

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Independent Auditor's Reports and Financial Statements
September 30, 2015 and 2014



Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
September 30, 2015 and 2014

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
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 <i>Government Auditing Standards</i>	25
Schedule of Findings and Responses	27

Independent Auditor's Report

Board of Trustees
Tillman County – City of Frederick Hospital Authority
Frederick, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of Tillman County – City of Frederick Hospital Authority (the Authority), a component unit of The Comanche County Hospital Authority, as of September 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2015 and 2014, 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 13*, the Authority has suffered recurring losses from operations and declines in patient volumes, 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 13*. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our 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 July 26, 2016, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Management’s Discussion and Analysis
Years Ended September 30, 2015 and 2014

Introduction

This management’s discussion and analysis of the financial performance of Tillman County – City of Frederick Hospital Authority (the Authority), a component unit of The Comanche County Hospital Authority, provides an overview of the Authority’s financial activities for the years ended September 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Authority reported cash, cash equivalents, investments and noncurrent assets of \$740 and \$2,081 in 2015 and 2014, respectively, a decrease of \$1,341 or 64.4%.
- Estimated amounts due from third-party payer decreased in 2015 by \$270 or 34.1%. In 2014, estimated amounts due from third-party payer increased by \$928 or 687.4%.
- The Authority’s net position decreased in 2015 by \$1,719 or 35.5% and decreased by \$925 or 16.1% in 2014.
- The Authority reported an operating loss of \$1,970 in 2015 and an operating loss of \$1,170 in 2014. The operating loss in 2015 increased by \$800 or 68.4% over the operating loss reported in 2014. The operating loss in 2014 represents a decline of \$1,444 or 527.0% compared to the operating income in 2013.

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 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 liabilities reported in the balance sheet. The Authority’s net position decreased in 2015 by \$1,719 or 35.5% and decreased by \$925 or 16.1% in 2014 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2015	2014	2013
Assets			
Cash, cash equivalents, investments and noncurrent assets	\$ 740	\$ 2,081	\$ 3,329
Patient accounts receivable, net	852	732	771
Other current assets	1,021	1,151	403
Capital assets, net	1,570	2,013	2,055
Total assets	\$ 4,183	\$ 5,977	\$ 6,558
Liabilities			
Long-term debt	\$ 5	\$ 11	\$ -
Other current liabilities	1,060	1,129	796
Total liabilities	1,065	1,140	796
Net Position			
Net investment in capital assets	1,565	2,002	2,048
Unrestricted	1,553	2,835	3,714
Total net position	3,118	4,837	5,762
Total liabilities and net position	\$ 4,183	\$ 5,977	\$ 6,558

Some significant changes in the Authority’s assets and liabilities in 2015 are:

- A decrease in cash, cash equivalents, investments and noncurrent assets of \$1,341 or 64.4% due primarily to the operating losses incurred during the year

- A decrease in capital assets of \$443 or 22.0% due to annual depreciation exceeding current year additions

Some significant changes in the Authority's assets and liabilities in 2014 are:

- A decrease in cash, cash equivalents, investments and noncurrent assets of \$1,248 or 37.5% due primarily to the operating losses incurred during the year
- An increase in other current assets of \$748 or 185.6% due primarily to the Authority meeting the second-year requirements under the Medicare Electronic Health Records Incentive Payment Program

Operating Results and Changes in the Authority's Net Position

In 2015, the Authority's net position decreased by \$1,719 or 35.5% as shown in Table 2. This decrease is made up of several different components and represents a further decrease of \$794 compared with the decrease in net position for 2014 of \$925.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 4,989	\$ 6,044	\$ 6,853
Other operating revenues	811	1,044	1,554
	<hr/>	<hr/>	<hr/>
Total operating revenues	5,800	7,088	8,407
Operating Expenses			
Salaries, wages and employee benefits	4,396	4,812	4,725
Medical supplies and drugs	490	558	558
Depreciation and amortization	489	461	512
Other operating expenses	2,395	2,427	2,338
	<hr/>	<hr/>	<hr/>
Total operating expenses	7,770	8,258	8,133
Operating Income (Loss)	<hr/> (1,970)	<hr/> (1,170)	<hr/> 274
Nonoperating Revenues (Expenses)			
City appropriations – unrestricted	232	239	293
Noncapital grants and gifts	-	5	-
Investment income	1	1	15
Interest expense	-	-	(9)
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	233	245	299
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts	<hr/> (1,737)	<hr/> (925)	<hr/> 573
Capital Gifts	<hr/> 18	<hr/> -	<hr/> -
Increase (Decrease) in Net Position	<hr/> (1,719)	<hr/> (925)	<hr/> 573
Net Position, Beginning of Year	<hr/> 4,837	<hr/> 5,762	<hr/> 5,189
Net Position, End of Year	<hr/> \$ 3,118	<hr/> \$ 4,837	<hr/> \$ 5,762

Operating Income (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. In 2015 and 2014, the Authority reported an operating loss, while in 2013 the Authority reported operating income.

These recurring operating losses combined with declining working capital raises substantial doubt about whether the Authority has the ability to continue as a going concern. Management's plan in regard to these matters is described in *Note 13*.

The operating loss for 2015 worsened by \$800 or 68.4% compared to 2014. The primary components of the decreased operating performance are:

- A decrease in net patient service revenue of \$1,055 or 17.5% due primarily to decreased patient volumes
- A decrease in salaries, wages and employee benefits of \$416 or 8.6% due primarily to declines in labor utilization as a result of declining patient volumes
- A decrease in other operating revenue of \$233 or 22.3% due to the decrease in the third-year incentive revenue recorded in 2015 as compared to the second-year incentive revenue recorded in 2014 under the Medicare Electronic Health Records Incentive Payment Program. See *Note 1* for further information.

The operating loss for 2014 worsened by \$1,444 or 527.0% compared to 2013. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$809 or 11.8% due primarily to decreased patient volumes
- A decrease in other operating revenue of \$510 or 32.8% due to the decrease in the second-year incentive revenue recorded in 2014 as compared to the first-year incentive revenue recorded in 2013 under the Medicare Electronic Health Records Incentive Payment Program. See *Note 1* for further information.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and unrestricted city appropriations. Investment income exceeds interest expense due to cash, cash equivalents and investment balances exceeding long-term debt balances.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating loss and nonoperating revenues.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal years 2015 and 2014, the Authority had \$1,570 and \$2,013, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015 and 2014, the Authority invested in assets costing \$45 and \$419, respectively. Of this amount, no additional debt was incurred in 2015, and \$13 was acquired through incursion of capital lease obligations in 2014.

Debt

At September 30, 2015 and 2014, the Authority had \$5 and \$11, respectively, of a capital lease obligation outstanding as detailed in *Note 7* to the financial statements. Except for the incursion of a capital lease of \$13 in 2014, the Authority did not incur any additional long-term debt.

Contacting the Authority's Financial Management

This financial report is designed to provide 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 Administrative Office at Tillman County – City of Frederick Hospital Authority, 319 East Josephine Avenue, Frederick, Oklahoma 73542-2220.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Balance Sheets
September 30, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash and cash equivalents	\$ 637,204	\$ 1,978,004
Short-term investments	-	102,809
Patient accounts receivable, net of allowance; 2015 – \$3,020,000, 2014 – \$1,566,000	852,374	732,160
Estimated amounts due from third-party payer	522,966	793,000
Amounts due from related party	50,095	49,743
Other receivables	250,058	42,551
Supplies	127,418	168,184
Prepaid expenses and other	69,911	97,159
Total current assets	2,510,026	3,963,610
Other Long-Term Investments	102,860	-
Capital Assets, Net	1,569,918	2,013,494
Total assets	\$ 4,182,804	\$ 5,977,104

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 4,953	\$ 6,603
Accounts payable	402,028	226,593
Accrued expenses	597,072	591,783
Amounts due to related party	60,617	310,585
Total current liabilities	1,064,670	1,135,564
Long-Term Debt	-	4,768
Total liabilities	1,064,670	1,140,332
Net Position		
Net investment in capital assets	1,564,965	2,002,123
Unrestricted	1,553,169	2,834,649
Total net position	3,118,134	4,836,772
Total liabilities and net position	\$ 4,182,804	\$ 5,977,104

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015 – \$1,638,457, 2014 – \$1,119,315	\$ 4,988,425	\$ 6,043,707
Other	810,791	1,044,249
	5,799,216	7,087,956
Operating Expenses		
Salaries and wages	3,453,182	3,895,928
Employee benefits	942,822	916,563
Purchased services and professional fees	1,296,316	1,151,558
Medical supplies and drugs	489,716	557,536
Supplies and other	1,039,632	1,227,975
Insurance	58,522	47,975
Depreciation and amortization	488,597	460,541
	7,768,787	8,258,076
	(1,969,571)	(1,170,120)
Operating Loss		
Nonoperating Revenues		
City appropriations – unrestricted	231,505	238,851
Noncapital grants and gifts	-	5,000
Investment income	988	1,351
	232,493	245,202
	(1,737,078)	(924,918)
Deficiency of Revenues over Expenses Before Capital Gifts		
Capital Gifts	18,440	-
Decrease in Net Position	(1,718,638)	(924,918)
Net Position, Beginning of Year	4,836,772	5,761,690
Net Position, End of Year	\$ 3,118,134	\$ 4,836,772

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 4,894,483	\$ 5,918,546
Payments to suppliers and contractors	(3,081,724)	(2,631,752)
Payments to and on behalf of employees	(4,390,715)	(4,698,567)
Other receipts, net	1,035,602	329,934
Net cash used in operating activities	(1,542,354)	(1,081,839)
Noncapital Financing Activities		
City appropriations received	233,616	242,797
Noncapital grants and gifts	-	5,000
Net cash provided by noncapital financing activities	233,616	247,797
Capital and Related Financing Activities		
Capital gifts	18,440	-
Principal paid on long-term debt	(6,418)	(1,835)
Purchase of capital assets	(45,021)	(413,250)
Net cash used in capital and related financing activities	(32,999)	(415,085)
Investing Activities		
Income on investments	937	1,300
Net cash provided by investing activities	937	1,300
Decrease in Cash and Cash Equivalents	(1,340,800)	(1,247,827)
Cash and Cash Equivalents, Beginning of Year	1,978,004	3,225,831
Cash and Cash Equivalents, End of Year	\$ 637,204	\$ 1,978,004
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (1,969,571)	\$ (1,170,120)
Depreciation and amortization	488,597	460,541
Accrued self-insurance costs	22,488	(45,424)
Provision for uncollectible accounts	1,638,457	1,119,315
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(1,759,628)	(1,030,791)
Supplies and prepaid expenses	(149,521)	(15,971)
Estimated amounts due to (from) third-party payer	270,034	(928,000)
Accounts payable and accrued expenses	(83,210)	528,611
Net cash used in operating activities	\$ (1,542,354)	\$ (1,081,839)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ -	\$ 13,206

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

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

Nature of Operations

Tillman County – City of Frederick Hospital Authority (the Authority) is a public trust organized under the provisions of Title 60 of the Oklahoma Statutes. The beneficiaries of the trust include Tillman County, Oklahoma, and the city of Frederick, Oklahoma.

The Authority primarily earns revenues by operating a 37-bed short-term hospital which was leased from Tillman County, Oklahoma, on May 1, 1981. The lease term is 50 years or until all debts of the Authority payable from the revenues of the hospital have been paid. At the end of the lease term, control of the hospital's operations reverts to the county of Tillman, Oklahoma. The Authority also earns revenues by operating a 30-bed nursing center, a home health agency and a physician clinic.

Effective September 1, 1993, The Comanche County Hospital Authority (CCHA), an Oklahoma public trust, entered into a sublease agreement with the Authority for the use of the hospital and nursing center facilities and to take over full administrative, management and operational control of the hospital and nursing center. The term of the sublease was for a period of 20 years with a renewal option for an additional 20 years.

Effective July 31, 2013, CCHA entered into a sublease agreement with the Authority whereby CCHA was granted continued use of the hospital and nursing center facilities and full administrative, management and operational control of the hospital and nursing center. The term of the sublease is for a period of 10 years with a renewal option for an additional 15 years.

Effective August 26, 2015, CCHA and the Authority amended the sublease agreement requiring the Authority to operate at a break-even level measured on a quarterly basis beginning with the quarterly period ending December 2015. If the Authority is not operating above a break-even level for any quarterly measurement period, CCHA has been granted the right in its sole discretion to propose a new operational and management plan (the New Plan) for the operation of the Authority. The Authority has 10 days to review and approve the New Plan. If the Authority rejects the New Plan, the sublease agreement will automatically terminate 60 days from the date the New Plan was presented to the Authority. At any time after CCHA proposes a New Plan to the Authority, the Authority may reject the New Plan and terminate and take over the operations of the hospital upon providing 10-days written notice to CCHA. Subsequent to year-end, a New Plan was put in place; see *Note 13* for further details.

Under generally accepted accounting principles, the Authority constitutes a component unit of CCHA for financial reporting purposes.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

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 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, interest expense and noncapital grants and gifts 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, 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 September 30, 2015 and 2014, cash equivalents consisted primarily 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; employee disability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, short-term disability and employee health and dental care benefits. Settled claims have not exceeded any commercial insurance coverage in any of the three preceding years.

The Authority participates in self-insured plans sponsored by CCHA to cover claims arising from unemployment, employee health and dental care and short-term disability.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

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. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as uncollectible accounts based on individual credit evaluation and specific circumstances of the account.

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 their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	15 years
Buildings, improvements and fixed equipment	5–30 years
Major moveable equipment	3–15 years

Compensated Absences

The Authority's policies permit most employees to accumulate paid days off 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 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 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.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

Net Position

Net position of the Authority is classified in two 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. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets.

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

The Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the state of Oklahoma. However, the Authority is subject to income tax on any unrelated business taxable income.

Electronic Health Records Incentive Payment Program

The Electronic Health Records Incentive Payment 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 is contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

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 2015, the Authority completed the third-year requirements under the Medicare program and the first-year requirements under the Medicaid program. The Authority has recorded revenue of approximately \$673,000 and \$60,000 for Medicare and Medicaid, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

In 2014, the Authority completed the second-year requirements under the Medicare program and recognized revenue of approximately \$959,000, 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 retroactive to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. 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.

During the years ended September 30, 2015 and 2014, the Authority had the following activity related to the SHOPP:

	2015	2014
SHOPP funds received	\$ 300,000	\$ 336,000
SHOPP assessment fees paid	182,000	174,000
Net SHOPP benefit	\$ 118,000	\$ 162,000

The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual benefit to the Authority over the remaining term of the SHOPP is not expected to be materially different than the net amounts received in 2015. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses in the accompanying statements of revenues, expenses and changes in net position.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

City Appropriations

Effective March 1, 1980, the citizens of the city of Frederick approved a 1% sales tax ordinance with no established expiration date for the support of the Authority. Effective with the final payment on the Authority's outstanding revenue bonds in 2013, these city appropriations are no longer considered restricted for purposes of debt and are now considered unrestricted appropriations to be used by the Authority for hospital operations. Revenue from city appropriations is recognized in the year in which the sales tax is earned. In 2015 and 2014, the Authority received approximately 4% and 3%, respectively, of its financial support from city appropriations related to the sales tax.

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. Those payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and outpatient services are paid based on a cost reimbursement methodology. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through September 30, 2012.
- **Medicaid** – The Authority has been reimbursed for hospital services rendered to patients covered by the state Medicaid program on a prospective per discharge method 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. The Authority has also been reimbursed for services rendered to nursing center patients covered by the state Medicaid program on a prospective per diem method with no retroactive adjustments.

Approximately 64% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2015 and 2014. 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.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

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 collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At September 30, 2015 and 2014, none of the Authority’s bank balances of \$749,141 and \$2,159,574, respectively, 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 September 30 the Authority had the following investments and maturities:

Type	September 30, 2015				
	Fair Value	Maturities in Years			
		Less than 1	1–5	6–10	More than 10
Money market mutual funds	\$ 14,798	\$ 14,798	\$ -	\$ -	\$ -

Type	September 30, 2014				
	Fair Value	Maturities in Years			
		Less than 1	1–5	6–10	More than 10
Money market mutual funds	\$ 13,683	\$ 13,683	\$ -	\$ -	\$ -

- **Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses from rising interest rates, the Authority’s investment policy limits sale of investments prior to maturity dates and directly investing in securities maturing more than five years from the date of purchase. The Authority also limits investment in securities maturing in more than three years from the purchase date to no more than 40% of its portfolio. 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.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

- **Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority’s policy to limit its investments to securities with a credit rating of AAA by Standard & Poor’s or Aaa by Moody’s. The acceptable securities under the investment policy are U.S. Treasury and other U.S. agencies and instrumentalities’ obligations, certificates of deposit and money market mutual funds.
- **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. However, the Authority’s policy requires periodic review of its investments to identify concentrations in a single issuer and, if there is a risk of significant loss, to reinvest as appropriate to reduce that risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	2015	2014
Carrying value		
Deposits	\$ 725,266	\$ 2,067,130
Investments	14,798	13,683
	\$ 740,064	\$ 2,080,813
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 637,204	\$ 1,978,004
Short-term investments	-	102,809
Other long-term investments	102,860	-
	\$ 740,064	\$ 2,080,813

Investment Income

Investment income for the years ended September 30, 2015 and 2014, consisted of interest income.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

Note 4: Patient Accounts Receivable

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

	2015	2014
Patients	\$ 2,323,982	\$ 1,640,333
Medicare	849,055	238,935
Medicaid	403,089	162,777
Other third-party payers	296,248	256,115
	3,872,374	2,298,160
Less allowance for uncollectible accounts	3,020,000	1,566,000
	\$ 852,374	\$ 732,160

Note 5: Capital Assets

Capital asset activity for the years ended September 30 was:

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 24,566	\$ -	\$ -	\$ -	\$ 24,566
Buildings, improvements and fixed equipment	5,232,628	13,737	-	-	5,246,365
Major moveable equipment	4,718,025	31,284	-	-	4,749,309
	9,975,219	45,021	-	-	10,020,240
Less accumulated depreciation					
Buildings, improvements and fixed equipment	4,960,265	36,125	-	-	4,996,390
Major moveable equipment	3,001,460	452,472	-	-	3,453,932
	7,961,725	488,597	-	-	8,450,322
Capital assets, net	\$ 2,013,494	\$ (443,576)	\$ -	\$ -	\$ 1,569,918

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

	2014				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 24,566	\$ -	\$ -	\$ -	\$ 24,566
Buildings, improvements and fixed equipment	5,213,448	19,180	-	-	5,232,628
Major moveable equipment	4,300,205	158,049	-	259,771	4,718,025
Construction in progress	17,715	242,056	-	(259,771)	-
	<u>9,555,934</u>	<u>419,285</u>	<u>-</u>	<u>-</u>	<u>9,975,219</u>
Less accumulated depreciation					
Buildings, improvements and fixed equipment	4,926,739	33,526	-	-	4,960,265
Major moveable equipment	2,574,445	427,015	-	-	3,001,460
	<u>7,501,184</u>	<u>460,541</u>	<u>-</u>	<u>-</u>	<u>7,961,725</u>
Capital assets, net	<u>\$ 2,054,750</u>	<u>\$ (41,256)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,013,494</u>

Note 6: Medical Malpractice Coverage and Claims

The Authority has purchased medical malpractice insurance for hospital and nursing home services 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 costs of such incidents. Because the Authority is a component unit of CCHA, which in turn is a political subdivision of the state of Oklahoma, management believes the limit of liability for any individual tort claim not covered by insurance would be limited to \$125,000. Based upon the Authority's claims experience, no accrual has been made. It is reasonably possible this estimate could change materially in the near term.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

Note 7: Capital Lease Obligation

The following is a summary of capital lease obligation transactions for the Authority for the years ended September 30:

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligation	\$ 11,371	\$ -	\$ 6,418	\$ 4,953	\$ 4,953
	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligation	\$ -	\$ 13,206	\$ 1,835	\$ 11,371	\$ 6,603

The Authority is obligated under a lease at September 30, 2015 and 2014, for equipment that is accounted for as a capital lease. Assets under the capital lease at September 30, 2015 and 2014, totaled \$13,206, net of accumulated depreciation of \$3,962 and \$1,321, respectively. This lease includes monthly payments of \$550 for a period of 24 months through September 1, 2016.

Note 8: Self-Insured Claims

The Authority participates in a self-insured plan sponsored by CCHA to cover self-insured health and dental care and short-term disability claims. This plan is self-insured for participating employees and dependents up to an annual amount of \$250,000. Commercial stop-loss insurance is purchased for claims in excess of the aggregate annual amount. The Authority accrues its share of both claims reported and claims incurred but not yet reported and includes this accrual in accrued expenses on the accompanying balance sheets. The accrual is estimated based on a consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors; it is reasonably possible that the Authority's estimate will change by a material amount in the near term. The Authority also has an additional accrual included as part of amounts due to related party in the accompanying balance sheets for claims that CCHA has paid and the Authority owes CCHA. These amounts for September 30, 2015 and 2014, were \$49,145 and \$106,985, respectively.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

Activity in the Authority’s accrued employee health claims liability is summarized as follows for the years ended September 30:

	2015	2014
Balance, beginning of year	\$ 167,781	\$ 93,240
Current year claims incurred and changes in estimates for claims incurred in prior years	395,570	507,199
Claims and expenses paid	(437,276)	(432,658)
Balance, end of year	\$ 126,075	\$ 167,781

Note 9: Charity Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue.

The costs of charity care provided under the Authority’s charity care policy were approximately \$26,000 and \$14,000 for the years ended September 30, 2015 and 2014, respectively. The cost of charity care is estimated by applying the ratio of costs to gross charges from the related Medicare cost report to the gross charity care charges. Such programs include health screenings and assessments, prenatal education and care, hospice programs, community educational services and various support groups.

Note 10: Retirement Plan

The Authority administers a defined contribution retirement plan for its employees. Contributions are made at the discretion of the Authority and no employee contributions are permitted. The Authority recorded contributions of approximately \$72,000 to the plan for 2015 and 2014. At September 30, 2015 and 2014, the Authority had \$144,000 included in accrued expenses on the accompanying balance sheets.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

Note 11: Related-Party Transactions

The Authority purchased ancillary services and supplies from CCHA and was also a participant in CCHA’s self-insured health insurance plan during 2015 and 2014. Included in amounts due to related party at September 30, 2015 and 2014, are \$60,617 and \$310,585, respectively, owed to CCHA for services, supplies and employee health claims. At September 30, 2015 and 2014, the Authority also had \$50,095 and \$49,743, respectively, in receivable for billings collected by CCHA on behalf of the Authority. The following related-party transactions are included in the accompanying statements of revenues, expenses and changes in net position and balance sheets as of and for the years ended September 30, 2015 and 2014:

	2015	2014
Asset		
Receivable from CCHA	\$ 50,095	\$ 49,743
Liability		
Payable to CCHA	\$ 60,617	\$ 310,585
Expenses		
Ancillary services provided by CCHA	\$ 26,122	\$ 23,324
Management services provided by CCHA	\$ 193,736	\$ 204,703

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. These allegations are in areas that may not be covered by commercial insurance purchased by the Authority, such as punitive damages, 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.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2015 and 2014

Note 13: Management’s Consideration of Going Concern Matters

The Authority has incurred recurring operating losses and recurring negative cash flows the past two years. 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. This includes a New Plan proposed by CCHA subsequent to year-end to transition the Authority from an inpatient, acute care model to a focus on enhanced outpatient services currently available, such as home health care, physical therapy, laboratory, radiology and ancillary services and outpatient primary medical care. Effective March 31, 2016, the Authority ceased providing inpatient and emergency services. The 30-bed nursing home and outpatient services will remain intact, with plans to enhance those areas of care and grow. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.

**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
Tillman County – City of Frederick Hospital Authority
Frederick, 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 Tillman County – City of Frederick Hospital Authority (the Authority), a component unit of The Comanche County Hospital Authority, which comprise the balance sheet as of September 30, 2015, 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 July 26, 2016, which contained an *Emphasis of Matter* paragraph regarding substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

Internal Control over Financial Reporting

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

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 deficiency. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Tillman County – City of Frederick Hospital Authority

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*.

We noted certain matters that we reported to the Authority’s management in a separate letter dated July 26, 2016.

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
July 26, 2016

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Schedule of Findings and Responses
Year Ended September 30, 2015

Reference Number	Finding
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No matters are reportable.