Henryetta Hospital Authority
Henryetta, Oklahoma

Financial Statements

June 30, 2014 and 2013
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

FINANCIAL STATEMENTS

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FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Henryetta Hospital Authority
Henryetta, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Henryetta Hospital Authority (the "Authority") as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

Auditors' 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 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 auditors' 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 auditors consider 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.

(Continued)

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 and I-2 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, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2015, on our consideration of the Authority's internal control over financial reporting and on 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 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.

Finley & Cook, PLLC

Shawnee, Oklahoma
February 3, 2015

HENRYETTA HOSPITAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

This discussion and analysis of the Henryetta Hospital Authority (the "Authority") financial statements provides an overview of the Authority's financial activities for the year ended June 30, 2014.

Financial Highlights

The Authority's financial position as a whole increased during the fiscal year ended June 30, 2014. Net position and total assets increased $34,587, or 0.49%, over the previous year.

Overview of the Financial Statements

The enclosed statements are presented on an enterprise fund basis and include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private sector entities. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Financial Analysis

Net position is one way to measure the Authority's financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial position is improving or declining.

For the year ended June 30, 2014, total assets were $7,046,559 and there were no liabilities. Operating revenues of $312,490 exceeded operating expenses of $311,598, resulting in operating income of $532.

Operating Revenues

Operating revenues increased $5,007 during the fiscal year ended June 30, 2014.

Operating Expenses

Operating expenses increased $24,486 during the fiscal year ended June 30, 2014.

Financial Analysis, Continued

Non-Operating Revenues/Expenses

Significant changes in non-operating revenues/expenses were the result of the following:

- Changes in the long-term receivable for the year ended June 30, 2014, resulted in an increase of $12,946 due to an increase in the Consumer Price Index used to adjust the receivable annually.
- Interest income on investments decreased $1,966 for the year ended June 30, 2014.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide information about the cash receipts and disbursements of an entity over a period of time. This statement also aids in the assessment of an entity's ability to generate future net cash flows, its ability to meet obligations as they come due, and needs for external financing.

Capital Assets

At June 30, 2014, the Authority had $12,751,157 invested in capital assets. The related accumulated depreciation was approximately $10,404,941. Depreciation charges for the year totaled $213,013, compared to $231,143 in the previous year.

For additional information related to capital assets, please see Note 4 to the financial statements.

Debt

At June 30, 2014, the Authority had no outstanding debt.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling (918) 650-1301.

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

STATEMENTS OF NET POSITION

June 30,		*2014*	*2013*
Assets			
Current assets:			
Cash	$	596,997	389,211
Investments		3,011,587	2,993,082
Interest receivable		2,212	2,211
Total current assets		3,610,796	3,384,504
Noncurrent assets:			
Capital assets:			
Property, buildings, and equipment		12,746,449	12,742,795
Less accumulated depreciation		(10,400,233)	(10,191,928)
Capital assets, net		2,346,216	2,550,867
Long-term receivable		1,089,547	1,076,601
Total noncurrent assets		3,435,763	3,627,468
Total assets	$	7,046,559	7,011,972
Liabilities and Net Position			
Liabilities	$	-	-
Net position:			
Investment in capital assets, net		2,346,216	2,550,866
Unrestricted		4,700,343	4,461,106
Total net position		7,046,559	7,011,972
Total liabilities and net position	$	7,046,559	7,011,972

See Independent Auditors’ Report.
See accompanying notes to financial statements.

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30,	*2014*	*2013*
Revenues:		
Rental income	$ 312,490	307,483
Total revenues	312,490	307,483
Expenses:		
Supplies, utilities, and purchased services	30,979	28,457
Insurance	7,786	10,992
Depreciation	213,013	231,143
Repairs and maintenance	23,682	6,290
Legal and professional	36,498	10,590
Total expenses	311,958	287,472
Net income from operations	532	20,011
Non-operating revenues and expenses:		
Interest income	18,755	20,721
Increase in long-term receivable	12,946	4,850
Gain from sale of capital assets	2,354	-
Total non-operating revenues	34,055	25,571
Changes in net position	34,587	45,582
Net position, beginning of year	7,011,972	6,966,390
Net position, end of year	$ 7,046,559	7,011,972

See Independent Auditors' Report.
See accompanying notes to financial statements.

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Years Ended June 30,	*2014*	*2013*
Cash flows from operating activities:		
Revenues	$ 312,490	307,483
Payments to vendors	(98,945)	(56,329)
Net cash provided by operating activities	213,545	251,154
Cash flows from investing activities:		
Purchase of certificate of deposits	(18,505)	(420,540)
Interest income from investments	18,754	20,681
Net cash provided by (used in) investing activities	249	(399,859)
Cash flows from noncapital financing activities	-	-
Cash flows from capital and related financing activities:		
Purchase of capital assets	(8,362)	(4,201)
Miscellaneous receipts—gain from sale of fully depreciated assets	2,354	-
Net cash used in capital and related financing activities	(6,008)	(4,201)
Net increase (decrease) in cash and cash equivalents	207,786	(152,906)
Cash and cash equivalents, beginning of year	389,211	542,117
Cash and cash equivalents, end of year	$ 596,997	389,211
Reconciliation of net income from operations to net cash provided by operating activities:		
Net income from operations	$ 532	20,011
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation	213,013	231,143
Net cash provided by operating activities	$ 213,545	251,154

See Independent Auditors' Report.
See accompanying notes to financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ownership

The Henryetta Medical Center (the "Hospital") is owned and operated by the Henryetta Hospital Authority (the "Authority"), which was established on April 18, 1977, pursuant to Title 60, Oklahoma Statutes 1971, Section 176 to 180.4 inclusive, as amended. The City of Henryetta, Oklahoma, is the beneficiary of the Authority.

On November 1, 2004, the Board of Trustees of the Authority entered into an agreement with AHS Henryetta Hospital, LLC; Hillcrest Healthcare Systems; and Ardent Health Services, Inc. Under the terms of this agreement the Authority and Hillcrest Healthcare Systems agreed to terminate their "Master Agreement" dated September 15, 1997. Further, certain assets purchased by the Hospital were transferred to the Authority in return for a reduction in the amount due from Hillcrest Healthcare Systems. On November 1, 2004, an "Amended and Restated Operating Agreement" was entered into by the Authority with AHS Henryetta Hospital, LLC and Ardent Health Services, Inc. (collectively "Ardent"). The November 1, 2004, "Amended and Restated Operating Agreement" between the Authority and Ardent was amended on September 30, 2007. The "Second Amended and Restated Operating Agreement" (the "Agreement") commenced on October 1, 2007, and was to expire September 30, 2014. On June 23, 2014, Ardent exercised a 5-year renewal of the Agreement. The Agreement was extended until September 30, 2019. The Agreement allows Ardent to operate the Hospital and to use the Hospital's name in its operations. Under the terms of the Agreement, equipment and operating assets of the Authority were transferred to Ardent during the duration of the Agreement.

Basis of Accounting

The accompanying financial statements are presented on an enterprise fund basis and follow the accrual basis of accounting, whereby revenues are recorded in the period earned and expenses are recorded in the period incurred.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In March 2012, the Governmental Accounting Standards Board issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish 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 or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the Authority.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement is effective for financial statements for periods beginning after June 15, 2014. The Authority has not determined the effects, if any, of implementing GASB 68.

In April 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). GASB 70 will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. A government that has issued an obligation guaranteed in a nonexchange transaction is to report the obligation until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. This statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The Authority adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the Authority.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Use of Estimates

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

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The statements of net position and the statements of revenues, expenses, and changes in net position are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities associated with their activities are reported.

Financial Statement Presentation

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States. GASB is responsible for establishing the accounting principles generally accepted in the United States for state and local governments through its pronouncements (Statements and Interpretations).

Capital Assets

Capital assets which have an expected useful life of more than 1 year are recorded at cost when purchased. Depreciation expense is calculated on a straight-line basis over a 3- to 30-year period.

Long-Term Receivable

The long-term receivable represents assets which were transferred to Ardent for their use in operating the Hospital. The Authority is entitled to receive working capital, as defined in the Agreement, equal to $1,014,611, adjusted for changes in the Consumer Price Index (CPI). The balance of the receivable was $1,089,547 and $1,076,601 as of June 30, 2014 and 2013, respectively. An allowance for doubtful accounts was not considered necessary as of June 30, 2014 or 2013.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 except certain natural disasters.

Related-Party Transactions

During 2012, the Authority entered into an agreement with the Hospital's Administrative Executive Assistant to provide janitorial services to the Authority. Payments for such services approximated $11,600 for the year ended June 30, 2014.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 3, 2015, the date which the financial statements were available to be issued.

(2) CASH

The Authority's cash is in an interest-bearing deposit account at a local financial institution and is insured by the FDIC and collateralized with a letter of credit. As of June 30, 2014 and 2013, the Authority had no cash which was not insured or collateralized.

(3) INVESTMENTS

The Authority's informal investment policy is to invest only in certificates of deposit. As of June 30, 2014 and 2013, the certificates of deposit earned interest at rates ranging from 0.55% to 0.75% and 0.60% to 1.00%, respectively. All of the certificates of deposit are insured by the FDIC, collateralized with a letter of credit, or collateralized with securities held by the pledging bank's safekeeping agent, but not in the Authority's name. The certificates of deposit have maturities of 12 months or less.

(4) CAPITAL ASSETS

The capital assets of the Authority consist of land, land improvements, buildings, and equipment. A summary of changes in capital assets is as follows:

	Balance at June 30, 2013	Additions	Disposals	Balance at June 30, 2014
Land	$ 75,385	-	-	75,385
Land improvements	581,750	-	-	581,750
Buildings	6,966,114	4,700	-	6,970,814
Equipment	5,119,546	1,308	(2,354)	5,118,500
	12,742,795	6,008	(2,354)	12,746,449
Less accumulated depreciation	(10,191,928)	(210,659)	2,354	(10,400,233)
Capital assets, net	$ 2,550,867	(204,651)	-	2,346,216

	Balance at June 30, 2012	Additions	Disposals	Balance at June 30, 2013
Land	$ 75,385	-	-	75,385
Land improvements	581,750	-	-	581,750
Buildings	6,961,913	4,201	-	6,966,114
Equipment	5,119,546	-	-	5,119,546
	12,738,594	4,201	-	12,742,795
Less accumulated depreciation	(9,960,785)	(231,143)	-	(10,191,928)
Capital assets, net	$ 2,777,809	(226,942)	-	2,550,867

(5) LONG-TERM RECEIVABLE

As previously discussed in Note 1, the Authority transferred assets to Ardent to be used in the operation of the Hospital. As a result of the transfer, the Authority has a contractual right to receive "Financial Working Capital," as defined, of $1,014,611 (adjusted by the CPI, as defined) at the expiration of the Agreement. The Authority has recorded the amount to be received and adjusted the amount by the CPI at June 30, 2014 and 2013, using the formula defined in the Agreement. The receivable balance and adjustments recorded are as follows:

	2014	2013
Long-term receivable balance at beginning of year	$ 1,076,601	1,071,751
Changes due to the CPI	12,946	4,850
Long-term receivable balance at end of year	$ 1,089,547	1,076,601

(6) OPERATING LEASE REVENUES

The Authority has entered into various operating lease agreements for the rental of its properties. There are two primary lease rental agreements: one with Ardent, which provides $125,000 annually through September 30, 2019, for the lease of the Hospital; and one with Fresenius for the Dialysis Center, which provides rental income of $91,000 annually through March 31, 2020. The rental income from the Fresenius lease increased 10% annually after year six. The future minimum lease payments to be received as of June 30, 2014, are as follows:

2015	$ 298,106
2016	232,172
2017	229,348
2018	225,454
2019	225,100
2020	106,325
	$ 1,316,505

(7) CONCENTRATIONS

As previously discussed in Note 1, the Authority and Ardent entered into an agreement that transferred assets of the Authority to Ardent and allowed Ardent to assume operations of the Hospital. In return, Ardent pays a fee to the Authority of $125,000 per year for property rental, as discussed in Note 6. The fee represents a significant portion of Authority's revenues. For the years ended June 30, 2014 and 2013, the fees received from Ardent represented 40% and 41%, respectively, of the Authority's rental income.

In addition, as previously discussed in Note 6, the lease agreement with Fresenius provided $100,000 and $94,000 of rental revenues for the years ended June 30, 2014 and 2013, respectively. This represents 32% and 31% of the Authority's rental income for the years ended June 30, 2014 and 2013, respectively.

(8) SUBSEQUENT EVENTS

Subsequent to June 30, 2014, the Authority began the process of obtaining the State of Oklahoma's approval for capital improvements to the Hospital, which would bring the Hospital into compliance with statutory codes.

INDEPENDENT AUDITORS' 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
Henryetta Hospital Authority
Henryetta, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States 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 the business-type activities of the Henryetta Hospital Authority (the "Authority"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated February 3, 2015. Our report includes an explanatory paragraph disclaiming an opinion on management's discussion and analysis.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

INDEPENDENT AUDITORS' 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*, CONTINUED

Compliance and Other Matters

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

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.

Finley & Cook, PLLC

Shawnee, Oklahoma
February 3, 2015