5,720,000 at June 30, 2019 and 2018, 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, 2019, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2020	\$ 567,805	\$ 389,746	\$ 178,059
2021	619,367	439,408	179,959
2022	619,367	456,400	162,967
2023	619,367	474,048	145,319
2024	619,367	492,379	126,988
2025–2029	<u>3,405,451</u>	<u>3,071,263</u>	<u>334,188</u>
	<u>\$ 6,450,724</u>	<u>\$ 5,323,244</u>	<u>\$ 1,127,480</u>

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 on demand and interest at 4.0% due annually. During 2018, the trustees of the Charles Morton Trust forgave the full principal balance of this note.

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The notes payable debt service requirements as of June 30, 2019, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2020	\$ 36,722	\$ 35,036	\$ 1,686
2021	<u>18,299</u>	<u>18,059</u>	<u>240</u>
	<u>\$ 55,021</u>	<u>\$ 53,095</u>	<u>\$ 1,926</u>

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.

The costs of charity care provided under the Authority's charity care policy were \$98,000 and \$74,000 for 2019 and 2018, respectively. 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 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, community educational services and various support groups.

Note 10: Pension Plan

The Authority sponsors 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 2019 or 2018. At June 30, 2019 and 2018, contribution rates for plan members expressed as a percentage of covered payroll were 3.1% and 2.6%, respectively. Contributions actually made by plan members during 2019 and 2018 were approximately \$212,000 and \$169,000, respectively.

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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 \$260,378 and \$229,853 at June 30, 2019 and 2018, respectively.

Because the Communities Foundation has variance power over contributions received from third parties amounting to approximately \$48,900 and \$47,500 at June 30, 2019 and 2018, 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, 2019 and 2018:

- Money market mutual funds of \$309,520 as of June 30, 2019 and 2018, are valued using quoted market prices (Level 1 inputs).
- Interest in assets at Communities Foundation of \$260,378 and \$229,853 as of June 30, 2019 and 2018, respectively, is valued using net asset value (NAV) (Level 3 inputs). See *Note 11* for further information. There are no unfunded commitments as of June 30, 2019 and 2018.

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

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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 14: Combining Component Unit Information

As described 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:

	2019			
	Authority	Foundation	Eliminations	Combined Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 107,070	\$ 145,198	\$ -	\$ 252,268
Patient accounts receivable, net	1,613,261	-	-	1,613,261
Other receivables	95,615	-	-	95,615
Estimated amounts due from third-party payors	1,020,000	-	-	1,020,000
Supplies	179,947	-	-	179,947
Prepaid expenses and other	121,873	-	-	121,873
	<u>3,137,766</u>	<u>145,198</u>	<u>-</u>	<u>3,282,964</u>
Total current assets				
	<u>3,137,766</u>	<u>145,198</u>	<u>-</u>	<u>3,282,964</u>
Noncurrent Cash and Cash Equivalents				
Held by trustee for debt service	309,520	-	-	309,520
Restricted for specific operating activities	60,132	-	-	60,132
Restricted for capital acquisition	51,614	-	-	51,614
	<u>421,266</u>	<u>-</u>	<u>-</u>	<u>421,266</u>
Capital Assets, Net				
	<u>11,028,723</u>	<u>-</u>	<u>-</u>	<u>11,028,723</u>
Deferred Outflows of Resources				
	<u>375,696</u>	<u>-</u>	<u>-</u>	<u>375,696</u>
Interest in Assets at Communities Foundation of Oklahoma, Inc.				
	<u>-</u>	<u>260,378</u>	<u>-</u>	<u>260,378</u>
Total assets and deferred outflows of resources				
	<u>\$ 14,963,451</u>	<u>\$ 405,576</u>	<u>\$ -</u>	<u>\$ 15,369,027</u>

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	2019			
	Authority	Foundation	Eliminations	Combined Total
Liabilities and Net Position				
Current Liabilities				
Line of credit	\$ 800,000	\$ -	\$ -	\$ 800,000
Current maturities of long-term debt	424,782	-	-	424,782
Accounts payable	1,372,707	-	-	1,372,707
Accrued expenses	592,658	-	-	592,658
Total current liabilities	3,190,147	-	-	3,190,147
Long-Term Debt	4,951,557	-	-	4,951,557
Total liabilities	8,141,704	-	-	8,141,704
Net Position				
Net investment in capital assets	6,319,406	-	-	6,319,406
Restricted – expendable for				
Debt service	51,614	-	-	51,614
Capital acquisitions	85,930	21,333	-	107,263
Specific operating activities	25,816	104,601	-	130,417
Unrestricted	338,981	279,642	-	618,623
Total net position	6,821,747	405,576	-	7,227,323
Total liabilities and net position	\$ 14,963,451	\$ 405,576	\$ -	\$ 15,369,027

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	2018			
	Authority	Foundation	Eliminations	Combined Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 116,898	\$ 110,562	\$ -	\$ 227,460
Patient accounts receivable, net	1,551,344	-	-	1,551,344
Other receivables	103,794	-	-	103,794
Estimated amounts due from third-party payors	58,000	-	-	58,000
Supplies	184,777	-	-	184,777
Prepaid expenses and other	158,421	-	-	158,421
	<u>2,173,234</u>	<u>110,562</u>	<u>-</u>	<u>2,283,796</u>
Noncurrent Cash and Cash Equivalents				
Held by trustee for debt service	309,520	-	-	309,520
Restricted for specific operating activities	21,118	-	-	21,118
Restricted for capital acquisition	51,614	-	-	51,614
	<u>382,252</u>	<u>-</u>	<u>-</u>	<u>382,252</u>
Capital Assets, Net	<u>11,570,416</u>	<u>-</u>	<u>-</u>	<u>11,570,416</u>
Deferred Outflows of Resources	<u>409,850</u>	<u>-</u>	<u>-</u>	<u>409,850</u>
Interest in Assets at Communities Foundation of Oklahoma, Inc.	<u>-</u>	<u>229,853</u>	<u>-</u>	<u>229,853</u>
Total assets and deferred outflows of resources	<u>\$ 14,535,752</u>	<u>\$ 340,415</u>	<u>\$ -</u>	<u>\$ 14,876,167</u>

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	2018			
	Authority	Foundation	Eliminations	Combined Total
Liabilities and Net Position				
Current Liabilities				
Line of credit	\$ 495,000	\$ -	\$ -	\$ 495,000
Current maturities of long-term debt	407,655	-	-	407,655
Accounts payable	1,305,994	-	-	1,305,994
Accrued expenses	542,758	-	-	542,758
Total current liabilities	2,751,407	-	-	2,751,407
Long-Term Debt	5,410,959	-	-	5,410,959
Total liabilities	8,162,366	-	-	8,162,366
Net Position				
Net investment in capital assets	6,467,112	-	-	6,467,112
Restricted – expendable for				
Debt service	51,614	-	-	51,614
Capital acquisitions	47,500	14,028	-	61,528
Specific operating activities	25,232	80,921	-	106,153
Unrestricted	(218,072)	245,466	-	27,394
Total net position	6,373,386	340,415	-	6,713,801
Total liabilities and net position	\$ 14,535,752	\$ 340,415	\$ -	\$ 14,876,167

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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:

	2019			Combined Total
	Authority	Foundation	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ 12,965,529	\$ -	\$ -	\$ 12,965,529
Other	980,751	-	-	980,751
Total operating revenues	<u>13,946,280</u>	<u>-</u>	<u>-</u>	<u>13,946,280</u>
Operating Expenses				
Salaries and wages	6,887,856	-	-	6,887,856
Employee benefits	938,675	-	-	938,675
Purchased services and professional fees	2,711,009	-	-	2,711,009
Supplies and other	3,371,177	52,865	(54,922)	3,369,120
Depreciation	650,598	-	-	650,598
Total operating expenses	<u>14,559,315</u>	<u>52,865</u>	<u>(54,922)</u>	<u>14,557,258</u>
Operating Loss	<u>(613,035)</u>	<u>(52,865)</u>	<u>54,922</u>	<u>(610,978)</u>
Nonoperating Revenues (Expenses)				
Investment income	23,471	5,987	-	29,458
Noncapital gifts	52,676	90,594	(54,922)	88,348
Noncapital appropriations – City of Alva	1,268,044	-	-	1,268,044
Interest expense	(282,795)	-	-	(282,795)
Total nonoperating revenues (expenses)	<u>1,061,396</u>	<u>96,581</u>	<u>(54,922)</u>	<u>1,103,055</u>
Excess of Revenues over Expenses Before Capital Grants and Gifts	448,361	43,716	-	492,077
Capital Grants and Gifts	<u>-</u>	<u>21,445</u>	<u>-</u>	<u>21,445</u>
Increase in Net Position	448,361	65,161	-	513,522
Net Position, Beginning of Year	<u>6,373,386</u>	<u>340,415</u>	<u>-</u>	<u>6,713,801</u>
Net Position, End of Year	<u>\$ 6,821,747</u>	<u>\$ 405,576</u>	<u>\$ -</u>	<u>\$ 7,227,323</u>

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	2018			Combined Total
	Authority	Foundation	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ 10,978,527	\$ -	\$ -	\$ 10,978,527
Other	1,046,340	-	-	1,046,340
Total operating revenues	<u>12,024,867</u>	<u>-</u>	<u>-</u>	<u>12,024,867</u>
Operating Expenses				
Salaries and wages	6,373,926	-	-	6,373,926
Employee benefits	950,108	-	-	950,108
Purchased services and professional fees	2,687,130	-	-	2,687,130
Supplies and other	3,618,309	56,101	(58,845)	3,615,565
Depreciation	833,199	-	-	833,199
Total operating expenses	<u>14,462,672</u>	<u>56,101</u>	<u>(58,845)</u>	<u>14,459,928</u>
Operating Loss	<u>(2,437,805)</u>	<u>(56,101)</u>	<u>58,845</u>	<u>(2,435,061)</u>
Nonoperating Revenues (Expenses)				
Investment income	2,082	4,654	-	6,736
Noncapital gifts	76,886	54,438	(58,845)	72,479
Noncapital appropriations – City of Alva	1,195,731	-	-	1,195,731
Gain on forgiveness of debt	1,733,873	-	-	1,733,873
Interest expense	(324,343)	-	-	(324,343)
Total nonoperating revenues (expenses)	<u>2,684,229</u>	<u>59,092</u>	<u>(58,845)</u>	<u>2,684,476</u>
Excess of Revenues over Expenses Before Capital Grants and Gifts	246,424	2,991	-	249,415
Capital Grants and Gifts	<u>127,457</u>	<u>1,620</u>	<u>-</u>	<u>129,077</u>
Increase in Net Position	373,881	4,611	-	378,492
Net Position, Beginning of Year	<u>5,999,505</u>	<u>335,804</u>	<u>-</u>	<u>6,335,309</u>
Net Position, End of Year	<u>\$ 6,373,386</u>	<u>\$ 340,415</u>	<u>\$ -</u>	<u>\$ 6,713,801</u>

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2019 and 2018**

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:

	2019			Combined Total
	Authority	Foundation	Eliminations	
Net Cash Used in Operating Activities	\$ (805,011)	\$ (52,865)	\$ -	\$ (857,876)
Net Cash Provided by Noncapital Financing Activities	1,561,412	90,594	-	1,652,006
Net Cash Provided by (Used in) Capital and Related Financing Activities	(750,686)	21,445	-	(729,241)
Net Cash Provided by (Used in) Investing Activities	<u>23,471</u>	<u>(24,538)</u>	<u>-</u>	<u>(1,067)</u>
Increase in Cash and Cash Equivalents	29,186	34,636	-	63,822
Cash and Cash Equivalents, Beginning of Year	<u>499,150</u>	<u>110,562</u>	<u>-</u>	<u>609,712</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 528,336</u></u>	<u><u>\$ 145,198</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 673,534</u></u>
	2018			
	Authority	Foundation	Eliminations	Combined Total
Net Cash Used in Operating Activities	\$ (1,156,901)	\$ (56,101)	\$ -	\$ (1,213,002)
Net Cash Provided by Noncapital Financing Activities	1,691,984	54,438	-	1,746,422
Net Cash Provided by (Used in) Capital and Related Financing Activities	(911,132)	1,620	-	(909,512)
Net Cash Provided by (Used in) Investing Activities	<u>2,082</u>	<u>(24,594)</u>	<u>-</u>	<u>(22,512)</u>
Decrease in Cash and Cash Equivalents	(373,967)	(24,637)	-	(398,604)
Cash and Cash Equivalents, Beginning of Year	<u>873,117</u>	<u>135,199</u>	<u>-</u>	<u>1,008,316</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 499,150</u></u>	<u><u>\$ 110,562</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 609,712</u></u>

Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2019 and 2018

Note 15: Management's Consideration of Going Concern Matters

The Authority has incurred significant operating losses since 2010 and has negative working capital. Management implemented one of its plans in 2019 as the hospital was converted to a CAH. Additionally, management has taken steps to implement certain plans, such as working to set up a 340B program and rural health clinics, and is evaluating several alternatives for mitigating these conditions during the next year, including reviewing expenses and hiring additional staff to replace contract staffing. Lastly, management anticipates increased Medicaid reimbursement in 2020 for the nursing home based on statewide changes in long-term care. However, there can be no assurance that the Authority will be successful in achieving its objectives.

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern; however, the above conditions raise substantial doubt about the Authority's ability to do so. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Authority be unable to continue as a going concern.

Note 16: Subsequent Event

In December 2019, the Authority received a donation from the Charles Morton Share Trust (the Trust) in the amount of \$500,000.

Additionally, the Authority incurred additional indebtedness from the Trust in the amount of \$500,000. The note payable is due November 2024, with principal and interest payments at 2.5%, payable monthly.

**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
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, 2019, 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 12, 2020, 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

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority'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 2019-1 and 2019-2, that we consider 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 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*.

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.

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

BKD, LLP

Tulsa, Oklahoma
February 12, 2020

**Alva Hospital Authority
d/b/a Share Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2019**

Reference Number	Finding
2019-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Our testing of controls surrounding journal entries indicates a review of journal entries prepared by the chief financial officer during the year was not performed.</p> <p>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.</p> <p>Cause – Controls surrounding journal entries are insufficient to ensure the entries are reviewed and the review is documented.</p> <p>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.</p> <p>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.</p>

**Alva Hospital Authority
d/b/a Share Medical Center
Schedule of Findings and Responses, continued
Year Ended June 30, 2019**

Reference Number	Finding
2019-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant estimates in the financial statements.</p> <p>Condition – Management is required to apply consistent, unbiased methodologies to estimate significant balances on the financial statements. Management’s procedures for evaluating and recording estimated allowances for contractual adjustments and uncollectible accounts on patient accounts receivable do not produce materially accurate results.</p> <p>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.</p> <p>Cause – Management is not applying consistent or accurate methodologies to estimate accounts receivable allowances during the close process.</p> <p>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.</p> <p>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.</p>