Management's Discussion and Analysis
and Financial Statements
June 30, 2014

Fairview Municipal Hospital Authority

Independent Auditor's Report

Board of Trustees
Fairview Municipal Hospital Authority
Fairview, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Fairview Municipal Hospital Authority (Authority) which comprise the balance sheet as of June 30, 2014, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit. We conducted our audit 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 preform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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 Authority'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 Authority'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.

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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 Fairview Municipal Hospital Authority as of June 30, 2014, and the results of its operations, changes in net position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 14 to the financial statements the Authority adopted GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities* which requires bond financing cost to be expensed in the period incurred. Accordingly, the beginning net position has been reduced. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a 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 October 23, 2014 on our consideration of 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 Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 23, 2014

Our discussion and analysis for Fairview Municipal Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position increased $285,997 or 13 percent increase in 2014.
- The Authority reported an operating loss in 2014 of $74,405. The loss in 2014 decreased by $177,509 or 70 percent over the loss reported in 2013.
- Nonoperating income decreased by $130,327 or 27 percent in 2014 compared to 2013.

Using This Annual Report

The Authority's financial statements consist of three statements - Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the Authority's finances begins on page 7. One of the most important questions asked about the 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance 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 on page 7. The Authority's net position increased in 2014 by $285,997 or 13 percent.

Condensed Balance Sheet

	2014	2013 (restated)
Assets		
Cash and cash equivalents	$ 84,314	$ 199,911
Patient accounts receivable, net	613,645	989,973
Other current assets	1,486,752	276,241
Assets limited to use	377,995	303,802
Capital assets, net	4,173,115	3,941,637
Total assets	$ 6,735,821	$ 5,711,564
Liabilities		
Accounts payable	$ 1,478,962	$ 412,609
Short-term note payable	25,801	16,558
Current maturities of long-term debt	328,736	361,348
Other current liabilities	315,470	342,484
Long-term debt, net	2,091,967	2,369,677
Total liabilities	4,240,936	3,502,676
Net Position		
Net investment in capital assets	1,752,429	1,210,612
Restricted, expendable for capital acquisitions	377,995	303,802
Unrestricted net position	364,461	694,474
Total net position	2,494,885	2,208,888
Total liabilities and net position	$ 6,735,821	$ 5,711,564

Assets, Liabilities, and Net Position

A significant component of the change in the Authority's assets, liabilities, and net position is the change in current assets, capital assets and other current liabilities. This was primarily due to the increase in other current assets which increased $1,210,511 or 438 percent. Capital assets increased by $231,478 or 6 percent from 2013.

Operating Results and Changes in Net Position

Condensed Income Statement

	2014	2013 (restated)
Operating Revenue		
Net patient service revenue	$ 4,633,721	$ 4,997,816
Other revenue	1,026,594	263,045
Total operating revenue	5,660,315	5,260,861
Operating Expenses		
Daily patient services	668,103	715,527
Nursing services	297,243	161,306
Other professional services	2,094,478	2,206,401
Other operating expenses	2,102,229	1,961,113
Depreciation and amortization	572,667	468,428
Total operating expenses	5,734,720	5,512,775
Operating Loss	(74,405)	(251,914)
Nonoperating Revenues (Expenses)		
Sales tax	456,979	479,508
Investment income	1,028	1,587
Debt forgiveness	-	100,000
Interest expense	(115,738)	(135,655)
Loss on sale of assets	(449)	-
Other	-	(5,345)
Non capital grants and contributions	18,582	50,634
Total nonoperating revenues	360,402	490,729
Change in Net Position	$ 285,997	$ 238,815

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally the operating loss is the difference between net patient service revenues and the expenses incurred to perform those services. The operating loss for 2014 was $74,405. The operating loss in 2014 decreased by $177,509 compared to the 2013 operating loss of $251,914. The primary components of the change in the operating loss are as follows:

- Electronic Health Record incentive income increased $719,863
- Net patient service revenue decreased $364,095
- Operating expenses increased $216,335 primarily in nursing services and depreciation expense

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Authority when it was established. There was $56,300 of charity care provided in 2014 based on charges foregone. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax revenues, interest expense, gains on sale of assets, donations and investment income. The major change in nonoperating revenue is due to the decrease in debt forgiveness which decreased in 2014 by $100,000 compared to 2013 and the decrease in interest expense which decreased in 2014 by $19,917 compared to 2013. As a result of these factors, nonoperating revenues decreased by $130,327 in 2014.

The Authority's Cash Flows

The Authority’s overall liquidity decreased during the year with a net decrease to cash and cash equivalents, of $52,865 when compared with 2013. Cash flows provided by operating activities increased by $757,901 during 2014 when compared with 2013. This was due primarily to the decrease in payments to suppliers. Cash used for non-capital financing activities decreased by $33,609 when compared with 2013. Cash used for capital and capital related financing activities increased by $633,868 when compared with 2013. Cash from investing activities was $1,028 in 2014 compared to $25,364 in 2013.

Capital Assets and Debt Administration

At the end of 2014, the Authority had $4,173,115 invested in net capital assets, as detailed in Note 4 to the financial statements.

Debt

At June 30, 2014, the Authority had $2,420,703 in outstanding long-term debt, a decrease of $310,322 from the prior year. For additional information regarding long-term debt, please see Note 7 to the financial statements.

Contacting the Authority's Financial Management

This financial report is designed to provide our 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. If you have questions about this report or need additional financial information, contact Fairview Regional Medical Center Authority, Administrator’s Office, 523 State Road, Fairview, Oklahoma 73737.

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Assets		
Current Assets		
Cash and cash equivalents	$	84,314
Receivables		
Patient, net of estimated uncollectibles of approximately $488,000		613,645
Other		911,709
Supplies		85,436
Estimated third party payor settlements		442,820
Prepaids		46,787
Total current assets		2,184,711
Assets Limited as to Use for Capital Acquisitions		
Cash and cash equivalents		302,813
Sales tax receivable		75,182
Total assets limited as to use		377,995
Capital Assets		
Non-depreciable capital assets		25,956
Depreciable capital assets, net		4,147,159
Total capital assets, net		4,173,115
Total assets	$	6,735,821

See Notes to Financial Statements

Liabilities and Net Assets	
Current Liabilities	
Current maturities of long-term debt	$ 328,736
Notes payable	25,801
Accounts payable	1,478,962
Accrued expenses	
Salaries and payroll taxes	145,907
Vacation	165,764
Other	3,799
Total current liabilities	2,148,969
Long Term Debt, Net	2,091,967
Total liabilities	4,240,936
Net Position	
Net investment in capital assets	1,752,429
Restricted, expendable for capital acquisitions	377,995
Unrestricted net position	364,461
Total net position	2,494,885
Total liabilities and net position	$ 6,735,821

Operating Revenue	
Patient service revenue, net of provision for bad debts of approximately $581,000	$ 4,633,721
Other revenue	1,026,594
Total operating revenue	5,660,315
Operating Expenses	
Daily patient services	668,103
Nursing services	297,243
Other professional services	2,094,478
General services	460,222
Administrative services	1,642,007
Depreciation	572,667
Total operating expenses	5,734,720
Operating Loss	(74,405)
Nonoperating Revenues (Expenses)	
Sales tax	456,979
Investment income	1,028
Interest expense	(115,738)
Loss on abandonment	(449)
Non capital grants and contributions	18,582
Total nonoperating revenues, net	360,402
Increase in Net Position	285,997
Net Position, Beginning of the Year (restated)	2,208,888
Net Position, End of Year	$ 2,494,885

Operating Activities		
Receipts from or on behalf of patients	$	4,695,569
Other receipts		115,268
Payments to suppliers		(921,739)
Payments to employees		(3,108,433)
Net Cash provided by Operating Activities		780,665
Non Capital Related Financing Activities		
Payments on financed insurance		(67,999)
Proceeds from line of credit		50,000
Payments on line of credit		(50,052)
Non capital contributions and donations		18,582
Net Cash used for Non Capital Financing Activities		(49,469)
Capital and Capital Related Financing Activities		
Purchase of capital assets		(739,354)
Sales tax restricted to capital acquisitions		445,518
Principal payments on debt obligations		(375,510)
Interest paid on debt obligations		(115,743)
Net Cash used for Capital and Capital Related Financing Activities		(785,089)
Investing Activities		
Investment income		1,028
Net Decrease in Cash and Cash Equivalents		(52,865)
Cash and Cash Equivalents, Beginning of Year		439,992
Cash and Cash Equivalents, End of Year	$	387,127

Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	$	84,314
Cash limited as to use		302,813
Total Cash and Cash Equivalents	$	387,127

Cash Provided by Operating Activities	
Operating loss	$ (74,405)
Adjustments to reconcile change in operating loss to net cash provided by operating activities	
Depreciation and amortization	572,667
Provision for bad debts	581,400
Changes in assets and liabilities	
Receivables	(1,116,393)
Supplies	3,502
Prepaid expenses	89,030
Estimated third party payor settlements	(314,480)
Accounts payable	1,066,353
Accrued salaries	(5,320)
Accrued vacation	(21,689)
Net Cash provided by Operating Activities	$ 780,665
Supplemental Cash Disclosure	
Assets purchased under other financing arrangements	$ 65,240
Financed insurance	$ 77,242

Note 1 - Principal Activity and Significant Accounting Policies

Reporting Entity

The hospital is owned by the City of Fairview and is leased for a term of fifty years to the Fairview Municipal Hospital Authority under a lease agreement dated August 31, 1981. The Fairview Municipal Hospital Authority, was established on September 2, 1980, pursuant to Title 60, Oklahoma Statutes 1971. The City of Fairview is the beneficiary. Management and control of the hospital was directed by a board of control that was appointed by the Fairview Municipal Hospital Authority. The operation of the hospital was governed by a Hospital Operating Agreement dated December 1, 1989. The hospital is located in Fairview, Oklahoma and is a critical access facility with 25 beds that also provides rural health clinic services.

On May 1, 2014, the Fairview Regional Medical Center Authority, a public trust was established pursuant to Title 60 Oklahoma Statutes 2001, sections 176 to 180.4 inclusive, as amended and supplemented. The City of Fairview is the beneficiary. The initial trustees of the trust were trustees of the board of control discussed above.

On May 20, 2014, a sub-lease agreement between Fairview Municipal Hospital Authority, a public trust (land lord) and the Fairview Regional Medical Center Authority (tenant) for the hospital facilities on a month to month basis.

As required by accounting principles generally accepted in the United States of America, these financial statements include the Fairview Municipal Hospital Authority and its blended component unit, Fairview Regional Medical Center Authority. The Fairview Municipal Hospital Authority and Fairview Regional Medical Center Authority are presented as blended component units because of the operational and financial relationships between the two public trusts.

The financial statements include the financial activity of the Fairview Municipal Hospital Authority, and Fairview Regional Medical Center Authority (collectively, the Authority). All significant intercompany balances and transactions have been eliminated.

Change in Accounting Principle

Beginning in fiscal year 2014, the Authority implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities,* which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenditures. As a result of implementing this statement, the Authority changed the classification of certain liabilities to deferred inflows. The Authority also restated beginning net position to write-off debt issuance costs as required by this Statement (see Note 14).

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, sales taxes, investment income and interest on capital assets-related debt are included in non-operating 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 is available.

Income Taxes

The Authority is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Assets Limited as to Use

Assets limited as to use include cash and sales tax receivable which are controlled by the trust authority board for renovating, expanding, equipping, and maintaining the hospital facilities, over which the trust authority board retains control. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

Capital Assets

Capital assets acquisitions in excess of $5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	10 years
Buildings and improvements	20-40 years
Equipment	3-20 years

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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 is presented in the following three components:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Restricted, Expendable for Capital Acquisitions consists of assets whose use is restricted for a specific purpose.

Unrestricted Net Position is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted for debt service.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments are available for the next three years. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments.

During the year ended June 30, 2014, the Authority recorded approximately $949,000 related to the Medicare program and recorded $0 related to the Medicaid program in other operating revenue for meaningful use incentives.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

The Authority received SHOPP payments totaling approximately $142,000 for the year ended June 30, 2014, which is included in net patient service revenue.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately $56,000 for the year ended June 30, 2014. Total direct and indirect costs related to these foregone charges were approximately $29,000 based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred $3,635 for advertising costs for the year ended June 30, 2014.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Authority's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues, Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Sales Tax Revenue

The Authority received approximately 7% of its financial support during 2014 from sales taxes levied. These funds were used entirely to support building renovations, major repairs and improvements. The tax was effective April 2002, and shall terminate after September 2022.

Grants and Contributions

From time to time, the Authority receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose is reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Note 2 - Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement method with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2012. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates with no retrospective adjustment.

Other: The Authority has also entered into payment agreements with certain commercial insurance carriers and other 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 55% and 9% of the Authority's net patient service revenue for the year ended June 30, 2014. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the year ended June 30, 2014 increased approximately $56,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient service revenue and contractual adjustments for the year ended June 30, 2014 is as follows:

Total patient service revenue	$ 8,989,625
Less contractual adjustments	(3,774,504)
Net patient service revenue	5,215,121
Less provision for bad debts	(581,400)
Net patient service revenue less provision for bad debts	$ 4,633,721

Note 3 - Deposits

State statutes authorize the Authority to invest its excess cash balances generally in time deposits, open accounts, certificates of deposit or certain repurchase agreements of commercial banks or trust companies, state or generally charted savings and loan associations or generally charted savings banks having offices in the state and in certain circumstances, specified United States Treasury obligations.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has a general investment policy to minimize custodial credit risk. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. At June 30, 2014, the Authority's deposits exposed to custodial credit risk were as follows:

Total bank balance	
Insured (FDIC)	$ 356,229
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	75,115
Total	$ 431,344

The carrying amounts of the Authority's deposits and investments are included in the balance sheet at June 30, 2014 as follows:

Cash	$ 84,314
Restricted cash	302,813
Total	$ 387,127

At June 30, 2014, the Authority had no bank balances exposed to custodial credit risk.

Credit Risk

Statutes require that investments be made only in U.S. government obligations. The Authority's investment policy does not further limit its investment options.

Interest Rate Risk

The Authority's investment policy does not contain a provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Note 4 - Capital Assets

Capital assets additions, disposal or transfers, and balances for the year ended June 30, 2014 are as follows:

	Balance June 30, 2013	Additions and Transfers	Disposals	Balance June 30, 2014
Capital assets not being depreciated				
Land	$ 4,044	$ -	$ -	$ 4,044
Construction in progress	-	21,912	-	21,912
	4,044	21,912	-	25,956
Capital assets being depreciated				
Building and improvements	7,167,117	-	-	7,167,117
Equipment	3,954,747	782,682	1,757,228	2,980,201
	11,121,864	782,682	1,757,228	10,147,318
Less accumulated depreciation for:				
Building and improvements	3,811,621	312,802	-	4,124,423
Equipment	3,372,650	259,865	1,756,779	1,875,736
Total accumulated depreciation	7,184,271	$ 572,667	$ 1,756,779	6,000,159
Total capital assets being depreciated, net	3,937,593			4,147,159
Total capital assets, net	$ 3,941,637			$ 4,173,115

Construction in progress at June 30, 2014 represents costs to replace the air conditioning unit. The project was completed in July 2014 at a total cost of approximately $40,000.

Note 5 - Assets Limited to Use

The $377,995 reported as assets limited to use has been limited by the sales tax ordinance for the purchase, financing for capital acquisitions and improvements, and maintaining the hospital facility.

Note 6 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. The rental expense for all operating leases was $9,292. The capitalized lease assets consist of:

Major movable equipment	$ 450,985
Less accumulated amortization (included as depreciation on the accompanying financial statements)	307,358
	$ 143,627

Minimum future lease payments for capital leases are as follows:

Years Ending June 30,	
2015	$ 71,479
2016	37,118
2017	10,255
2018	2,274
Total minimum lease payments	121,126
Less interest	(10,186)
Present value of minimum lease payments - Note 7	$ 110,940

Note 7 - Notes Payable and Long-Term Debt

Notes payable consist of:

	Balance 6/30/13	Additions	Reductions	Balance 6/30/14
Notes payable:				
Financed insurance (1)	$ 16,558	$ 77,242	$ 67,999	$ 25,801
Short term note (2)	52	50,000	50,052	-
	$ 16,610	$ 127,242	$ 118,051	$ 25,801

Long-term debt consists of:

	Balance 6/30/13	Additions	Reductions	Balance 6/30/14	Current Portion
Long-term notes payable:					
Note payable to bank (3)	$ 1,623,401	$ -	$ 136,956	$ 1,486,445	$ 143,963
Note payable to bank (4)	942,955	-	119,637	823,318	120,978
Note to city of Fairview (5)	28,160	-	28,160	-	-
Total long-term Notes Payable	2,594,516	-	284,753	2,309,763	264,941
Capitalized lease obligations (6)	136,457	65,240	90,757	110,940	63,795
Total long-term debt	$ 2,730,973	$ 65,240	$ 375,510	$ 2,420,703	$ 328,736

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at June 30, 2014 are as follows:

(1) Financed insurance at various rates, due within one year, uncollateralized.

(2) Line of credit up to $125,000, 4.9% interest rate, due October 2014, collateralized by accounts receivable and equipment.

(3) Note payable to bank, 5% interest rate, due in monthly installments of $17,917 including interest, through December 2022, collateralized by a 1% city sales tax ordinance.

(4) Note payable to bank, 1.65% variable interest rate, due in monthly installments of $11,130 including interest, through July 2027, collateralized by accounts receivable, equipment and real estate.

(5) Note payable to City of Fairview, 6.25% interest rate, due in monthly installments of $2,938, through April 2014, collateralized by all property of the Authority.

(6) Capital leases with varying interest rates from 5.95% to 16.92% collateralized by associated equipment, with varying maturity dates from May 2014 through October 2017.

Scheduled principal and interest repayments on long-term notes payable are as follows:

	Long-Term Debt		
Year Ending June 30,	Principal	Interest	Total
2015	$ 264,941	$ 83,641	$ 348,582
2016	274,305	74,276	348,581
2017	284,080	64,502	348,582
2018	294,283	54,299	348,582
2019	304,938	43,644	348,582
2020-2023	887,216	66,053	953,269
Total	$ 2,309,763	$ 386,415	$ 2,696,178

Note 8 - Retirement Plan

Defined Contribution Plan

The Authority adopted a defined contribution 403(b) Savings Plan covering substantially all employees who have over 1,000 hours of service and are at least 21 years of age.

The Plan allows for eligible employees to contribute a percentage of pre-tax annual compensation as defined in the Plan. The Authority makes a discretionary matching percentage on the participant's eligible contributions for the Plan year. The Authority may also make an optional profit sharing contribution subject to certain limitations imposed by the Internal Revenue Service.

Participants are immediately vested in their voluntary contribution plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100% vested after three years of service. The discretionary contributions to the Plan for the year ended June 30, 2014 totaled $25,254.

Note 9 - Restricted Net Position

At June 30, 2014, restricted expendable net position is available for the following purposes:

Restricted, expendable for capital acquisition	$ 377,995

Note 10 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2014 was as follows:

Medicare and Medicaid	40%
Other third-party payors	31%
Patients	29%
	100%

Note 11 - Contingencies

Malpractice Insurance

The Authority has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority’s own claim experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

Litigation, Claims and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of task under its various programs. In the opinion of management, the ultimate settlement of litigation, claims and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 12 - Related Parties

During the year ended June 30, 2014, the Authority received $5,000 from Fairview Hospital Foundation. The Foundation was established to solicit contributions from the general public for funding various activities of the Authority.

As of June 30, 2014, the Authority has utilities payables due to the City of Fairview in the amount of $130,149.

Note 13 - Presentation of Blended Component Units

The Fairview Regional Medical Center Authority is considered a blended component unit of Fairview Municipal Hospital Authority due to the operational and financial relationship between the entity's.

The following summarized combining information for Fairview Municipal Hospital Authority and Fairview Regional Medical Center Authority which is presented as a blended component unit, as of and for the year ended June 30, 2014:

Table 1: Assets, Liabilities and Net Position	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Assets			
Current assets	$ -	$ 2,184,711	$ 2,184,711
Capital assets	3,409,445	763,670	4,173,115
Other non current assets	377,995	-	377,995
Total Assets	$ 3,787,440	$ 2,948,381	$ 6,735,821
Liabilities			
Current liabilities	$ 268,730	$ 1,880,239	$ 2,148,969
Long term liabilities	2,044,822	47,145	2,091,967
Total liabilities	$ 2,313,552	$ 1,927,384	$ 4,240,936
Net Position			
Net investment in capital assets	$ 1,099,682	$ 652,747	$ 1,752,429
Restricted, expendable for capital acquisitions	377,995	-	377,995
Unrestricted net position	(3,789)	368,250	364,461
	$ 1,473,888	$ 1,020,997	$ 2,494,885
Total liabilities and net position	$ 3,787,440	$ 2,948,381	$ 6,735,821

Table 2: Operating Results and Changes in Net Position	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Operating Revenues			
Net patient service revenue	$ -	$ 4,633,721	$ 4,633,721
Other operating revenue	-	1,026,594	1,026,594
Total operating revenue	-	5,660,315	5,660,315
Operating Expenses			
Depreciation	396,180	176,487	572,667
Other operating expenses	12,922	5,149,131	5,162,053
Total operating expense	409,102	5,325,618	5,734,720
Operating Income (Loss)	(409,102)	334,697	(74,405)
Nonoperating Revenue (Expense)			
Sales tax revenue	456,979	-	456,979
Interest expense	(91,998)	(23,740)	(115,738)
Non capital grants and contributions	-	18,582	18,582
Other revenue (expense)	181	398	579
Total non operating revenue (expense)	365,162	(4,760)	360,402
Increase (Decrease) in Net Position	(43,940)	329,937	285,997
Net Position Beginning of Year (restated)	1,517,828	691,060	2,208,888
Net Position End of Year	$ 1,473,888	$ 1,020,997	$ 2,494,885

Table 3: Cash flows	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Net Cash from Operating Activities	$ (12,906)	$ 793,571	$ 780,665
Net Cash from Noncapital Financing Activities	(52)	(49,417)	(49,469)
Net Cash from Capital and related Financing Activities	75,060	(860,149)	(785,089)
Net Cash from Investing Activities	630	398	1,028
Net Increase in Cash and Cash Equivalents	62,732	(115,597)	(52,865)
Cash and Cash Equivalents, Beginning of Year	240,081	199,911	439,992
Cash and Cash Equivalents, End of Year	$ 302,813	$ 84,314	$ 387,127

Note 14 - Change in Accounting Principle

In March 2012, the GASB issued Statement No. 65: Items Previously Reported as Assets and Liabilities. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard was implemented by the Authority during the year ended June 30, 2014 and was applied retroactively by restating the beginning net assets for 2014.

The provisions of GASB 65 require that deferred financing costs be recognized as an expense in the period incurred. The implementation resulted in the removal of previously recognized financing costs, which had an unamortized value of $52,641 as of June 30, 2013.

Net Position, Beginning of Year (previously reported)	$ 2,261,529
Restated due to change in accounting principle	(52,641)
Net Position, Beginning of Year (restated)	$ 2,208,888

Note 15 - Subsequent Events

Subsequent to year end, a draw was made on the line of credit in the amount of $75,000. In addition, the sales tax provision was extended for an additional five years to expire in 2027. The Authority has evaluated subsequent events through October 23, 2014, the date which the financial statements were available to be issued.

Supplementary Information
June 30, 2014

Fairview Municipal Hospital Authority

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Independent Auditor's Report on Supplementary Information

The Board of Trustees
Fairview Municipal Hospital Authority
Fairview, Oklahoma

We have audited the financial statements of Fairview Municipal Hospital Authority (Authority) as of and for the year ended June 30, 2014, and our report thereon dated October 23, 2014, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 23, 2014

	Inpatient	Outpatient	Total
Daily Patient Services			
Adults and Peds	$ 1,082,214	$ 279,063	$ 1,361,277
	1,082,214	279,063	1,361,277
Other Nursing Services			
Operating room	-	741,466	741,466
Central services and supply	55,558	56,620	112,178
Emergency room	60,135	1,406,815	1,466,950
	115,693	2,204,901	2,320,594
Other Professional Services			
Radiology	111,731	1,033,444	1,145,175
Laboratory	159,632	1,141,711	1,301,343
Speech therapy	2,856	3,944	6,800
Respiratory therapy	191,209	64,887	256,096
Cardiac rehabilitation	185	120,974	121,159
Pharmacy	305,637	674,640	980,277
Physical therapy	28,860	320,836	349,696
Rural Health Clinic	-	1,138,412	1,138,412
Nutritional education	-	1,580	1,580
Occupational therapy	2,279	4,937	7,216
	802,389	4,505,365	5,307,754
Gross Patient Service Revenue	$ 2,000,296	$ 6,989,329	8,989,625
Charity care			(56,300)
Total patient service revenue			8,933,325
Less Contractual Adjustments			
Medicare and Medicaid			2,299,780
Other			1,418,424
Total contractual adjustments			3,718,204
Provision for Bad Debts			581,400
Net Patient Service Revenue			$ 4,633,721

Other Revenue		
Dietary meals	$	5,315
Electronic Health Record Incentive		948,956
Medical records		1,029
Rental income		13,337
Miscellaneous		57,957
Total Other Revenue	$	1,026,594

Fairview Municipal Hospital Authority
Schedule of Expenses
Year Ended June 30, 2014

	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority		
	Expenses	Salaries	Supplies and Expenses	Total
Daily Patient Services				
Adults and Peds	$ -	$ 630,586	$ 37,517	$ 668,103
	-	630,586	37,517	668,103
Other Nursing Services				
Operating room	-	36,508	70,994	107,502
Central services and supply	-	-	7	7
Emergency services	-	86,742	102,992	189,734
	-	123,250	173,993	297,243
Other Professional Services				
Radiology	-	112,903	81,132	194,035
Laboratory	-	181,727	214,546	396,273
Speech therapy	-	2,195	-	2,195
Respiratory therapy	-	-	8,540	8,540
Cardiac rehabilitation	-	69,866	1,273	71,139
Pharmacy	-	14,673	242,350	257,023
Physical therapy	-	140,542	2,722	143,264
Rural Health Clinic	-	904,437	116,195	1,020,632
Occupational therapy	-	713	664	1,377
	-	1,427,056	667,422	2,094,478
General Services				
Dietary	-	55,615	28,881	84,496
Medical records	-	115,246	19,612	134,858
Operation of plant	4,985	47,882	113,471	166,338
Housekeeping	-	61,035	13,495	74,530
	4,985	279,778	175,459	460,222
Administrative Services				
Administrative	1,000	541,883	629,372	1,172,255
Employee Benefits	-	-	462,815	462,815
Other	6,937	-	-	6,937
	7,937	541,883	1,092,187	1,642,007
Depreciation and Amortization	396,180	-	176,487	572,667
Total Expenses	$ 409,102	$ 3,002,553	$ 2,323,065	$ 5,734,720

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

Board of Trustees
Fairview Municipal Hospital Authority
Fairview, 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 Fairview Municipal Hospital Authority (Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 23, 2014.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses, 2014-A through 2014-E.

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. We consider the following deficiency in described in the accompanying Schedule of Findings and Responses, to be a significant deficiency 2014-F.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance and is described in the accompanying Schedule of Findings and Responses at 2014-001.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was 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.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 23, 2014

Material Weaknesses In Internal Control Over Financial Reporting:

2014-A Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with standards established by the U.S. generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB).

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP and GASB. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: This deficiency is partly due to limited resources in the financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by a party outside of management.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Authority. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

Auditor's Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Management Response: Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

2014-B Material Audit Adjustments

Criteria: A properly designed system of internal control over financial reporting allows entities to initiate, record, process and report financial report data reliably in accordance with generally accepted accounting principles.

Condition: During the course of our engagement, we proposed material audit adjustments to the financial statements that would not have been identified as a result of the Authority's existing internal controls, and therefore could have resulted in material misstatement of the Authority's financial statements. The adjustments relate to patient receivables, debt posting errors, contractual and bad debt allowances, amounts due to and from Medicare, and transactions related to the EPIC implementation activity.

Cause: The Organization implemented new accounting software in the prior year.

<u>Findings Related to Financial Statements: (continued)</u>

Effect: The effect of this condition was that if adjustments had not been recorded, the financial statements would have been materially misstated.

Auditor's Recommendation: We recommend the Authority develop policies and procedures to ensure post year end journal entries are posted to the general ledger, contractual allowance, and amounts due to from Medicare accounts are reconciled to supporting documentation. In addition we further recommend that management consult with appropriate consultants for unique transactions as necessary.

Management Response: Management will implement training for accounting personnel.

2014-C Bad Debt and Contractual Allowances

Criteria: Accountings standards require an entity to record receivables at the net realizable value, this requires an estimate of the allowance on the collectability of receivables. The allowance should be based on historical data and current reimbursement rates.

Condition: The allowance for contractual and doubtful accounts for both the hospital and clinic were not properly calculated throughout the year.

Cause: The Authority has developed a calculation for contractual allowances and bad debt allowances. However, the rates used to calculate Medicaid and commercial allowances were not adjusted to the current rates. We also noted the collections related to self pay balances decreased by 5 percent from the previous year.

Effect: Material audit adjustments were made to the allowance accounts.

Auditor's Recommendation: We recommend the Authority update contractual percentages as rate adjustments are received and periodically review and update historical collection averages in determining the impact to contractual and bad debt allowances.

Management Response: The Authority will review the documents used in the calculation of contractual and bad debt allowances.

2014-D Cost Report Estimate

Criteria: Accountings standards require an entity to estimate the ultimate settlement of Medicare reimbursement in the year services are provided to patients.

Condition: The estimate for amounts receivable from or due to third-party payors, including Medicare, was not properly calculated throughout the year.

Cause: The Authority does not have a program to enable an accurate estimate.

Effect: Material audit adjustments were made to the financial statements.

Auditor's Recommendation: We recommend the Authority consider interim cost reports or purchasing software to assist with the estimate.

Findings Related to Financial Statements: (continued)

Management Response: Management feels that committing the resources necessary to assist with the calculation would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

2014-E Long Term Debt Reconciliations

Criteria: Accounting standards require an entity to record debt payments to the proper account.

Condition: During the course of our engagement we noted the Authority did not consistently record debt payments to the proper liability accounts.

Cause: The Authority did not reconcile debt balances to the individual debt amortization schedules.

Effect: Material audit adjustments were made to the debt accounts.

Auditor's Recommendation: We recommend the Authority implement procedures to record debt payments and reconcile debt accounts to the amortization schedule on a monthly basis.

Management Response: Management has implemented procedures to ensure monthly reconciliation of debt balances.

Significant Deficiency In Internal Control Over Financial Reporting:

2014-F Segregation of Duties

Criteria: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

Condition: During the course of our engagement, we noted that the Authority has limited staff completing incompatible accounting functions due to the size of the entity.

Cause: The Authority's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Effect: Inadequate segregation of duties could adversely affect the organizations ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations. In addition, we recommend that the functions be reviewed to determine if additional segregation is feasible to improve efficiency and effectiveness of the financial management of the organization.

Management Response: Management accepts the risk associated with this condition.

Significant Deficiency In Internal Control Over Compliance:

2014-001 Unallowed Cost

Criteria: Pursuant to the City of Fairview Sales Tax Ordinance 2002, the use of the funds are for the purposes of renovating, expanding, equipping and maintaining the Fairview Municipal Hospital facilities, funds may be applied or pledged toward the payment of principal and interest incurred on behalf of the City for such purposes.

Condition: During the course of our engagement, we were notified by the Authority that one payment to a vendor was not in accordance with the City of Fairview Sales Tax Ordinance 2002. We were informed that the funds had been replenished and the Authority was in compliance with the Ordinance.

Cause: The Authority detected the error during the course of its monthly bank reconciliation.

Effect: Potential violation of the Ordinance.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to ensure the Authority is in compliance with the ordinance, we recommend management review all checks drafted from the sales tax bank account prior to issuance.

Management Response: This isolated incident was identified and corrected through the internal controls of the Fairview Municipal Hospital Authority and all funds of the Fairview Municipal Hospital Authority have been expended according to the City of Fairview Sales Tax Ordinance 2002. The initial clerical error was corrected by management upon completion of the bank reconciliation. Fund were promptly reimbursed to the Fairview Municipal Hospital Authority from the City. While the current internal control can be adjusted, it did serve it purpose and corrected a potential error in a timely manner.
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