Alva Hospital Authority
d/b/a Share Medical Center

Independent Auditor's Reports and Financial Statements

June 30, 2018 and 2017

BKD
CPAs & Advisors

Alva Hospital Authority
d/b/a Share Medical Center
June 30, 2018 and 2017

Contents

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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 the Alva Hospital Authority d/b/a Share Medical Center (the Authority) as of and for the years ended June 30, 2018 and 2017, 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 the Alva Hospital Authority d/b/a Share Medical Center as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern. As discussed in *Note 15*, the Authority has suffered recurring operating losses and has 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 December 11, 2018, 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

Tulsa, Oklahoma
December 11, 2018

Alva Hospital Authority
d/b/a Share Medical Center
Management's Discussion and Analysis
Years Ended June 30, 2018 and 2017

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, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's cash and cash equivalents decreased by $398,604 or 40% in 2018 and increased by $117,251 or 13% in 2017.
- The Authority's patient accounts receivable increased by $154,719 or 11% in 2018 and increased by $142,894 or 11% in 2017.
- The Authority's net position increased by $378,492 or 6% in 2018 and increased by $354,309 or 6% in 2017.
- The Authority reported operating losses of $2,435,061 and $1,206,349 in 2018 and 2017, respectively. The operating results in 2018 worsened by $1,228,712 or 102% compared to the operating results reported in 2017.

Using This Annual Report

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

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

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

These two statements report the Authority's net position and changes in 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 did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and deferred outflows of resources and liabilities reported in the balance sheet. The Authority's net position increased by $378,492 or 6% in 2018 over 2017 and increased by $354,309 or 6% in 2017 over 2016 as shown in Table 1.

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

	2018	2017	2016
Assets and Deferred Outflows of Resources			
Cash and cash equivalents	$ 609,712	$ 1,008,316	$ 891,065
Patient accounts receivable, net	1,551,344	1,396,625	1,253,731
Other current assets	504,992	415,035	487,522
Capital assets, net	11,570,416	12,135,098	12,394,552
Other noncurrent assets	229,853	200,605	152,364
Deferred outflows of resources	409,850	444,005	478,159
Total assets and deferred outflows of resources	$ 14,876,167	$ 15,599,684	$ 15,657,393
Liabilities			
Long-term debt, including current maturities	$ 6,313,614	$ 7,744,341	$ 8,154,139
Other current liabilities	1,848,752	1,520,034	1,522,254
Total liabilities	8,162,366	9,264,375	9,676,393
Net Position			
Net investment in capital assets	6,467,112	6,550,349	6,528,092
Restricted expendable	219,295	549,113	374,110
Unrestricted	27,394	(764,153)	(921,202)
Total net position	6,713,801	6,335,309	5,981,000
Total liabilities and net position	$ 14,876,167	$ 15,599,684	$ 15,657,393

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 payer mix. Long-term debt and accrued expenses decreased in 2018 as a result of the Charles Morton Trust forgiving debt totaling $1,500,000 and accrued interest of $230,000.

The Authority's cash and cash equivalents increased in 2017 as a result of increases in net patient service revenue, capital grants and gifts and noncapital gifts. The Authority experienced an $85,000 decrease in estimated amounts due from third-party payers due to receiving interim payments on prior year cost reports and electronic health records incentive payments. Accrued expenses increased in 2017 as a result of an additional $60,000 in accrued interest on the note payable to trust.

Operating Results and Changes in the Authority's Net Position

In 2018, the Authority's net position increased by $378,492 or 6% as shown in Table 2. This increase is made up of several different components and represents an increase of $24,183 or 7% compared with the increase in net position for 2017 of $354,309.

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	$ 10,978,527	$ 11,293,754	$ 9,680,173
Other operating revenues	1,046,340	1,392,219	1,769,700
Total operating revenues	12,024,867	12,685,973	11,449,873
Operating Expenses			
Salaries and wages and employee benefits	7,324,034	7,192,511	7,251,061
Purchased services and professional fees	2,687,130	2,182,870	1,860,751
Depreciation	833,199	1,077,849	1,043,508
Supplies and other	3,615,565	3,439,092	3,215,130
Total operating expenses	14,459,928	13,892,322	13,370,450
Operating Loss	(2,435,061)	(1,206,349)	(1,920,577)
Nonoperating Revenues (Expenses)			
Investment income	6,736	5,691	4,994
Noncapital gifts	72,479	165,636	60,614
Noncapital appropriations – City of Alva	1,195,731	1,158,966	1,340,650
Gain on forgiveness of debt	1,733,873	-	-
Interest expense	(324,343)	(346,535)	(361,337)
Total nonoperating revenues (expenses)	2,684,476	983,758	1,044,921
Capital Grants and Gifts	129,077	576,900	27,577
Increase (Decrease) in Net Position	$ 378,492	$ 354,309	$ (848,079)

Operating Loss

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

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

The operating loss for 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 revenue of $345,879 or 25%
- An increase in purchased services and professional fees of $504,260 or 23%

Other operating revenue 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.

The operating loss for 2017 improved by $714,228 or 37% as compared to 2016. The primary components of the improved operating loss are:

- An increase in net patient service revenue of $1,613,581 or 17%
- A decrease in other operating revenue of $377,481 or 21%
- An increase in purchased services and professional fees of $322,119 or 17%

Net patient service revenue increased in 2017 due to an increase in inpatient, outpatient, laboratory, clinic and nursing home volumes.

Other operating revenue decreased as a result of the Authority recognizing electronic health records incentive payments of approximately $382,000 during 2017 compared to $783,000 during 2016.

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 $36,765 or 3% in fiscal year 2018 due to an increase in sales tax receipts from the City of Alva. Noncapital gifts decreased by $93,157 or 56% during 2018 as a result of fewer contributions received by the Authority.

During 2018, the Authority also recorded a gain on forgiveness of debt totaling $1,733,873 related to the Charles Morton Trust forgiving long-term debt and accrued interest.

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 2018 and 2017 as well as cash used to service debt and purchase capital assets.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018 and 2017, the Authority had $11,570,416 and $12,135,098, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2018 and 2017, the Authority purchased capital assets costing $268,517 and $822,317, respectively.

Debt

As detailed in *Note 8*, the Authority had $5,818,614 and $7,744,341 in revenue bonds and notes payable outstanding at June 30, 2018 and 2017, respectively. The Authority did not issue any new debt during 2018 or 2017. During 2018, one note payable was forgiven in the amount of $1,500,000.

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, 2018 and 2017

Assets and Deferred Outflows of Resources

	2018	2017
Current Assets		
Cash and cash equivalents	$ 227,460	$ 320,934
Patient accounts receivable, net of allowance; 2018 – $1,579,000, 2017 – $1,294,000	1,551,344	1,396,625
Other receivables	103,794	92,722
Estimated amounts due from third-party payers	58,000	60,000
Supplies	184,777	161,148
Prepaid expenses and other	158,421	101,165
Total current assets	2,283,796	2,132,594
Noncurrent Cash and Cash Equivalents		
Held by trustee for debt service	309,520	309,520
Restricted for specific operating activities	21,118	326,248
Restricted for capital acquisition	51,614	51,614
	382,252	687,382
Capital Assets, Net	11,570,416	12,135,098
Deferred Outflows of Resources	409,850	444,005
Interest in Assets at Communities Foundation of Oklahoma, Inc.	229,853	200,605
Total assets and deferred outflows of resources	$ 14,876,167	$ 15,599,684

Liabilities and Net Position

	2018	2017
Current Liabilities		
Line of credit	$ 495,000	$ -
Current maturities of long-term debt	407,655	1,894,514
Accounts payable	1,305,994	729,035
Accrued expenses	542,758	790,999
Total current liabilities	2,751,407	3,414,548
Long-Term Debt	5,410,959	5,849,827
Total liabilities	8,162,366	9,264,375
Net Position		
Net investment in capital assets	6,467,112	6,550,349
Restricted – expendable for		
Debt service	51,614	51,614
Capital acquisitions	65,642	64,904
Specific operating activities	102,039	432,595
Unrestricted	27,394	(764,153)
Total net position	6,713,801	6,335,309
Total liabilities and net position	$ 14,876,167	$ 15,599,684

Alva Hospital Authority
d/b/a Share Medical Center
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – $1,921,170, 2017 – $1,578,442	$ 10,978,527	$ 11,293,754
Other	1,046,340	1,392,219
Total operating revenues	12,024,867	12,685,973
Operating Expenses		
Salaries and wages	6,373,926	6,169,331
Employee benefits	950,108	1,023,180
Purchased services and professional fees	2,687,130	2,182,870
Supplies and other	3,615,565	3,439,092
Depreciation	833,199	1,077,849
Total operating expenses	14,459,928	13,892,322
Operating Loss	(2,435,061)	(1,206,349)
Nonoperating Revenues (Expenses)		
Investment income	6,736	5,691
Noncapital gifts	72,479	165,636
Noncapital appropriations – City of Alva	1,195,731	1,158,966
Gain on forgiveness of debt	1,733,873	-
Interest expense	(324,343)	(346,535)
Total nonoperating revenues (expenses)	2,684,476	983,758
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	249,415	(222,591)
Capital Grants and Gifts	129,077	576,900
Increase in Net Position	378,492	354,309
Net Position, Beginning of Year	6,335,309	5,981,000
Net Position, End of Year	$ 6,713,801	$ 6,335,309

Alva Hospital Authority
d/b/a Share Medical Center
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	$ 10,825,808	$ 11,235,860
Payments to suppliers and contractors	(5,716,748)	(5,781,806)
Payments to and on behalf of employees	(7,398,402)	(7,182,060)
Other receipts and payments, net	1,076,340	1,392,219
Net cash used in operating activities	(1,213,002)	(335,787)
Noncapital Financing Activities		
Interest paid on line of credit	(5,716)	(6,264)
Noncapital gifts	72,479	165,636
Noncapital appropriations – City of Alva	1,184,659	1,149,387
Principal paid on line of credit	-	(200,000)
Proceeds from draws on line of credit	495,000	200,000
Net cash provided by noncapital financing activities	1,746,422	1,308,759
Capital and Related Financing Activities		
Capital grants and gifts	129,077	576,900
Principal paid on long-term debt	(425,727)	(409,798)
Interest paid on long-term debt	(254,469)	(246,117)
Purchase of capital assets	(358,393)	(734,155)
Net cash used in capital and related financial activities	(909,512)	(813,170)
Investing Activities		
Contribution to Communities Foundation of Oklahoma, Inc.	(29,248)	(47,339)
Interest on investments	6,736	4,788
Net cash used in investing activities	(22,512)	(42,551)
Increase (Decrease) in Cash and Cash Equivalents	(398,604)	117,251
Cash and Cash Equivalents, Beginning of Year	1,008,316	891,065
Cash and Cash Equivalents, End of Year	$ 609,712	$ 1,008,316

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 227,460	$ 320,934
Noncurrent cash and cash equivalents	382,252	687,382
	$ 609,712	$ 1,008,316
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (2,435,061)	$ (1,206,349)
Depreciation	833,199	1,077,849
Provision for uncollectible accounts	1,921,170	1,578,442
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,075,889)	(1,721,336)
Supplies and prepaid expenses	(80,885)	(2,934)
Estimated amounts due from/to third-party payers	2,000	85,000
Accounts payable and accrued expenses	622,464	(146,459)
Net cash used in operating activities	$ (1,213,002)	$ (335,787)
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 4,060	$ 93,933

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.

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.

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.

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, 2018 and 2017, cash equivalents consisted of money market accounts with bankers.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investment Income

Investment income includes interest income.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or 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.

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

City Appropriations

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

The Authority received approximately 7.9% of its financial support from city appropriations related to the sales taxes in both 2018 and 2017. Revenue from city appropriations is recognized in the year in which the sales taxes are earned and is reflected as noncapital appropriations – City of Alva.

Electronic Health Records Incentive Programs

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

The 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.

During 2017, the Authority completed the fourth-year requirements under the Medicare program and recorded revenue of approximately $382,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

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

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

	2018	2017
SHOPP funds received	$ 70,000	$ 89,000
OHA Foundation funds received	235,000	200,000
SHOPP assessment fees paid	(306,000)	(289,000)
Net SHOPP expense	$ (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 obtaining CAH status subsequent to the June 30, 2018, year-end, the annual benefit to the Authority will be materially different from the amounts in 2018 as the Authority will no longer be required to pay the SHOPP assessment fee or eligible to receive the OHA Foundation funds. SHOPP and OHA Foundation revenue is recorded as part of net patient service revenue, and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2017.

- **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 66% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2018 and 2017. 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, 2018 and 2017, none of the Authority's bank balances of approximately $770,000 and $1,136,000, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	$ 300,192	$ 698,796
Investments	309,520	309,520
	$ 609,712	$ 1,008,316
Included in the following balance sheet captions		
Cash and cash equivalents	$ 227,460	$ 320,934
Noncurrent cash and cash equivalents	382,252	687,382
	$ 609,712	$ 1,008,316

Investment Income

Investment income for the years ended June 30, 2018 and 2017, consisted of interest income of $6,736 and $5,691, respectively.

Note 4: Patient Accounts Receivable

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

	2018	2017
Medicare	$ 607,916	$ 467,314
Medicaid	532,194	529,813
Other third-party payers	723,322	578,562
Patients	1,290,912	1,114,936
	3,154,344	2,690,625
Less allowance for uncollectible accounts	1,579,000	1,294,000
	$ 1,575,344	$ 1,396,625

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 132,829	$ -	$ -	$ -	$ 132,829
Land improvements	86,208	-	-	-	86,208
Buildings and improvements	15,030,259	-	-	-	15,030,259
Equipment	9,982,178	225,142	-	720,049	10,927,369
Construction in progress	678,103	43,375	-	(720,049)	1,429
	25,909,577	268,517	-	-	26,178,094
Less accumulated depreciation					
Land improvements	86,208	-	-	-	86,208
Buildings and improvements	4,632,644	354,763	-	-	4,987,407
Equipment	9,055,627	478,436	-	-	9,534,063
	13,774,479	833,199	-	-	14,607,678
Capital assets, net	$ 12,135,098	$ (564,682)	$ -	$ -	$ 11,570,416

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 132,829	$ -	$ -	$ -	$ 132,829
Land improvements	86,208	-	-	-	86,208
Buildings and improvements	15,018,180	12,079	-	-	15,030,259
Equipment	9,762,753	133,067	(3,922)	90,280	9,982,178
Construction in progress	91,212	677,171	-	(90,280)	678,103
	25,091,182	822,317	(3,922)	-	25,909,577
Less accumulated depreciation					
Land improvements	86,060	148	-	-	86,208
Buildings and improvements	4,279,248	353,396	-	-	4,632,644
Equipment	8,331,322	724,305	-	-	9,055,627
	12,696,630	1,077,849	-	-	13,774,479
Capital assets, net	$ 12,394,552	$ (255,532)	$ (3,922)	$ -	$ 12,135,098

Note 6: Medical Malpractice Claims

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

Note 7: Line of Credit

The Authority has a $500,000 revolving line of credit expiring in December 2018, which is collateralized by substantially all of the Authority's assets. Interest at 5% is payable at maturity. The Authority currently does not have any borrowings against the line of credit. Management intends to renew the line of credit upon the expiration date in December 2018.

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

	2018	2017
Beginning balance	$ -	$ -
Additions	495,000	200,000
Deductions	-	(200,000)
Ending balance	$ 495,000	$ -

Subsequent to year-end, the Authority entered into an agreement for a $250,000 revolving line of credit expiring in July 2019, which is collateralized by substantially all of the Authority's assets. Interest at 5% is payable at maturity. As of November 6, 2018, the Authority has drawn approximately $200,000 against this line of credit.

Note 8: Long-Term Obligations

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

	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)	-	-
	$ 7,744,341	$ -	$ (1,925,727)	$ 5,818,614	$ 407,655

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Refunding Note, Series 2013	$ 6,504,047	$ -	$ (378,766)	$ 6,125,281	$ 362,418
Note payable to bank (A)	150,092	-	(31,032)	119,060	32,096
Note payable to trust (B)	1,500,000	-	-	1,500,000	1,500,000
	$ 8,154,139	$ -	$ (409,798)	$ 7,744,341	$ 1,894,514

Revenue Refunding Note, Series 2013

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

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

In August 2013, the Authority issued the Revenue Refunding Note in the amount of $7,500,000 which, along with other available funds, 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 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 $5,720,000 and $6,060,000 at June 30, 2018 and 2017, 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, 2018, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2019	$ 567,754	$ 373,945	$ 193,809
2020	619,368	423,050	196,318
2021	619,367	439,408	179,959
2022	619,368	456,400	162,968
2023	619,367	474,048	145,319
2024–2028	3,096,839	2,659,800	437,039
2029	929,355	905,218	24,137
	$ 7,071,418	$ 5,731,869	$ 1,339,549

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.

The notes payable debt service requirements as of June 30, 2018, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2019	$ 36,944	$ 33,710	$ 3,234
2020	36,945	35,259	1,686
2021	18,016	17,776	240
	$ 91,905	$ 86,745	$ 5,160

Note 9: Charity Care

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

Uncompensated costs relating to these services are as follows:

	2018	2017
Charity allowances	$ 74,000	$ 28,000
State Medicaid programs	294,000	35,000
	$ 368,000	$ 63,000

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

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, 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 2018 or 2017. At June 30, 2018 and 2017, contribution rates for plan members expressed as a percentage of covered payroll were 2.6% and 2.7%, respectively. Contributions actually made by plan members during 2018 and 2017 were approximately $169,000 and $165,000, respectively.

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

The Foundation has transferred assets to Communities Foundation of Oklahoma, Inc. (Communities Foundation) and retained a beneficial interest in those assets. The Foundation is entitled to receive the interest annually. The Foundation may request a return of principal funds contributed to the Communities Foundation in accordance with the agency fund agreement. The Foundation has granted variance power to the Communities Foundation's board of directors to modify any restriction of the donor as to distributions of the funds if the board of directors determines such restrictions to be unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. The fair value of the retained beneficial interest included in the accompanying balance sheets was $229,853 and $200,605 at June 30, 2018 and 2017, respectively.

Because the Communities Foundation has variance power over contributions received from third parties amounting to approximately $47,500 and $45,500 at June 30, 2018 and 2017, 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, 2018 and 2017:

- Money market mutual funds of $309,520 as of June 30, 2018 and 2017, are valued using quoted market prices (Level 1 inputs).

- Interest in assets at Communities Foundation of $229,853 and $200,605 as of June 30, 2018 and 2017, respectively, is valued using net asset value (NAV) (Level 3 inputs). See *Note 11* for a description of this category. There are no unfunded commitments as of June 30, 2018 and 2017.

Note 13: Contingencies

Litigation

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

Note 14: Combining Component Unit Information

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

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

	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 payers	58,000	-	-	58,000
Supplies	184,777	-	-	184,777
Prepaid expenses and other	158,421	-	-	158,421
Total current assets	2,173,234	110,562	-	2,283,796
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
	382,252	-	-	382,252
Capital Assets, Net	11,570,416	-	-	11,570,416
Deferred Outflows of Resources	409,850	-	-	409,850
Interest in Assets at Communities Foundation of Oklahoma, Inc.	-	229,853	-	229,853
Total assets and deferred outflows of resources	$ 14,535,752	$ 340,415	$ -	$ 14,876,167

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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	51,614	14,028	-	65,642
Specific operating activities	21,118	80,921	-	102,039
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

	2017			
	Authority	Foundation	Eliminations	Combined Total
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	$ 185,735	$ 135,199	$ -	$ 320,934
Patient accounts receivable, net	1,396,625	-	-	1,396,625
Other receivables	92,722	-	-	92,722
Estimated amounts due from third-party payers	60,000	-		60,000
Supplies	161,148	-	-	161,148
Prepaid expenses and other	101,165	-	-	101,165
Total current assets	1,997,395	135,199	-	2,132,594
Noncurrent Cash and Cash Equivalents				
Held by trustee for debt service	309,520	-	-	309,520
Restricted for specific operating activities	326,248	-	-	326,248
Restricted for capital acquisition	51,614	-	-	51,614
	687,382	-	-	687,382
Capital Assets, Net	12,135,098	-	-	12,135,098
Deferred Outflows of Resources	444,005	-	-	444,005
Interest in Assets at Communities Foundation of Oklahoma, Inc.	-	200,605	-	200,605
Total assets and deferred outflows of resources	$ 15,263,880	$ 335,804	$ -	$ 15,599,684

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	2017			
	Authority	Foundation	Eliminations	Combined Total
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	$ 1,894,514	$ -	$ -	$ 1,894,514
Accounts payable	729,035	-	-	729,035
Accrued expenses	790,999	-	-	790,999
Total current liabilities	3,414,548	-	-	3,414,548
Long-Term Debt	5,849,827	-	-	5,849,827
Total liabilities	9,264,375	-	-	9,264,375
Net Position				
Net investment in capital assets	6,550,349	-	-	6,550,349
Restricted – expendable for				
Debt service	51,614	-	-	51,614
Capital acquisitions	51,614	13,290	-	64,904
Specific operating activities	326,248	106,347	-	432,595
Unrestricted	(980,320)	216,167	-	(764,153)
Total net position	5,999,505	335,804	-	6,335,309
Total liabilities and net position	$ 15,263,880	$ 335,804	$ -	$ 15,599,684

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:

	2018			
	Authority	Foundation	Eliminations	Combined Total
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	12,024,867	-	-	12,024,867
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	14,462,672	56,101	(58,845)	14,459,928
Operating Loss	(2,437,805)	(56,101)	58,845	(2,435,061)
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)	2,684,229	59,092	(58,845)	2,684,476
Excess of Revenues over Expenses Before Capital Grants and Gifts	246,424	2,991	-	249,415
Capital Grants and Gifts	127,457	1,620	-	129,077
Increase in Net Position	373,881	4,611	-	378,492
Net Position, Beginning of Year	5,999,505	335,804	-	6,335,309
Net Position, End of Year	$ 6,373,386	$ 340,415	$ -	$ 6,713,801

	2017			
	Authority	Foundation	Eliminations	Combined Total
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	$ 11,293,754	$ -	$ -	$ 11,293,754
Other	1,392,219	-	-	1,392,219
Total operating revenues	12,685,973	-	-	12,685,973
Operating Expenses				
Salaries and wages	6,169,331	-	-	6,169,331
Employee benefits	1,023,180	-	-	1,023,180
Purchased services and professional fees	2,182,870	-	-	2,182,870
Supplies and other	3,441,163	10,156	(12,227)	3,439,092
Depreciation	1,077,849	-	-	1,077,849
Total operating expenses	13,894,393	10,156	(12,227)	13,892,322
Operating Loss	(1,208,420)	(10,156)	12,227	(1,206,349)
Nonoperating Revenues (Expenses)				
Investment income	1,849	3,842	-	5,691
Noncapital gifts	139,594	38,269	(12,227)	165,636
Noncapital appropriations – City of Alva	1,158,966	-	-	1,158,966
Interest expense	(346,535)	-	-	(346,535)
Total nonoperating revenues (expenses)	953,874	42,111	(12,227)	983,758
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	(254,546)	31,955	-	(222,591)
Capital Grants and Gifts	573,394	3,506	-	576,900
Increase in Net Position	318,848	35,461	-	354,309
Net Position, Beginning of Year	5,680,657	300,343	-	5,981,000
Net Position, End of Year	$ 5,999,505	$ 335,804	$ -	$ 6,335,309

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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:

	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	2,082	(24,594)	-	(22,512)
Decrease in Cash and Cash Equivalents	(373,967)	(24,637)	-	(398,604)
Cash and Cash Equivalents, Beginning of Year	873,117	135,199	-	1,008,316
Cash and Cash Equivalents, End of Year	$ 499,150	$ 110,562	$ -	$ 609,712

	2017			
	Authority	Foundation	Eliminations	Combined Total
Net Cash Used in Operating Activities	$ (325,631)	$ (10,156)	$ -	$ (335,787)
Net Cash Provided by Noncapital Financing Activities	1,270,490	38,269	-	1,308,759
Net Cash Provided by (Used in) Capital and Related Financing Activities	(816,676)	3,506	-	(813,170)
Net Cash Provided by (Used in) Investing Activities	1,848	(44,399)	-	(42,551)
Increase (Decrease) in Cash and Cash Equivalents	130,031	(12,780)	-	117,251
Cash and Cash Equivalents, Beginning of Year	743,086	147,979	-	891,065
Cash and Cash Equivalents, End of Year	$ 873,117	$ 135,199	$ -	$ 1,008,316

Note 15: Management's Consideration of Going Concern Matters

The Authority has incurred significant operating losses since 2010 and has negative working capital. Management is considering several alternatives for mitigating these conditions during the next year, including reviewing expenses and working to set up rural health clinics. 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: Financial Statement Revision

Fiscal year 2017 has been revised for immaterial classification errors in cash and cash equivalents and net position. These revisions had no impact on the previously reported change in net position. The Authority has determined these changes are not material.

The following financial statement line items for fiscal year 2017 were affected by the revisions:

	As Previously Stated	As Revised	Difference
Balance Sheet			
Cash and cash equivalents	$ 443,864	$ 320,934	$ (122,930)
Total current assets	$ 2,255,524	$ 2,132,594	$ (122,930)
Total assets and deferred outflows of resources	$ 15,722,614	$ 15,599,684	$ (122,930)
Outstanding checks in excess of bank balance	$ 122,930	$ -	$ (122,930)
Total current liabilities	$ 3,537,478	$ 3,414,548	$ (122,930)
Total liabilities	$ 9,387,305	$ 9,264,375	$ (122,930)
Net investment in capital assets	$ 6,644,282	$ 6,550,349	$ (93,933)
Unrestricted net position	$ (858,086)	$ (764,153)	$ 93,933
Total liabilities and net position	$ 15,722,614	$ 15,599,684	$ (122,930)
Statement of Cash Flows			
Change in outstanding checks in excess of bank balance	$ 68,670	$ -	$ (68,670)
Net cash provided by noncapital financing activities	$ 1,377,429	$ 1,308,759	$ (68,670)
Increase in cash and cash equivalents	$ 185,921	$ 117,251	$ (68,670)
Cash and cash equivalents, beginning of year	$ 945,325	$ 891,065	$ (54,260)
Cash and cash equivalents, end of year	$ 1,131,246	$ 1,008,316	$ (122,930)

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

Independent Auditor's Report

Board of Trustees
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, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2018, 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 2018-1 and 2018-2, that we consider to be material weaknesses.

Compliance and Other Matters

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

Authority's Responses to the Findings

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

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
December 11, 2018

Alva Hospital Authority
d/b/a Share Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2018

Reference Number	Finding
2018-1	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.
	Condition – Journal entries lack documentation of review by someone other than the preparer.
	Context – Our testing of controls surrounding journal entries indicates a review of journal entries prepared by the chief financial officer during the year was not performed.
	Effect – Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.
	Cause – Controls surrounding journal entries are insufficient to ensure the entries are reviewed and the review is documented.
	Recommendation – Management should review month-end closing procedures to ensure review and documentation of the review of adjusting journal entries are performed in accordance with its policy.
	Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial within the next year.

Alva Hospital Authority
d/b/a Share Medical Center
Schedule of Findings and Responses, continued
Year Ended June 30, 2018

Reference Number	Finding
2018-2	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant estimates in the financial statements. Condition – Management's procedures for evaluating and recording estimated allowances for contractual adjustments and uncollectible accounts on patient accounts receivable do not produce materially accurate results. Context – Management is required to apply consistent, unbiased methodologies to estimate significant balances on the financial statements. Effect – Material journal entries were made to the general ledger to correct misstatements identified related to estimated allowances for contractual adjustments and uncollectible accounts on patient accounts receivable. Cause – Management is not applying consistent or accurate methodologies to estimate accounts receivable allowances during the close process. Recommendation – Management should periodically evaluate the methodology used to estimate significant allowance estimates in the financial statements to determine that methodologies used to prepare estimates are still appropriate when compared to actual results. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to periodically evaluate the methodologies used in accurately estimating allowances related to patient accounts receivable.