

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

Auditor's Reports and Financial Statements

June 30, 2013 and 2012



**Alva Hospital Authority
d/b/a Share Medical Center
June 30, 2013 and 2012**

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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 basic financial statements of Alva Hospital Authority d/b/a Share Medical Center (the Authority), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 respective financial position of Alva Hospital Authority d/b/a Share Medical Center as of June 30, 2013 and 2012, 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 14*, 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 these matters are also described in *Note 14*. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Required Supplementary Information

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2014, 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
February 26, 2014

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

Balance Sheets

June 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 1,815,549	\$ 198,297
Restricted cash and cash equivalents – current	53,398	53,284
Patient accounts receivable, net of allowance; 2013 – \$2,933,000, 2012 – \$1,961,000	1,764,226	1,577,349
Other receivables	135,188	172,426
Supplies	120,364	141,482
Prepaid expenses and other	38,990	132,362
Total current assets	3,927,715	2,275,200
Noncurrent Cash and Cash Equivalents		
Held by trustee for debt service	644,162	644,125
Restricted for specific operating activities	42,793	-
Restricted for capital acquisition	88,414	158,364
	775,369	802,489
Capital Assets, Net	14,424,637	14,621,626
Other Assets	30,882	25,558
Total assets	\$ 19,158,603	\$ 17,724,873

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Outstanding checks in excess of bank balance	\$ 351,044	\$ 571,978
Line of credit	1,177,675	500,000
Current maturities of long-term debt	840,176	407,561
Accounts payable	1,432,981	1,055,399
Accrued expenses	510,613	430,082
Estimated amounts due to third-party payer	<u>123,000</u>	<u>368,942</u>
Total current liabilities	4,435,489	3,333,962
Long-Term Debt	<u>8,703,500</u>	<u>7,543,616</u>
Total liabilities	<u>13,138,989</u>	<u>10,877,578</u>
Net Position		
Net investment in capital assets	5,464,255	7,284,225
Restricted – expendable for		
Debt service	187,190	194,532
Capital acquisitions	191,321	237,002
Specific operating activities	42,793	-
Unrestricted	<u>134,055</u>	<u>(868,464)</u>
Total net position	<u>6,019,614</u>	<u>6,847,295</u>
Total liabilities and net position	<u><u>\$ 19,158,603</u></u>	<u><u>\$ 17,724,873</u></u>

**Alva Hospital Authority
d/b/a Share Medical Center**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$2,182,635, 2012 – \$1,642,391	\$ 8,449,285	\$ 8,833,847
Other	753,619	333,023
	<u>9,202,904</u>	<u>9,166,870</u>
Operating Expenses		
Salaries and wages	5,922,903	5,225,005
Employee benefits	1,028,136	1,082,927
Purchased services and professional fees	1,221,733	708,527
Supplies and other	2,810,298	2,563,715
Depreciation	939,208	706,070
	<u>11,922,278</u>	<u>10,286,244</u>
Operating Loss	<u>(2,719,374)</u>	<u>(1,119,374)</u>
Nonoperating Revenues (Expenses)		
Investment income	2,670	5,470
Noncapital gifts	525,424	1,044,578
Interest expense	(458,952)	(470,792)
	<u>69,142</u>	<u>579,256</u>
Deficiency of Revenues over Expenses Before Capital Appropriations and Capital Grants and Gifts	(2,650,232)	(540,118)
Capital Appropriations – City of Alva	1,735,402	1,300,510
Capital Grants and Gifts	<u>87,149</u>	<u>578,124</u>
Increase (Decrease) in Net Position	(827,681)	1,338,516
Net Position, Beginning of Year	<u>6,847,295</u>	<u>5,508,779</u>
Net Position, End of Year	<u>\$ 6,019,614</u>	<u>\$ 6,847,295</u>

**Alva Hospital Authority
d/b/a Share Medical Center
Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 8,016,466	\$ 8,694,942
Payments to suppliers and contractors	(3,510,178)	(3,827,758)
Payments to and on behalf of employees	(6,901,015)	(6,502,014)
Other receipts and payments, net	<u>753,619</u>	<u>333,023</u>
Net cash used in operating activities	<u>(1,641,108)</u>	<u>(1,301,807)</u>
Noncapital Financing Activities		
Increase (decrease) in outstanding checks in excess of bank balance	(220,934)	532,002
Interest paid on lines of credit	(52,427)	-
Noncapital gifts	525,424	1,044,578
Principal paid on lines of credit	(323,077)	(212,338)
Proceed from draws on lines of credit	995,752	240,000
Proceed from issuance of long-term debt	<u>1,500,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>2,424,738</u>	<u>1,604,242</u>
Capital and Related Financing Activities		
Capital appropriations – City of Alva	1,742,858	1,247,842
Capital grants and gifts	87,149	578,124
Principal paid on long-term debt	(402,501)	(519,014)
Interest paid on long-term debt	(376,018)	(470,792)
Proceeds from issuance of long-term debt	500,000	-
Purchase of capital assets	<u>(742,218)</u>	<u>(1,346,981)</u>
Net cash provided by (used in) capital and related financing activities	<u>809,270</u>	<u>(510,821)</u>
Investing Activities		
Change in certificates of deposit	(5,324)	24,174
Interest on investments	<u>2,670</u>	<u>5,470</u>
Net cash provided by (used in) investing activities	<u>(2,654)</u>	<u>29,644</u>
Increase (Decrease) in Cash and Cash Equivalents	1,590,246	(178,742)
Cash and Cash Equivalents, Beginning of Year	<u>1,054,070</u>	<u>1,232,812</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,644,316</u>	<u>\$ 1,054,070</u>

See Notes to Financial Statements

	<u>2013</u>	<u>2012</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 1,815,549	\$ 198,297
Restricted cash and cash equivalents – current	53,398	53,284
Cash and cash equivalents in noncurrent cash and cash equivalents	<u>775,369</u>	<u>802,489</u>
	<u>\$ 2,644,316</u>	<u>\$ 1,054,070</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (2,719,374)	\$ (1,119,374)
Depreciation	939,208	706,070
Provision for uncollectible accounts	2,182,635	1,642,391
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,369,512)	(1,731,098)
Supplies and prepaid expenses	114,490	(60,133)
Estimated amounts due to third-party payer	(245,942)	(50,198)
Accounts payable and accrued expenses	<u>457,387</u>	<u>(689,465)</u>
Net cash used in operating activities	<u>\$ (1,641,108)</u>	<u>\$ (1,301,807)</u>

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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, as the Authority is considered to be financially accountable for its operations. 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.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Basis of Accounting and Presentation

The 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 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 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, 2013, cash equivalents consisted of money market accounts with brokers.

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 other than employee health claims. 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, 2013 and 2012

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	3–15 years
Buildings and improvements	5–40 years
Equipment	5–20 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. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date, if any, is included in other long-term liabilities.

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.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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 to be used for debt service and capital improvements of the Authority.

The Authority received approximately 15% and 11% of its financial support from city appropriations related to the sales taxes in 2013 and 2012, respectively. Revenue from city appropriations is recognized in the year in which the sales taxes are earned.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based 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 are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based 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 program.

Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012

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 2012, the Authority completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$150,000, which is included in other revenue within operating revenue in the accompanying statements of revenues, expenses and changes in net position. The Authority expects to complete the second-year requirements under the Medicaid program and the first-year requirements under the Medicare program during fiscal year 2014.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program 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.

During the years ended June 30, 2013 and 2012, the Authority received and paid approximately \$252,000 and \$247,000, respectively, in SHOPP funds and SHOPP assessment fees. The annual amounts to be received and paid by the Authority over the term of the SHOPP program 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 program is not expected to be materially different than the net amounts received in 2013 and 2012. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying 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, 2011.

**Alva Hospital Authority
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Notes to Financial Statements
June 30, 2013 and 2012**

- **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 37% and 45% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2013 and 2012, 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, 2013, approximately \$59,000 of the Authority's bank balances of approximately \$929,000 were exposed to custodial credit risk as uninsured and uncollateralized. At June 30, 2012, none of the Authority's bank balances of approximately \$447,000 were exposed to custodial credit risk.

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, 2013 and 2012, the Authority had \$697,560 and \$697,409, respectively, of money market mutual funds that have maturities of less than one year.

Interest Rate Risk – Interest rate risk is the exposure to fair value losses arising from rising interest rates. The money market mutual funds are presented as 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, 2013 and 2012, the Authority's investments in money market mutual funds were not rated.

**Alva Hospital Authority
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Notes to Financial Statements
June 30, 2013 and 2012**

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, 2013 and 2012, the Authority had no investments other than money market mutual funds. At June 30, 2013 and 2012, all money market mutual funds were held in BOK 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, 2013 and 2012.

Summary of Carrying Values

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

	<u>2013</u>	<u>2012</u>
Carrying value		
Deposits	\$ 1,946,756	\$ 356,661
Investments	<u>697,560</u>	<u>697,409</u>
	<u>\$ 2,644,316</u>	<u>\$ 1,054,070</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,815,549	\$ 198,297
Restricted cash and cash equivalents – current	53,398	53,284
Noncurrent cash and cash equivalents	<u>775,369</u>	<u>802,489</u>
	<u>\$ 2,644,316</u>	<u>\$ 1,054,070</u>

**Alva Hospital Authority
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Notes to Financial Statements
June 30, 2013 and 2012**

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:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 1,345,287	\$ 1,151,682
Medicaid	773,237	363,641
Other third-party payers	1,543,405	1,607,513
Patients	<u>1,035,297</u>	<u>415,513</u>
	4,697,226	3,538,349
Less allowance for uncollectible amounts	<u>2,933,000</u>	<u>1,961,000</u>
	<u>\$ 1,764,226</u>	<u>\$ 1,577,349</u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	<u>2013</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 132,829	\$ -	\$ -	\$ -	\$ 132,829
Land improvements	86,208	-	-	-	86,208
Buildings and improvements	15,039,264	-	(42,684)	-	14,996,580
Equipment	7,101,424	409,874	(432,541)	1,632,061	8,710,818
Construction in progress	<u>1,317,932</u>	<u>332,345</u>	<u>-</u>	<u>(1,632,061)</u>	<u>18,216</u>
	<u>23,677,657</u>	<u>742,219</u>	<u>(475,225)</u>	<u>-</u>	<u>23,944,651</u>
Less accumulated depreciation					
Land improvements	81,305	3,339	-	-	84,644
Buildings and improvements	2,907,044	355,206	(42,684)	-	3,219,566
Equipment	<u>6,067,682</u>	<u>580,663</u>	<u>(432,541)</u>	<u>-</u>	<u>6,215,804</u>
	<u>9,056,031</u>	<u>939,208</u>	<u>(475,225)</u>	<u>-</u>	<u>9,520,014</u>
Capital assets, net	<u>\$ 14,621,626</u>	<u>\$ (196,989)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,424,637</u>

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 132,829	\$ -	\$ -	\$ -	\$ 132,829
Land improvements	92,351	-	(6,143)	-	86,208
Buildings and improvements	14,954,339	92,282	(7,357)	-	15,039,264
Equipment	8,043,998	126,624	(1,069,198)	-	7,101,424
Construction in progress	189,857	1,128,075	-	-	1,317,932
	<u>23,413,374</u>	<u>1,346,981</u>	<u>(1,082,698)</u>	<u>-</u>	<u>23,677,657</u>
Less accumulated depreciation					
Land improvements	83,940	3,508	(6,143)	-	81,305
Buildings and improvements	2,557,652	356,749	(7,357)	-	2,907,044
Equipment	6,791,067	345,813	(1,069,198)	-	6,067,682
	<u>9,432,659</u>	<u>706,070</u>	<u>(1,082,698)</u>	<u>-</u>	<u>9,056,031</u>
Capital assets, net	<u>\$ 13,980,715</u>	<u>\$ 640,911</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,621,626</u>

Note 6: Medical Malpractice Claims

The Authority is a member of Cimarron Insurance Exchange, RRG (Reciprocal Risk Retention Group) (Cimarron) approved by the state of Vermont to provide hospital professional and general liability coverage to its subscribers. Cimarron was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Cimarron members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. During 2012, Cimarron was redomiciled in Oklahoma and licensed by the Oklahoma Insurance Department to continue its operations as a risk retention group. Cimarron has indicated it will cease operations during the Authority's fiscal year ending 2014.

The Authority has obtained letters of credit totaling \$213,149 from a commercial bank to secure equity ownership in Cimarron in accordance with the subscriber agreement set forth between the Authority and Cimarron. As stated by the subscriber agreement, the beneficiary of the letters of credit is the Commissioner of Insurance of the State of Oklahoma. The commissioner has the authority to draw down on the letters of credit as needed to fund Cimarron. As of June 30, 2013 and 2012, there have been no draws on the letters of credit.

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.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Note 7: Lines of Credit

The Authority has a \$500,000 revolving line of credit expiring in December 2014. At June 30, 2013 and 2012, there was \$500,000 borrowed against this line. The line is collateralized by substantially all of the Authority's assets. Interest at 4% is payable at maturity.

The Authority obtained an additional \$750,000 revolving line of credit during 2013 expiring December 2013. At June 30, 2013, there was \$677,675 borrowed against the line. The line is collateralized by substantially all of the Authority's assets. Interest at 4% is payable at maturity. This line of credit was paid off in full on July 1, 2013.

Note 8: Long-Term Obligations

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

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Bonds Payable, Series 2005	\$ 7,555,000	\$ -	\$ (275,000)	\$ 7,280,000	\$ 285,000
Note payable to bank (A)	262,372	-	(26,393)	235,979	27,479
Note payable to bank (B)	80,248	-	(80,248)	-	-
Note payable to bank (C)	-	500,000	-	500,000	500,000
Note payable to trust (D)	-	1,500,000	-	1,500,000	-
Capital lease obligation	53,557	-	(25,860)	27,697	27,697
	<u>\$ 7,951,177</u>	<u>\$ 2,000,000</u>	<u>\$ (407,501)</u>	<u>\$ 9,543,676</u>	<u>\$ 840,176</u>
	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Bonds Payable, Series 2005	\$ 7,820,000	\$ -	\$ (265,000)	\$ 7,555,000	\$ 275,000
Note payable to bank (A)	287,689	-	(25,317)	262,372	26,388
Note payable to bank (B)	191,751	-	(111,503)	80,248	80,248
Capital lease obligation	170,751	-	(117,194)	53,557	25,925
	<u>\$ 8,470,191</u>	<u>\$ -</u>	<u>\$ (519,014)</u>	<u>\$ 7,951,177</u>	<u>\$ 407,561</u>

**Alva Hospital Authority
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Notes to Financial Statements
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Revenue Bonds Payable, Series 2005

The Revenue Bonds Payable, Series 2005 (the Bonds) in the original amount of \$9,250,000 are dated June 1, 2005, which bear interest from 3.00% to 5.25%. The Bonds are payable with principal payments due annually and interest payments due semiannually. All of the Bonds still outstanding may be redeemed at the Authority's option no earlier than June 1, 2016. The redemption price is 100%. Proceeds from the issuance of these bonds were used to fund capital improvements of the Authority. The Bonds are secured by substantially all the assets of the Authority as described in Section 2.01 of the General Bond Indenture.

The General Bond Indenture requires that certain funds be established with the trustee. The Authority is required to make monthly deposits to the interest fund held by the trustee in the amount of 1/6 the next semiannual interest payment due and 1/12 the amount of the next annual principal payment due. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The General Bond Indenture also requires the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio of at least 1.10 to 1.00 and restrictions on incurrence of additional debt.

The Bonds were refinanced on August 28, 2013, into Sales Tax and Hospital Revenue Refunding Note, Series 2013, to lock in a lower fixed interest rate of 3.8%; principal and interest payments are due monthly beginning October 2013 through June 2029 in the amount of \$51,614 per month.

The Bonds' debt service requirements as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 638,885	\$ 285,000	\$ 353,885
2015	642,485	300,000	342,485
2016	640,185	310,000	330,185
2017	642,475	325,000	317,475
2018	644,150	340,000	304,150
2019–2023	3,209,325	1,975,000	1,234,325
2024–2028	3,216,213	2,550,000	666,213
2029–2030	1,280,738	1,195,000	85,738
	<u>\$ 10,914,456</u>	<u>\$ 7,280,000</u>	<u>\$ 3,634,456</u>

Notes Payable to Banks

- (A) Due December 2020, principal and interest at 4% payable monthly, secured by certain equipment.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

- (B) Due March 2013, principal and interest at 6% payable monthly, secured by certain equipment. This note was paid in full September 2012.
- (C) Due November 2013, principal and interest at 4% due at maturity, secured by certain equipment.
- (D) Due July 2016, principal due at maturity and interest at 4% due annually.

The notes payable debt service requirements as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 620,715	\$ 527,479	\$ 93,236
2015	96,548	28,615	67,933
2016	1,596,548	1,529,798	66,750
2017	36,548	31,030	5,518
2018	36,548	32,313	4,235
2019–2022	91,365	86,744	4,621
	<u>\$ 2,478,272</u>	<u>\$ 2,235,979</u>	<u>\$ 242,293</u>

Capital Lease Obligation

The Authority is obligated under a lease for equipment that is accounted for as a capital lease. Assets under the capital lease at June 30, 2013 and 2012, totaled \$122,670, net of accumulated depreciation of \$104,270 and \$73,602, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 6.7% together with the present value of the future minimum lease payments as of June 30, 2013:

Year Ending June 30,	
2014	\$ 28,716
Less amount representing interest	<u>1,019</u>
Present value of future minimum lease payments	<u>\$ 27,697</u>

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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 charges relating to these services are as follows:

	2013	2012
Charity allowances	\$ 55,000	\$ 144,000
State Medicaid programs	399,000	380,000
	\$ 454,000	\$ 524,000

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. During 2013 and 2012, no employer match contributions were made and no pension expense was recorded. Contributions actually made by plan members during 2013 and 2012 were approximately \$92,000 and \$89,000, respectively.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Note 11: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Authority's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Authority's net patient service revenue. In addition, it is possible the Authority will experience payment delays and other operational challenges during PPACA's implementation.

Note 12: 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.

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Note 13: Combining Component Unit Information

As discussed in *Note 1*, the Authority consists of operations of Share Medical Center. The Foundation is a component unit of the Authority.

The following tables include combining balance sheet information for the Authority and its component unit as of June 30, 2013 and 2012.

	June 30, 2013			Combined Total
	Share Medical Center	Share Medical Center Foundation	Eliminations	
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,499,853	\$ 315,696	\$ -	\$ 1,815,549
Restricted cash and cash equivalents – current	53,398	-	-	53,398
Patient accounts receivable, net of allowance	1,764,226	-	-	1,764,226
Other receivables	133,438	1,750	-	135,188
Supplies	120,364	-	-	120,364
Prepaid expenses and other	38,990	-	-	38,990
Total current assets	<u>3,610,269</u>	<u>317,446</u>	<u>-</u>	<u>3,927,715</u>
Noncurrent Cash and Cash Equivalents				
Held by trustee for debt service	644,162	-	-	644,162
Restricted for specific operating activities	42,793	-	-	42,793
Restricted for capital acquisition	88,414	-	-	88,414
	<u>775,369</u>	<u>-</u>	<u>-</u>	<u>775,369</u>
Capital Assets, Net	<u>14,421,965</u>	<u>2,672</u>	<u>-</u>	<u>14,424,637</u>
Other Assets	<u>-</u>	<u>30,882</u>	<u>-</u>	<u>30,882</u>
Total assets	<u>\$ 18,807,603</u>	<u>\$ 351,000</u>	<u>\$ -</u>	<u>\$ 19,158,603</u>

Alva Hospital Authority d/b/a Share Medical Center

Notes to Financial Statements

June 30, 2013 and 2012

	June 30, 2013			Combined Total
	Share Medical Center	Share Medical Center Foundation	Eliminations	
Liabilities and Net Position				
Current Liabilities				
Outstanding checks in excess of bank balance	\$ 351,044	\$ -	\$ -	\$ 351,044
Line of credit	1,177,675	-	-	1,177,675
Current maturities of long-term debt	840,176	-	-	840,176
Accounts payable	1,432,981	-	-	1,432,981
Accrued expenses	510,613	-	-	510,613
Estimated amounts due to third-party payer	123,000	-	-	123,000
Total current liabilities	4,435,489	-	-	4,435,489
Long-Term Debt	8,703,500	-	-	8,703,500
Total liabilities	13,138,989	-	-	13,138,989
Net Position				
Net investment in capital assets	5,461,583	2,672	-	5,464,255
Restricted – expendable for				
Debt service	187,190	-	-	187,190
Capital acquisitions	88,414	102,907	-	191,321
Specific operating activities	42,793	-	-	42,793
Unrestricted	(111,366)	245,421	-	134,055
Total net position	5,668,614	351,000	-	6,019,614
Total liabilities and net position	\$ 18,807,603	\$ 351,000	\$ -	\$ 19,158,603

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

	June 30, 2012			
	Share Medical Center	Share Medical Center Foundation	Eliminations	Combined Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 29,602	\$ 168,695	\$ -	\$ 198,297
Restricted cash and cash equivalents – current	53,284	-	-	53,284
Patient accounts receivable, net of allowance	1,577,349	-	-	1,577,349
Other receivables	149,044	23,382	-	172,426
Supplies	141,482	-	-	141,482
Prepaid expenses and other	132,362	-	-	132,362
	2,083,123	192,077	-	2,275,200
Noncurrent Cash and Cash Equivalents				
Held by trustee for debt service	644,125	-	-	644,125
Restricted for capital acquisition	158,364	-	-	158,364
	802,489	-	-	802,489
Capital Assets, Net	14,618,954	2,672	-	14,621,626
Other Assets	-	25,558	-	25,558
Total assets	\$ 17,504,566	\$ 220,307	\$ -	\$ 17,724,873

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

Notes to Financial Statements

June 30, 2013 and 2012

	June 30, 2012			
	Share Medical Center	Share Medical Center Foundation	Eliminations	Combined Total
Liabilities and Net Position				
Current Liabilities				
Outstanding checks in excess of bank balance	\$ 571,978	\$ -	\$ -	\$ 571,978
Line of credit	500,000	-	-	500,000
Current maturities of long-term debt	407,561	-	-	407,561
Accounts payable	1,055,399	-	-	1,055,399
Accrued expenses	430,082	-	-	430,082
Estimated amounts due to third-party payer	368,942	-	-	368,942
Total current liabilities	3,333,962	-	-	3,333,962
Long-Term Debt	7,543,616	-	-	7,543,616
Total liabilities	10,877,578	-	-	10,877,578
Net Position				
Net investment in capital assets	7,281,553	2,672	-	7,284,225
Restricted – expendable for				
Debt service	194,532	-	-	194,532
Capital acquisitions	158,364	78,638	-	237,002
Unrestricted	(1,007,461)	138,997	-	(868,464)
Total net position	6,626,988	220,307	-	6,847,295
Total liabilities and net position	\$ 17,504,566	\$ 220,307	\$ -	\$ 17,724,873

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

The following tables include combining statements of revenues, expenses and changes in net position for the Authority and its component unit for the years ended June 30, 2013 and 2012.

	Year Ended June 30, 2013			Combined Total
	Share Medical Center	Share Medical Center Foundation	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ 8,449,285	\$ -	\$ -	\$ 8,449,285
Other	753,619	-	-	753,619
Total operating revenues	<u>9,202,904</u>	<u>-</u>	<u>-</u>	<u>9,202,904</u>
Operating Expenses				
Salaries and wages	5,922,903	-	-	5,922,903
Employee benefits	1,028,136	-	-	1,028,136
Purchased services and professional fees	1,221,733	-	-	1,221,733
Supplies and other	2,797,437	434,803	(421,942)	2,810,298
Depreciation	939,208	-	-	939,208
Total operating expenses	<u>11,909,417</u>	<u>434,803</u>	<u>(421,942)</u>	<u>11,922,278</u>
Operating Loss	<u>(2,706,513)</u>	<u>(434,803)</u>	<u>421,942</u>	<u>(2,719,374)</u>
Nonoperating Revenues (Expenses)				
Investment income	1,119	1,551	-	2,670
Noncapital gifts	78,132	519,589	(72,297)	525,424
Interest expense	(458,952)	-	-	(458,952)
Total nonoperating revenues (expenses)	<u>(379,701)</u>	<u>521,140</u>	<u>(72,297)</u>	<u>69,142</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Appropriations and Capital Grants and Gifts	(3,086,214)	86,337	349,645	(2,650,232)
Capital Appropriations – City of Alva	1,735,402	-	-	1,735,402
Capital Grants and Gifts	<u>392,438</u>	<u>44,356</u>	<u>(349,645)</u>	<u>87,149</u>
Increase (Decrease) in Net Assets	(958,374)	130,693	-	(827,681)
Net Position, Beginning of Year	<u>6,626,988</u>	<u>220,307</u>	<u>-</u>	<u>6,847,295</u>
Net Position, End of Year	<u>\$ 5,668,614</u>	<u>\$ 351,000</u>	<u>\$ -</u>	<u>\$ 6,019,614</u>

Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012

	Year Ended June 30, 2012			Combined Total
	Share Medical Center	Share Medical Center Foundation	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ 8,833,847	\$ -	\$ -	\$ 8,833,847
Other	333,023	-	-	333,023
Total operating revenues	<u>9,166,870</u>	<u>-</u>	<u>-</u>	<u>9,166,870</u>
Operating Expenses				
Salaries and wages	5,225,005	-	-	5,225,005
Employee benefits	1,082,927	-	-	1,082,927
Purchased services and professional fees	708,527	-	-	708,527
Supplies and other	2,523,802	1,471,314	(1,431,401)	2,563,715
Depreciation	706,070	-	-	706,070
Total operating expenses	<u>10,246,331</u>	<u>1,471,314</u>	<u>(1,431,401)</u>	<u>10,286,244</u>
Operating Loss	<u>(1,079,461)</u>	<u>(1,471,314)</u>	<u>1,431,401</u>	<u>(1,119,374)</u>
Nonoperating Revenues (Expenses)				
Investment income	2,819	2,651	-	5,470
Noncapital gifts	607,480	1,008,319	(571,221)	1,044,578
Interest expense	(470,792)	-	-	(470,792)
Total nonoperating revenues (expenses)	<u>139,507</u>	<u>1,010,970</u>	<u>(571,221)</u>	<u>579,256</u>
Deficiency of Revenues over Expenses Before Capital Appropriations and Capital Grants and Gifts	(939,954)	(460,344)	860,180	(540,118)
Capital Appropriations – City of Alva	1,300,510	-	-	1,300,510
Capital Grants and Gifts	<u>860,180</u>	<u>578,124</u>	<u>(860,180)</u>	<u>578,124</u>
Increase in Net Assets	1,220,736	117,780	-	1,338,516
Net Position, Beginning of Year	<u>5,406,252</u>	<u>102,527</u>	<u>-</u>	<u>5,508,779</u>
Net Position, End of Year	<u>\$ 6,626,988</u>	<u>\$ 220,307</u>	<u>\$ -</u>	<u>\$ 6,847,295</u>

**Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

The following tables include condensed combining statements of cash flows information for the Authority and its component unit for the years ended June 30, 2013 and 2012.

	Year Ended June 30, 2013			
	Share Medical Center	Share Medical Center Foundation	Eliminations	Combined Total
Net Cash Used in Operating Activities	\$ (1,227,937)	\$ (413,171)	\$ -	\$ (1,641,108)
Net Cash Provided by Noncapital Financing Activities	1,905,149	519,589	-	2,424,738
Net Cash Provided by Capital and Related Financing Activities	764,914	44,356	-	809,270
Net Cash Provided by (Used in) Investing Activities	1,119	(3,773)	-	(2,654)
Increase in Cash and Cash Equivalents	1,443,245	147,001	-	1,590,246
Cash and Cash Equivalents, Beginning of Year	885,375	168,695	-	1,054,070
Cash and Cash Equivalents, End of Year	<u>\$ 2,328,620</u>	<u>\$ 315,696</u>	<u>\$ -</u>	<u>\$ 2,644,316</u>

	Year Ended June 30, 2012			
	Share Medical Center	Share Medical Center Foundation	Eliminations	Combined Total
Net Cash Provided by (Used in) Operating Activities	\$ 187,101	\$ (1,488,908)	\$ -	\$ (1,301,807)
Net Cash Provided by Noncapital Financing Activities	595,923	1,008,319	-	1,604,242
Net Cash Provided by (Used in) Capital and Related Financing Activities	(1,087,215)	576,394	-	(510,821)
Net Cash Provided by Investing Activities	2,819	26,825	-	29,644
Increase (Decrease) in Cash and Cash Equivalents	(301,372)	122,630	-	(178,742)
Cash and Cash Equivalents, Beginning of Year	1,186,747	46,065	-	1,232,812
Cash and Cash Equivalents, End of Year	<u>\$ 885,375</u>	<u>\$ 168,695</u>	<u>\$ -</u>	<u>\$ 1,054,070</u>

Alva Hospital Authority
d/b/a Share Medical Center
Notes to Financial Statements
June 30, 2013 and 2012

Note 14: 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 renegotiating the use of sales tax funds. 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.

Note 15: Subsequent Events

In September 2013, the Authority entered into a new note payable to a bank in the amount of \$213,149 due September 2014, bearing interest at 1.5%.

**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 basic financial statements of Alva Hospital Authority d/b/a Share Medical Center (the Authority), which comprise the balance sheet as of June 30, 2013, 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 26, 2014, which contained an "emphasis of matter" paragraph regarding omission of required supplementary information and substantial doubt about the entity'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, 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 and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting 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.

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

We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-1, 2013-2, 2013-3 and 2013-4 to be material weaknesses.

Compliance

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.

Other Matters

We also noted certain matters that we reported to the Authority's management in a separate letter dated February 26, 2014.

The purpose of this communication 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 or the entity's internal control or compliance. This communication 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
February 26, 2014

**Alva Hospital Authority
d/b/a Share Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2013**

Reference Number	Finding
2013-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The payroll manager has incompatible duties in the payroll transactions cycle.</p> <p>Context – This employee has the ability to establish employees in the payroll system; input payroll data, such as hours worked; record payroll transactions and electronic funds transfers; change direct deposit information; and perform other recording and reconciling duties. Also, the payroll reports produced by this employee are not reviewed by another member of management prior to submission for payment.</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 – Duties in the payroll transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient, and controls surrounding review procedures are insufficient to make sure payroll reports are reviewed and accurate.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Management should also review procedures to ensure review and documentation of the review of payroll reports are performed.</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
Year Ended June 30, 2013**

Reference Number	Finding
2013-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal controls to promote accurate recording and classification of accounting transactions.</p> <p>Condition – Management’s procedures for recording and classifying transactions and procedures for preparing general ledger reconciliations did not prevent inaccurate recording of transactions.</p> <p>Context – Several material journal entries were required to correct misstatements not identified or corrected by management.</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 – Recording and monitoring procedures in the internal control over financial reporting process were not performed correctly.</p> <p>Recommendation – Management should ensure controls are adequate to properly record accounting entries. Management should also ensure monthly general ledger reconciliations are completed timely and accurately, and all reconciling items are researched and resolved on a timely basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to evaluate the current internal controls over the recording and classification of accounting transactions and prepare accurate monthly reconciliations, including resolving any variances.</p>

**Alva Hospital Authority
d/b/a Share Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2013**

Reference Number	Finding
2013-3	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Journal entries and the operating bank statement reconciliation lack documentation of review by someone other than the preparer.</p> <p>Context – Our testing of controls surrounding bank statement reconciliations and journal entries indicate a review of reconciliations prepared by the chief financial officer and a review of journal entries during the year were 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 reconciliations and journal entries are insufficient to make sure the reconciliations and entries are reviewed and the review is documented.</p> <p>Recommendation – Management should review procedures to ensure review and documentation of the review of reconciliations and adjusting journal entries as part of the month-end closing procedures 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
Year Ended June 30, 2013**

Reference Number	Finding
2013-4	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant allowances and estimates in the financial statements.</p> <p>Condition – Management’s procedures for evaluating and recording significant allowances and estimates do not produce materially accurate results.</p> <p>Context – Management does not have a process that allows for consistent, unbiased methodologies to estimate significant balances on the financial statements.</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 allowances and not posting allowances identified during the close process.</p> <p>Recommendation – Management should periodically evaluate the methodology used to estimate significant allowances and estimates in the financial statements to determine that methodologies used to prepare estimates are still appropriate when compared to actual data.</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 the balances.</p>