



Management's Discussion and Analysis
and Financial Statements
December 31, 2015 and 2014

Arbuckle Memorial Hospital Authority

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Independent Auditor's Report

The Board of Trustees
Arbuckle Memorial Hospital Authority
Sulphur, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Arbuckle Memorial Hospital Authority (Authority), as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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 Arbuckle Memorial Hospital Authority as of December 31, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 7 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 a report dated April 21, 2016 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, 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 reports 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.



Oklahoma City, Oklahoma
April 21, 2016

This discussion and analysis of the financial performance of Arbuckle Memorial Hospital Authority (Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2015, 2014 and 2013. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights – Financial Statements

- The Authority's net position increased by \$69,618 or 1% in 2015 and increased by \$442,904 or 7% in 2014.
- The Authority reported an operating loss in 2015 of \$640,479 and operating loss in 2014 of \$221,116. Operating loss in 2015 increased by \$419,363 or 190% over the loss reported in 2014. Operating loss reported in 2014 decreased by \$782,216 or 78% over the income reported in 2013.
- Net nonoperating revenues increased by \$46,327 or 7% in 2015 compared to 2014. Net nonoperating revenues increased by \$74,193 or 13% in 2014 compared to 2013.

Organization Highlights

- The Authority continues to strategically plan for the replacement and upgrade of equipment.
- The Authority continues to recruit highly qualified employees and physicians.
- The Authority continues to strategically plan for the expansion of services.

Using This Annual Report

The Authority's financial statements consist of three statements – Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements 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 Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position

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 Statement of Net Position 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 the 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 non-financial 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.

Overview of the Financial Statements

The statement of net position at December 31, 2015 indicated total assets of \$22,145,949, total liabilities of \$14,961,935 and net position of \$7,184,014. Total current assets were \$9,409,216 and total current liabilities were \$1,451,935 for a current ratio of 6.5. The statement of net position at December 31, 2014 had total assets of \$22,145,949 which had current assets of \$9,227,925 and total liabilities of \$15,581,041 which had current liabilities of \$1,821,041 for a current ratio of 5.1 in 2014.

The statements of revenues, expenses, and changes in net position for the year ended December 31, 2015 indicated total operating revenues of \$12,398,979 and operating expenses of \$13,039,458, operating loss of \$640,479, nonoperating revenues (net) of \$700,342, and capital contributions of \$9,755. The net position increased by \$69,618 from \$7,114,396 at December 31, 2014 to \$7,184,014 at December 31, 2015.

As reported in the statements of cash flows, cash and cash equivalents increased from \$5,762,513 at December 31, 2014 to \$5,768,200 at December 31, 2015.

Please review the notes to the financial statements included in the report.

The Authority's net position is the difference between its assets and liabilities reported on the combined balance sheet. The Authority's net position increased by \$69,618 or 1% in 2015 and increased by \$442,904 or 7% in 2014.

Table 1 Assets, Liabilities, and Net Position

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|----------------------|
| Assets | | | |
| Current assets | \$ 9,409,216 | \$ 9,227,925 | \$ 7,843,753 |
| Capital assets | 10,935,388 | 11,666,960 | 12,780,606 |
| Other assets | 1,801,345 | 1,800,552 | 1,809,502 |
| | <u>14,961,935</u> | <u>15,581,041</u> | <u>15,762,369</u> |
| Total assets | <u>\$ 22,145,949</u> | <u>\$ 22,695,437</u> | <u>\$ 22,433,861</u> |
| Liabilities | | | |
| Current liabilities | \$ 1,451,935 | \$ 1,821,041 | \$ 1,632,068 |
| Long-term debt, net of current portion | 13,510,000 | 13,760,000 | 14,130,301 |
| | <u>14,961,935</u> | <u>15,581,041</u> | <u>15,762,369</u> |
| Total liabilities | <u>14,961,935</u> | <u>15,581,041</u> | <u>15,762,369</u> |
| Net Position | | | |
| Net investment in capital assets | (2,371,657) | (2,002,650) | (1,472,330) |
| Restricted - expendable for debt service | 1,544,528 | 1,530,915 | 1,516,274 |
| Unrestricted | 8,011,143 | 7,586,131 | 6,627,548 |
| | <u>7,184,014</u> | <u>7,114,396</u> | <u>6,671,492</u> |
| Total net position | <u>7,184,014</u> | <u>7,114,396</u> | <u>6,671,492</u> |
| Total liabilities and net position | <u>\$ 22,145,949</u> | <u>\$ 22,695,437</u> | <u>\$ 22,433,861</u> |

A significant component of the change in the Authority's assets is an increase in estimated third-party payor settlements and amounts receivable related to the sales tax revenues. The increase in cash was partially offset by an increase in accumulated depreciation taken against capital assets throughout the year.

Table 2: Operating Results and Changes in Net Position

| | 2015 | 2014 | 2013 |
|--|---------------------|---------------------|---------------------|
| Operating Revenues | | | |
| Net patient service revenue | \$ 12,356,889 | \$ 12,864,496 | \$ 11,353,712 |
| Other revenue | 42,090 | 24,752 | 33,560 |
| Total operating revenue | <u>12,398,979</u> | <u>12,889,248</u> | <u>11,387,272</u> |
| Operating Expenses | | | |
| Salaries and wages | 7,411,032 | 7,179,098 | 6,815,720 |
| Supplies and other | 4,562,098 | 4,641,803 | 4,290,146 |
| Depreciation | 1,066,328 | 1,289,463 | 1,284,738 |
| Total operating expenses | <u>13,039,458</u> | <u>13,110,364</u> | <u>12,390,604</u> |
| Operating Loss | <u>(640,479)</u> | <u>(221,116)</u> | <u>(1,003,332)</u> |
| Nonoperating Revenue (Expenses) | | | |
| Tax appropriations | 1,689,136 | 1,663,881 | 1,614,746 |
| Investment income | 6,837 | 6,167 | 5,324 |
| Interest expense | (995,731) | (1,022,134) | (1,048,466) |
| Noncapital contributions | 100 | 6,101 | 8,218 |
| Total nonoperating revenue, net | <u>700,342</u> | <u>654,015</u> | <u>579,822</u> |
| Revenues in Excess of (Less Than) Expenses Before Capital Contributions | 59,863 | 432,899 | (423,510) |
| Capital Contributions | <u>9,755</u> | <u>10,005</u> | <u>63,279</u> |
| Change in Net Position | <u>69,618</u> | <u>442,904</u> | <u>(360,231)</u> |
| Net Position, Beginning of Year | <u>7,114,396</u> | <u>6,671,492</u> | <u>7,031,723</u> |
| Net Position, End of Year | <u>\$ 7,184,014</u> | <u>\$ 7,114,396</u> | <u>\$ 6,671,492</u> |

Operating Loss

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

The operating loss for 2015 increased by \$419,363 or 190% as compared to 2014 and the operating loss decreased in 2014 by \$782,216 or 78% compared to 2013. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$507,607 or 4% in 2015 as compared to an increase of \$1,510,784 or 13% in 2014.
- An increase in salaries and wages of \$231,934 or 3% in 2015 as compared to an increase of \$363,378 or 5% during 2014.

Nonoperating Revenues and Expenses

Net nonoperating revenues consist primarily of sales tax proceeds, interest expense, investment earnings, and contributions. The net nonoperating revenues increased in 2015 by \$46,327 or 7% and increased by \$74,193 or 13% in 2014.

Capital Contributions

Capital contributions consist of contributions received for the purpose of purchasing capital assets or direct contributions of capital assets. The capital contributions decreased \$250 or 3% in 2015 and decreased \$53,274 or 84% in 2014.

The Authority's Cash Flows

The Authority's overall liquidity increased during the year with a net increase to cash and cash equivalents, of \$5,687 in 2015 and an increase of \$1,214,341 in 2014. Cash flows from operating activities decreased by \$1,290,135 during 2015. This was due primarily to the decrease in receipts from and on behalf of patients. Cash flows from operating activities increased by \$1,629,085 in 2014. Cash from noncapital financing activities decreased by \$7,667 when compared with 2014 and increased by \$53,904 when compared with 2013. Cash used for capital and capital related financing activities increased by \$86,956 when compared with 2014 due to the purchase of capital assets and increased \$8,911 when compared to 2013. Cash from investing activities increased by \$2,192 in 2015 and increased \$1,356 in 2014 when compared to 2013.

Capital Assets

The Authority had capital assets and net of accumulated depreciation of \$10,935,388 and \$11,666,960 at December 31, 2015 and 2014. This investment in capital assets includes land, buildings and improvements, equipment, and construction in progress.

Capital assets consisted of the following at December 31:

| | 2015 | 2014 | 2013 |
|---|---------------|---------------|---------------|
| Land | \$ 108,799 | \$ 108,799 | \$ 58,799 |
| Buildings, improvements and fixed equipment | 16,263,410 | 16,239,532 | 16,239,532 |
| Major moveable equipment | 4,504,757 | 4,184,878 | 4,095,698 |
| Construction in progress | 27,636 | 36,637 | - |
| Accumulated depreciation | (9,969,214) | (8,902,886) | (7,613,423) |
| Total capital assets | \$ 10,935,388 | \$ 11,666,960 | \$ 12,780,606 |

Debt

As of December 31, 2015 and 2014, the Authority had \$0 and \$135,301 in outstanding capital lease obligations as detailed in notes 5 and 6.

The Authority has bond obligations outstanding of \$13,760,000 and \$13,995,000 as of December 31, 2015 and 2014. These obligations require the Authority to maintain a debt service coverage ratio of 1.1 to 1. These obligations also require the Authority to maintain 45 days cash on hand. As of December 31, 2015 and 2014, the Authority was in compliance with these covenants.

Economic Factors

Since 1959, Arbuckle Memorial Hospital Authority has provided quality health care to the families of Murray County and the thousands of visitors drawn to this recreational area each year. In addition to being an award winning health care facility, Arbuckle Memorial Hospital Authority is also one of the area's largest employers. Caring, highly-qualified physicians and nurses provide much needed inpatient and outpatient services. The authority served over 25,000 patients in 2015. The authority continues to monitor costs throughout the year. The Authority strives to be conscientious, consumer oriented, and dedicated to teamwork, leadership, and education.

Requests for Information

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 Arbuckle Memorial Hospital Authority, 2011 W Broadway Ave., Sulphur, Oklahoma 73066.

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| | 2015 | 2014 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 5,220,660 | \$ 5,215,766 |
| Restricted by trustee for debt service | 748,308 | 742,431 |
| Receivables | | |
| Patients, net of estimated uncollectibles of approximately \$1,470,000 in 2015 and \$1,641,000 in 2014 | 2,426,215 | 2,423,733 |
| Estimated third-party payor settlements | 205,443 | - |
| Sales tax | 435,164 | 403,573 |
| Other receivables | 1,918 | 6,521 |
| Supplies | 293,629 | 292,915 |
| Prepaid expenses and other assets | 77,879 | 142,986 |
| Total current assets | <u>9,409,216</u> | <u>9,227,925</u> |
| Noncurrent Cash and Investments | | |
| Internally designated for capital improvements | 547,540 | 546,747 |
| Restricted by trustee for debt service, net of current portion | 1,249,175 | 1,249,175 |
| Total noncurrent cash and investments | <u>1,796,715</u> | <u>1,795,922</u> |
| Capital Assets | | |
| Capital assets not being depreciated | 136,435 | 145,436 |
| Capital assets being depreciated, net | 10,798,953 | 11,521,524 |
| Total capital assets | <u>10,935,388</u> | <u>11,666,960</u> |
| Other Assets | | |
| Other receivables, net of current portion | 4,630 | 4,630 |
| Total assets | <u>\$ 22,145,949</u> | <u>\$ 22,695,437</u> |

See Notes to Financial Statements

Arbuckle Memorial Hospital Authority
 Statements of Net Position
 December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------|---------------|
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 250,000 | \$ 370,301 |
| Accounts payable | | |
| Trade | 257,644 | 274,002 |
| Estimated third-party payor settlements | - | 260,788 |
| Accrued expenses | | |
| Salaries, wages, and benefits | 446,503 | 409,937 |
| Interest | 497,788 | 506,013 |
| | 1,451,935 | 1,821,041 |
| | | |
| Long-term Debt, Less Current Maturities | 13,510,000 | 13,760,000 |
| | | |
| Total liabilities | 14,961,935 | 15,581,041 |
| | | |
| Net Position | | |
| Net investment in capital assets | (2,371,657) | (2,002,650) |
| Restricted | | |
| Expendable for debt service | 1,544,528 | 1,530,915 |
| Unrestricted | 8,011,143 | 7,586,131 |
| | 7,184,014 | 7,114,396 |
| Total net position | 7,184,014 | 7,114,396 |
| | | |
| Total liabilities and net position | \$ 22,145,949 | \$ 22,695,437 |

Arbuckle Memorial Hospital Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|--|---------------|---------------|
| Operating Revenues | | |
| Net patient service revenue (net of provision for bad debts of \$2,230,278 in 2015 and \$2,087,813 in 2014) | \$ 12,356,889 | \$ 12,864,496 |
| Other revenue | 42,090 | 24,752 |
| Total operating revenues | 12,398,979 | 12,889,248 |
| Operating Expenses | | |
| Salaries and wages | 7,411,032 | 7,179,098 |
| Supplies and other | 4,562,098 | 4,641,803 |
| Depreciation | 1,066,328 | 1,289,463 |
| Total operating expenses | 13,039,458 | 13,110,364 |
| Operating Loss | (640,479) | (221,116) |
| Nonoperating Revenue (Expenses) | | |
| Tax appropriations | 1,689,136 | 1,663,881 |
| Investment income | 6,837 | 6,167 |
| Interest expense | (995,731) | (1,022,134) |
| Noncapital contributions | 100 | 6,101 |
| Total nonoperating revenue (expenses) | 700,342 | 654,015 |
| Revenues in Excess of Expenses Before Capital Contributions | 59,863 | 432,899 |
| Capital Contributions | 9,755 | 10,005 |
| Change in Net Position | 69,618 | 442,904 |
| Net Position, Beginning of Year | 7,114,396 | 6,671,492 |
| Net Position, End of Year | \$ 7,184,014 | \$ 7,114,396 |

Arbuckle Memorial Hospital Authority
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---------------|---------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 11,888,176 | \$ 13,057,160 |
| Payments to suppliers and contractors | (4,514,063) | (4,635,953) |
| Payments to and on behalf of employees | (7,374,466) | (7,118,724) |
| Other receipts and payments, net | 46,693 | 33,992 |
| | 46,340 | 1,336,475 |
| Net Cash from Operating Activities | | |
| Noncapital Financing Activities | | |
| Noncapital contributions | 100 | 6,101 |
| Sales tax proceeds for operations | 1,657,545 | 1,659,211 |
| | 1,657,645 | 1,665,312 |
| Net Cash from Noncapital Financing Activities | | |
| Capital and Capital Related Financing Activities | | |
| Capital contributions | 9,755 | 10,005 |
| Principal payments on long-term debt | (370,301) | (590,568) |
| Interest paid | (1,003,956) | (1,029,834) |
| Purchase of capital assets | (334,756) | (175,817) |
| | (1,699,258) | (1,786,214) |
| Net Cash used for Capital and Capital Related Financing Activities | | |
| Investing Activities | | |
| Purchase of investments | (1,247,177) | (1,249,702) |
| Proceeds from sale of investments | 1,241,300 | 1,242,303 |
| Investment income | 6,837 | 6,167 |
| | 960 | (1,232) |
| Net cash from (used for) provided by investing activities | | |
| Net Change in Cash and Cash Equivalents | 5,687 | 1,214,341 |
| Cash and Cash Equivalents, Beginning of Year | 5,762,513 | 4,548,172 |
| Cash and Cash Equivalents, End of Year | \$ 5,768,200 | \$ 5,762,513 |
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Position | | |
| Cash and cash equivalents in current assets | \$ 5,220,660 | \$ 5,215,766 |
| Cash and cash equivalents in noncurrent cash and investments | 547,540 | 546,747 |
| | \$ 5,768,200 | \$ 5,762,513 |
| Total cash and cash equivalents | | |

Arbuckle Memorial Hospital Authority
 Statements of Cash Flows
 Years Ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|--------------|--------------|
| Reconciliation of Operating Loss to Net Cash from | | |
| Operating Activities | | |
| Operating loss | \$ (640,479) | \$ (221,116) |
| Adjustments to reconcile operating loss to net | | |
| cash from operating activities | | |
| Depreciation | 1,066,328 | 1,289,463 |
| Provision for bad debts | 2,230,278 | 2,087,813 |
| Changes in assets and liabilities | | |
| Patient receivables | (2,232,760) | (2,632,797) |
| Supplies | (714) | (44,233) |
| Other receivables | 4,603 | 9,240 |
| Prepaid expenses | 65,107 | (45,695) |
| Accounts payable | (16,358) | 95,778 |
| Accrued salaries, wages, and benefits | 36,566 | 60,374 |
| Estimated third-party payor settlements | (466,231) | 737,648 |
| Net cash from operating activities | \$ 46,340 | \$ 1,336,475 |

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Arbuckle Memorial Hospital Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

The Authority is a public trust which was formed by Murray County, Oklahoma (Trustor) to facilitate the construction of a new hospital through the issuance of hospital and sales tax revenue bonds. The beneficiary of the trust is Murray County (County). The Authority's Board is appointed by the County commissioners. The Authority is considered to be a component unit of the County.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority.

Blended Component Units

Arbuckle Memorial Hospital (Hospital) is a 25 bed Critical Access Hospital that provides acute care and outpatient services in Sulphur, Oklahoma and was formed under title 19 of the Oklahoma statutes. The Hospital's Board is made up of members of the Authority's Board of Trustees. The Hospital is included as a blended component unit of the Authority. Financial statements of the Hospital can be obtained by contacting the Hospital.

The Murray County Healthcare Foundation (Foundation) was established to exclusively raise funds to support the operations of the Hospital. The Foundation is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is included as a blended component unit of the Authority. Financial statements of the Foundation can be obtained by contacting the Hospital.

The financial statements include the financial activity of the Authority, the Hospital, and the Foundation, collectively referred to as the Authority.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets or the related debt obligations.

Restricted, expendable for debt service are non capital assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the Authority including amounts deposited with trustees as required by the bond indenture, reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset resulted from a resource flow that also resulted in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

Patient receivables are uncollateralized patient 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 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. The net patient service revenue for the years ended December 31, 2015 and 2014 decreased approximately \$469,800 and \$0 due to a change in estimate related to allowances.

Tax Appropriation Revenue

On March 7, 2006, the voters of Murray County passed a perpetual 1 cent sales tax. The sales tax must be used exclusively for the operation, planning, financing, construction, improvements to and maintenance of Arbuckle Memorial Hospital.

Supplies

Supplies are valued at the lower of cost (first-in, first-out method) or market and are expensed when used.

Noncurrent Cash and Investments

Noncurrent cash and investments are set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes and restricted by trustee for debt reserve. Certificates of deposit and other deposits are recorded at historical cost. Other investments are measured at fair value. Noncurrent cash and investments that are required for obligations classified as current liabilities are reported in current assets.

Investment Income

Interest and dividends on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. 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 in the financial statements. The estimated useful lives of capital assets are as follows:

| | <u>Depreciable Life</u> |
|---|-------------------------|
| Land improvements | 2 - 40 years |
| Building, improvements, and fixed equipment | 5 - 40 years |
| Major moveable equipment | 3 - 20 years |

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

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 statement of net position date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

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 and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

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.

Charity Care

The Authority provides health care services 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 these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$382,000 and \$336,000 for the years ended December 31, 2015 and 2014, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

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 revenues in excess of expenses.

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 a 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 \$223,000 and \$269,000 for the years ended December 31, 2015 and 2014, which is included in net patient service revenue.

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 is subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended December 31, 2013. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to patients covered by the state Medicaid program are reimbursed on a prospectively determined per diem rate or established fee.

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.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended December 31, 2015 and 2014:

| | 2015 | 2014 |
|-------------------------|------|------|
| Medicare | 52% | 64% |
| Medicaid | 11% | 6% |
| Other commercial payors | 25% | 26% |
| Self pay and other | 12% | 4% |
| | 100% | 100% |

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 years ended December 31, 2015 and 2014 decreased approximately \$29,000 and \$63,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|-------------------|--------------|--------------|
| Carrying amount | | |
| Cash and deposits | \$ 5,768,200 | \$ 5,762,513 |
| Investments | 1,997,483 | 1,991,606 |
| Total | \$ 7,765,683 | \$ 7,754,119 |

Deposits and investments are reported in the following statement of net position captions:

| | 2015 | 2014 |
|--|--------------|--------------|
| Cash and cash equivalents | \$ 5,220,660 | \$ 5,215,766 |
| Current restricted by trustee for debt service | 748,308 | 742,431 |
| Noncurrent cash and investments - internally designated for capital improvements | 547,540 | 546,747 |
| Noncurrent cash and investments - restricted by trustee for debt service, net of current portion | 1,249,175 | 1,249,175 |
| | \$ 7,765,683 | \$ 7,754,119 |

Deposits - 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. 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. The Authority has a general investment policy to minimize custodial credit risk, but does not further restrict bank deposits or limit investment deposits.

The Authority’s deposits in banks at December 31, 2015 and 2014 were entirely covered by federal depository insurance or collateral held by the custodial banks in the Hospital’s and County’s names.

Investments

Investments are reported at fair market value. Under state law, investments are limited to full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities, repurchase agreements collateralized by those securities, collateralized or insured certificates of deposit and other evidences of deposit, negotiable certificates of deposit, Bankers' acceptances, limited top-rated commercial paper, certain money market mutual funds, obligations of state and local governments, including obligations of Oklahoma state public trusts and bond notes, debentures or other similar obligations of a foreign government that meet specific requirements. The Authority had the following investments at December 31, 2015 and 2014:

| | Maturities | 2015 | 2014 |
|---------------------------|------------|--------------|--------------|
| U.S. Treasury Obligations | Daily | \$ 1,997,483 | \$ 1,991,606 |

Interest Rate Risk

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes require that investments be made only in U.S. government obligations. The Authority’s investment policy does not further limit its investment options.

Concentration of Credit Risk

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

Investment Income

Investment income, primarily interest income, for the years ended December 31, 2015 and 2014 was \$6,837 and \$6,167.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2015 are as follows:

| | Balance December 31, 2014 | Additions | Transfers and Retirements | Balance December 31, 2015 |
|---|---------------------------------|-----------------------|------------------------------|---------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 108,799 | \$ - | \$ - | \$ 108,799 |
| Construction in progress | 36,637 | 60,247 | (69,248) | 27,636 |
| Total capital assets not being depreciated | <u>\$ 145,436</u> | <u>\$ 60,247</u> | <u>\$ (69,248)</u> | <u>\$ 136,435</u> |
| Capital assets being depreciated | | | | |
| Buildings, improvements, and fixed equipment | \$ 16,239,532 | \$ 23,878 | \$ - | \$ 16,263,410 |
| Major moveable equipment | 4,184,878 | 250,631 | 69,248 | 4,504,757 |
| Total capital assets being depreciated | <u>20,424,410</u> | <u>\$ 274,509</u> | <u>\$ 69,248</u> | <u>20,768,167</u> |
| Less accumulated depreciation for | | | | |
| Buildings, improvements, and fixed equipment | (5,509,517) | \$ (773,213) | \$ - | (6,282,730) |
| Major moveable equipment | (3,393,369) | (293,115) | - | (3,686,484) |
| Total accumulated depreciation | <u>(8,902,886)</u> | <u>\$ (1,066,328)</u> | <u>\$ -</u> | <u>(9,969,214)</u> |
| Net capital assets being depreciated | <u>\$ 11,521,524</u> | | | <u>\$ 10,798,953</u> |
| Capital assets, net | <u>\$ 11,666,960</u> | | | <u>\$ 10,935,388</u> |

Construction in progress at December 31, 2015, represents deposits on software and equipment. The estimated remaining cost is approximately \$68,000, which will be financed with Authority funds. All assets are expected to be placed in service during 2016.

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2014 are as follows:

| | Balance December 31, 2013 | Additions | Transfers and Retirements | Balance December 31, 2014 |
|---|---------------------------------|----------------|------------------------------|---------------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 58,799 | \$ 50,000 | \$ - | \$ 108,799 |
| Construction in progress | - | 44,287 | (7,650) | 36,637 |
| Total capital assets not being depreciated | \$ 58,799 | \$ 94,287 | \$ (7,650) | \$ 145,436 |
| Capital assets being depreciated | | | | |
| Buildings, improvements, and fixed equipment | \$ 16,239,532 | \$ - | \$ - | \$ 16,239,532 |
| Major moveable equipment | 4,095,698 | 81,530 | 7,650 | 4,184,878 |
| Total capital assets being depreciated | 20,335,230 | \$ 81,530 | \$ 7,650 | 20,424,410 |
| Less accumulated depreciation for | | | | |
| Buildings, improvements, and fixed equipment | (4,625,770) | \$ (883,747) | \$ - | (5,509,517) |
| Major moveable equipment | (2,987,653) | (405,716) | - | (3,393,369) |
| Total accumulated depreciation | (7,613,423) | \$ (1,289,463) | \$ - | (8,902,886) |
| Net capital assets being depreciated | \$ 12,721,807 | | | \$ 11,521,524 |
| Capital assets, net | \$ 12,780,606 | | | \$ 11,666,960 |

Note 5 - Lease Obligations

The Authority leases certain equipment under non-cancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total operating expense for the years ended December 31, 2015 and 2014 for all operating leases was \$170,256 and \$150,890. The capitalized leased assets consisted of:

| | 2015 | 2014 |
|--|------|--------------|
| Major movable equipment | \$ - | \$ 1,766,546 |
| Less accumulated amortization (included as depreciation on the accompanying financial statements) | - | (1,533,619) |
| Total | \$ - | \$ 232,927 |

Minimum future lease payments for operating leases are as follows:

| <u>Years Ending December 31,</u> | <u>Amount</u> |
|----------------------------------|---------------|
| 2016 | \$ 104,098 |
| 2017 | 81,610 |
| Total minimum lease payments | \$ 185,708 |

Note 6 - Long-term Debt

A schedule of changes in the Authority's long-term debt for 2015 and 2014 is as follows:

| | Balance 12/31/14 | Additions | Reductions | Balance 12/31/15 | Amounts Due Within One Year |
|-----------------------------------|---------------------|-----------|--------------|---------------------|-----------------------------------|
| Series 2008 Revenue Bonds payable | \$ 13,995,000 | \$ - | \$ (235,000) | \$ 13,760,000 | \$ 250,000 |
| Capital lease obligation | 135,301 | - | (135,301) | - | - |
| Total long-term debt | \$ 14,130,301 | \$ - | \$ (370,301) | \$ 13,760,000 | \$ 250,000 |
| | | | | | |
| | Balance 12/31/13 | Additions | Reductions | Balance 12/31/14 | Amounts Due Within One Year |
| Series 2008 Revenue Bonds payable | \$ 14,215,000 | \$ - | \$ (220,000) | \$ 13,995,000 | \$ 235,000 |
| Capital lease obligation | 505,869 | - | (370,568) | 135,301 | 135,301 |
| Total long-term debt | \$ 14,720,869 | \$ - | \$ (590,568) | \$ 14,130,301 | \$ 370,301 |

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at December 31, 2015 and 2014 are as follows:

Revenue Bonds

The Authority has issued hospital and sales tax revenue bonds in the past, where the Authority pledges income derived from a 1% sales tax levied within Murray County and unrestricted Hospital revenues to pay debt service. Revenue bonds outstanding at December 31, 2015 are as follows:

Hospital and Sales Tax Revenue Bonds, Series 2008 with varying interest rates from 7.00% to 7.25%, due January 1, 2038, collateralized by the net revenues, accounts receivables, and assets included under the Revenue Bond Indenture.

The Authority has pledged future sales tax and unrestricted hospital revenues to repay \$14,890,000 in sales tax revenue bonds issued in January 1, 2008. Proceeds from the bonds originally provided financing for the construction of the Arbuckle Memorial Hospital. The bonds are payable solely from sales tax and hospital revenue and are payable through December 31, 2038. Annual principal and interest payments on the bonds are expected to require 8 % of the pledged revenues. The total principal and interest remaining to be paid on the bonds is \$28,668,376. Principal and interest paid for the current year and pledged revenues received were \$1,247,425 and \$13,931,868, respectively. Under the terms of the revenue bonds agreements, the Authority is required to maintain certain deposits with a trustee. Such deposits are included in restricted cash on the statement of net position. The bond agreement also places limits on the incurrence of additional borrowings and requires that the Authority satisfy certain measures of financial performance as long as the bonds are outstanding. At December 31, 2015 and 2014, the Authority was in compliance with the financial covenants of the Revenue Bonds.

Capital Lease

The capital lease obligation includes imputed interest at a rate of 3% and is collateralized by leased equipment with a cost of \$1,766,546 (Note 5). The lease was paid in full during 2015.

Scheduled debt service requirements of the Authority's bonds payable are as follows:

| <u>Years Ending December 31:</u> | Bonds Payable | |
|----------------------------------|---------------|---------------|
| | Principal | Interest |
| 2016 | \$ 250,000 | \$ 995,575 |
| 2017 | 270,000 | 978,075 |
| 2018 | 290,000 | 959,175 |
| 2019 | 305,000 | 938,875 |
| 2020 | 330,000 | 916,763 |
| 2021-2025 | 2,045,000 | 4,188,325 |
| 2026-2030 | 2,900,000 | 3,332,100 |
| 2031-2035 | 4,115,000 | 2,116,638 |
| 2036-2038 | 3,255,000 | 482,850 |
| Total | \$ 13,760,000 | \$ 14,908,376 |

Note 7 - Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. The plan allows for an employer match which is determined by the Board annually. Pension expense is recorded for the amount of the Authority's contributions, determined in accordance with the terms of the plan. The plan is administered by a Board of Trustees appointed by the governing body of the Authority. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Authority's governing body. Total pension plan expense for the years ended December 31, 2015, 2014 and 2013, was \$160,992, \$172,550 and \$154,392.

Note 8 - Management and Affiliate Agreements

On June 1, 1998, the Authority entered into a management agreement with Preferred Management Corporation, whereby Preferred Management Corporation agreed to administer the operations of the Authority and provide shared services for a predetermined fee. Fees incurred under the management agreement were \$315,251 and \$310,198 for the years ended December 31, 2015 and 2014.

The Authority has an agreement with Mercy Memorial Health Center, whereby Mercy Memorial Health Center may provide Hospital-physician liaison services and information systems support under an Affiliate agreement, which renews on a yearly basis. Fees incurred under the services agreement were \$13,000 and \$12,000 for years ended December for 2015 and 2014.

Note 9 - 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 December 31, 2015 and 2014 was as follows:

| | 2015 | 2014 |
|--------------------------|------|------|
| Medicare | 31% | 31% |
| Medicaid | 5% | 6% |
| Other third-party payors | 27% | 25% |
| Patients | 37% | 38% |
| Total | 100% | 100% |

Note 10 - Contingencies

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.

Malpractice Insurance

The Authority has malpractice 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 annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the term, but reported subsequently, would be uninsured.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any 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 the 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 11 - Condensed Combining Information

The following summarizes combining information for the Authority, Hospital, and Foundation, as of and for the year ended December 31, 2015. The Hospital, Authority and Foundation have been presented as blended component units.

Statement of net position as of December 31, 2015:

| | Authority | Hospital | Foundation | Total |
|---|----------------------|----------------------|-------------------|----------------------|
| Assets | | | | |
| Current assets | \$ 748,308 | \$ 8,550,084 | \$ 110,824 | \$ 9,409,216 |
| Capital assets, net | 9,963,429 | 971,959 | - | 10,935,388 |
| Other assets | 1,249,175 | 547,540 | 4,630 | 1,801,345 |
| Total assets | \$ 11,960,912 | \$ 10,069,583 | \$ 115,454 | \$ 22,145,949 |
| Liabilities and Net Position | | | | |
| Liabilities | | | | |
| Current liabilities | \$ 747,788 | \$ 704,147 | \$ - | \$ 1,451,935 |
| Long-term liabilities | 13,510,000 | - | - | 13,510,000 |
| Total liabilities | 14,257,788 | 704,147 | - | 14,961,935 |
| Net Position | | | | |
| Net investment in capital assets | (3,343,616) | 971,959 | - | (2,371,657) |
| Restricted - expendable for debt service | 1,544,528 | - | - | 1,544,528 |
| Unrestricted | (497,788) | 8,393,477 | 115,454 | 8,011,143 |
| Total net position | (2,296,876) | 9,365,436 | 115,454 | 7,184,014 |
| Total liabilities and net position | \$ 11,960,912 | \$ 10,069,583 | \$ 115,454 | \$ 22,145,949 |

Arbuckle Memorial Hospital Authority
Notes to Financial statements
December 31, 2015 and 2014

Operating results and changes in net position for the year ended December 31, 2015:

| | <u>Authority</u> | <u>Hospital</u> | <u>Foundation</u> | <u>Total</u> |
|--|-----------------------|---------------------|-------------------|---------------------|
| Operating Revenues | | | | |
| Net patient service revenue | \$ - | \$ 12,356,889 | \$ - | \$ 12,356,889 |
| Other operating revenue | 1,247,177 | (1,207,297) | 2,210 | 42,090 |
| Total operating revenue | <u>1,247,177</u> | <u>11,149,592</u> | <u>2,210</u> | <u>12,398,979</u> |
| Operating Expenses | | | | |
| Depreciation | 766,699 | 299,629 | - | 1,066,328 |
| Other operating expenses | 2,500 | 11,968,170 | 2,460 | 11,973,130 |
| Total operating expense | <u>769,199</u> | <u>12,267,799</u> | <u>2,460</u> | <u>13,039,458</u> |
| Operating Income (Loss) | <u>477,978</u> | <u>(1,118,207)</u> | <u>(250)</u> | <u>(640,479)</u> |
| Nonoperating Revenue (Expense) | | | | |
| Tax appropriations | - | 1,689,136 | - | 1,689,136 |
| Investment income | - | 6,820 | 17 | 6,837 |
| Interest expense | (995,575) | (156) | - | (995,731) |
| Contributions | - | - | 100 | 100 |
| Total nonoperating revenue (expense) | <u>(995,575)</u> | <u>1,695,800</u> | <u>117</u> | <u>700,342</u> |
| Revenues in Excess of (Less Than) Expenses Before Capital Contributions | (517,597) | 577,593 | (133) | 59,863 |
| Capital Contributions | <u>-</u> | <u>-</u> | <u>9,755</u> | <u>9,755</u> |
| Change in Net position | (517,597) | 577,593 | 9,622 | 69,618 |
| Net Position, Beginning of Year | <u>(1,779,279)</u> | <u>8,787,843</u> | <u>105,832</u> | <u>7,114,396</u> |
| Net Position, End of Year | <u>\$ (2,296,876)</u> | <u>\$ 9,365,436</u> | <u>\$ 115,454</u> | <u>\$ 7,184,014</u> |

Arbuckle Memorial Hospital Authority
Notes to Financial statements
December 31, 2015 and 2014

Cash flows for the year ended December 31, 2015:

| | <u>Authority</u> | <u>Hospital</u> | <u>Foundation</u> | <u>Total</u> |
|---|------------------|---------------------|-------------------|---------------------|
| Net Cash from Operating Activities | \$ 1,244,677 | \$ (1,202,690) | \$ 4,353 | \$ 46,340 |
| Net Cash from Noncapital Financing Activities | - | 1,657,545 | 100 | 1,657,645 |
| Net Cash from (used for) Capital and Related Financing Activities | (1,238,800) | (470,213) | 9,755 | (1,699,258) |
| Net Cash from (used for) Investing Activities | <u>(5,877)</u> | <u>6,820</u> | <u>17</u> | <u>960</u> |
| Net Change in Cash and Cash Equivalents | - | (8,538) | 14,225 | 5,687 |
| Cash and Cash Equivalents, Beginning of Year | <u>-</u> | <u>5,665,173</u> | <u>97,340</u> | <u>5,762,513</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ -</u> | <u>\$ 5,656,635</u> | <u>\$ 111,565</u> | <u>\$ 5,768,200</u> |

The following summarizes combining information for the Authority, Hospital, and Foundation, which has been presented as a blended component unit, as of and for the year ended December 31, 2014:

Statement of net position as of December 31, 2014:

| | <u>Authority</u> | <u>Hospital</u> | <u>Foundation</u> | <u>Total</u> |
|--|----------------------|---------------------|-------------------|----------------------|
| Assets | | | | |
| Current assets | \$ 742,431 | \$ 8,384,292 | \$ 101,202 | \$ 9,227,925 |
| Capital assets, net | 10,730,128 | 936,832 | - | 11,666,960 |
| Other assets | <u>1,249,175</u> | <u>546,747</u> | <u>4,630</u> | <u>1,800,552</u> |
| Total assets | <u>\$ 12,721,734</u> | <u>\$ 9,867,871</u> | <u>\$ 105,832</u> | <u>\$ 22,695,437</u> |
| Liabilities and Net Position | | | | |
| Liabilities | | | | |
| Current liabilities | \$ 741,013 | \$ 1,080,028 | \$ - | \$ 1,821,041 |
| Long-term liabilities | <u>13,760,000</u> | <u>-</u> | <u>-</u> | <u>13,760,000</u> |
| Total liabilities | <u>14,501,013</u> | <u>1,080,028</u> | <u>-</u> | <u>15,581,041</u> |
| Net Position | | | | |
| Net investment in capital assets | (2,804,181) | 801,531 | - | (2,002,650) |
| Restricted - expendable for debt service | 1,530,915 | - | - | 1,530,915 |
| Unrestricted | <u>(506,013)</u> | <u>7,986,312</u> | <u>105,832</u> | <u>7,586,131</u> |
| Total net position | <u>(1,779,279)</u> | <u>8,787,843</u> | <u>105,832</u> | <u>7,114,396</u> |
| Total liabilities and net position | <u>\$ 12,721,734</u> | <u>\$ 9,867,871</u> | <u>\$ 105,832</u> | <u>\$ 22,695,437</u> |

Arbuckle Memorial Hospital Authority
Notes to Financial statements
December 31, 2015 and 2014

Operating results and changes in net position for the year ended December 31, 2014:

| | <u>Authority</u> | <u>Hospital</u> | <u>Foundation</u> | <u>Total</u> |
|--|-----------------------|---------------------|-------------------|---------------------|
| Operating Revenues | | | | |
| Net patient service revenue | \$ - | \$ 12,864,496 | \$ - | \$ 12,864,496 |
| Other operating revenue | 1,242,075 | (1,218,473) | 1,150 | 24,752 |
| Total operating revenue | <u>1,242,075</u> | <u>11,646,023</u> | <u>1,150</u> | <u>12,889,248</u> |
| Operating Expenses | | | | |
| Depreciation | 877,976 | 411,487 | - | 1,289,463 |
| Other operating expenses | 2,500 | 11,813,780 | 4,621 | 11,820,901 |
| Total operating expense | <u>880,476</u> | <u>12,225,267</u> | <u>4,621</u> | <u>13,110,364</u> |
| Operating Income (Loss) | <u>361,599</u> | <u>(579,244)</u> | <u>(3,471)</u> | <u>(221,116)</u> |
| Nonoperating Revenue (Expense) | | | | |
| Tax appropriations | - | 1,663,881 | - | 1,663,881 |
| Investment income | - | 6,150 | 17 | 6,167 |
| Interest expense | (1,012,025) | (10,109) | - | (1,022,134) |
| Contributions | - | 6,101 | - | 6,101 |
| Total nonoperating revenue (expense) | <u>(1,012,025)</u> | <u>1,666,023</u> | <u>17</u> | <u>654,015</u> |
| Revenues in Excess of (Less Than) Expenses Before Capital Contributions | (650,426) | 1,086,779 | (3,454) | 432,899 |
| Capital Contributions | <u>-</u> | <u>-</u> | <u>10,005</u> | <u>10,005</u> |
| Change in Net position | (650,426) | 1,086,779 | 6,551 | 442,904 |
| Net position, Beginning of Year | <u>(1,128,853)</u> | <u>7,701,064</u> | <u>99,281</u> | <u>6,671,492</u> |
| Net Position, End of Year | <u>\$ (1,779,279)</u> | <u>\$ 8,787,843</u> | <u>\$ 105,832</u> | <u>\$ 7,114,396</u> |

Arbuckle Memorial Hospital Authority
Notes to Financial statements
December 31, 2015 and 2014

Cash flows for the year ended December 31, 2014:

| | <u>Authority</u> | <u>Hospital</u> | <u>Foundation</u> | <u>Total</u> |
|--|------------------|---------------------|-------------------|---------------------|
| Net Cash from Operating Activities | \$ 1,239,575 | \$ 91,131 | \$ 5,769 | \$ 1,336,475 |
| Net Cash from Noncapital Financing Activities | - | 1,665,312 | - | 1,665,312 |
| Net Cash from (used for) Capital and Related Financing Activities | (1,232,176) | (564,043) | 10,005 | (1,786,214) |
| Net Cash from (used for) Investing Activities | <u>(7,399)</u> | <u>6,150</u> | <u>17</u> | <u>(1,232)</u> |
| Net Change in Cash and Cash Equivalents | - | 1,198,550 | 15,791 | 1,214,341 |
| Cash and Cash Equivalents, Beginning of Year | <u>-</u> | <u>4,466,623</u> | <u>81,549</u> | <u>4,548,172</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ -</u> | <u>\$ 5,665,173</u> | <u>\$ 97,340</u> | <u>\$ 5,762,513</u> |



Supplementary Information
December 31, 2015 and 2014

Arbuckle Memorial Hospital Authority

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Arbuckle Memorial Hospital Authority
Sulphur, Oklahoma

We have audited the financial statements of Arbuckle Memorial Hospital Authority (Authority) as of and for the years ended December 31, 2015 and 2014, and our report thereon dated April 21, 2016, which expresses an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient service revenue – Hospital and Authority, and schedules of expenses – Hospital and Authority 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 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.



Oklahoma City, Oklahoma
April 21, 2016

Arbuckle Memorial Hospital Authority
Schedules of Net Patient Service Revenue – Hospital
Years Ended December 31, 2015 and 2014

| | 2015 | | | 2014 | | |
|-------------------------------|--------------|---------------|---------------|--------------|---------------|---------------|
| | Inpatient | Outpatient | Total | Inpatient | Outpatient | Total |
| Routine Services | | | | | | |
| Adults and pediatrics | \$ 521,343 | \$ 1,261,650 | \$ 1,782,993 | \$ 716,335 | \$ 1,436,760 | \$ 2,153,095 |
| Ancillary Services | | | | | | |
| Operating room | \$ 17,287 | \$ 194,872 | 212,159 | \$ 31,250 | \$ 188,873 | 220,123 |
| Radiology | 314,221 | 3,921,165 | 4,235,386 | 322,633 | 3,965,729 | 4,288,362 |
| Laboratory | 487,072 | 2,992,030 | 3,479,102 | 557,620 | 3,122,672 | 3,680,292 |
| Respiratory therapy | 603,825 | 132,975 | 736,800 | 718,215 | 181,787 | 900,002 |
| Physical therapy | 549,330 | 541,684 | 1,091,014 | 665,509 | 550,340 | 1,215,849 |
| Electrocardiology | 73,028 | 316,969 | 389,997 | 91,706 | 344,826 | 436,532 |
| Medical supplies | 1,608,450 | 511,625 | 2,120,075 | 2,205,285 | 583,204 | 2,788,489 |
| Pharmacy | 1,018,378 | 726,828 | 1,745,206 | 1,297,293 | 808,406 | 2,105,699 |
| Clinic | - | 775,136 | 775,136 | - | 852,508 | 852,508 |
| Emergency | 29,001 | 3,770,737 | 3,799,738 | 28,978 | 3,826,582 | 3,855,560 |
| Physician fees | 340,846 | 1,990,622 | 2,331,468 | 338,073 | 1,879,462 | 2,217,535 |
| Special care | 8,011 | 255,637 | 263,648 | 11,239 | 294,707 | 305,946 |
| Total ancillary services | \$ 5,049,449 | \$ 16,130,280 | 21,179,729 | \$ 6,267,801 | \$ 16,599,096 | 22,866,897 |
| Charity Care | | | (674,068) | | | (643,012) |
| Gross Patient Service Revenue | | | 22,288,654 | | | 24,376,980 |
| Contractual Adjustments | | | (7,701,487) | | | (9,424,671) |
| Provision for Bad Debts | | | (2,230,278) | | | (2,087,813) |
| Net patient service revenue | | | \$ 12,356,889 | | | \$ 12,864,496 |

Arbuckle Memorial Hospital Authority
Schedules of Expenses – Hospital
Years Ended December 31, 2015 and 2014

| | 2015 | | | 2014 | | |
|-----------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|
| | Salaries | Other | Total | Salaries | Other | Total |
| Nursing Services | | | | | | |
| Adults and pediatrics | \$ 1,749,554 | \$ 124,628 | \$ 1,874,182 | \$ 1,614,289 | \$ 257,169 | \$ 1,871,458 |
| Other Professional Services | | | | | | |
| Operating room | 56,052 | 27,227 | 83,279 | 35,107 | 50,091 | 85,198 |
| Radiology | 292,850 | 151,797 | 444,647 | 274,393 | 126,327 | 400,720 |
| Laboratory | 341,478 | 437,098 | 778,576 | 355,916 | 423,361 | 779,277 |
| Respiratory therapy | 164,316 | 62,427 | 226,743 | 148,598 | 46,250 | 194,848 |
| Physical therapy | 496,272 | 89,813 | 586,085 | 460,646 | 105,915 | 566,561 |
| Medical supplies | - | 185,362 | 185,362 | - | 183,954 | 183,954 |
| Pharmacy | 91,967 | 348,139 | 440,106 | 91,204 | 408,609 | 499,813 |
| Clinic | 568,089 | 110,431 | 678,520 | 582,260 | 74,581 | 656,841 |
| Emergency | 1,975,972 | 14,497 | 1,990,469 | 1,928,341 | 9,448 | 1,937,789 |
| Total other professional services | 3,986,996 | 1,426,791 | 5,413,787 | 3,876,465 | 1,428,536 | 5,305,001 |
| General Services | | | | | | |
| Dietary | 159,561 | 95,410 | 254,971 | 154,245 | 102,471 | 256,716 |
| Plant operations and maintenance | 81,481 | 281,626 | 363,107 | 76,437 | 313,842 | 390,279 |
| Housekeeping | 169,504 | 40,854 | 210,358 | 157,925 | 34,603 | 192,528 |
| Laundry | - | 122,758 | 122,758 | - | 102,396 | 102,396 |
| Medical records | 121,084 | 30,003 | 151,087 | 115,096 | 27,853 | 142,949 |
| Total general services | 531,630 | 570,651 | 1,102,281 | 503,703 | 581,165 | 1,084,868 |
| Administrative Services | | | | | | |
| Administration and general | 829,537 | 1,174,680 | 2,004,217 | 769,675 | 1,128,626 | 1,898,301 |
| Nursing administration | 313,315 | 10,398 | 323,713 | 414,966 | 10,862 | 425,828 |
| Employee health and welfare | - | 1,252,490 | 1,252,490 | - | 1,230,824 | 1,230,824 |
| Total administrative services | 1,142,852 | 2,437,568 | 3,580,420 | 1,184,641 | 2,370,312 | 3,554,953 |
| Depreciation | - | 1,066,328 | 1,066,328 | - | 1,289,463 | 1,289,463 |
| Total operating expenses | \$ 7,411,032 | \$ 5,625,966 | \$ 13,036,998 | \$ 7,179,098 | \$ 5,926,645 | \$ 13,105,743 |

See Auditor's Report on Supplementary Information



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*

The Board of Directors
Arbuckle Memorial Hospital Authority
Sulphur, 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 Arbuckle Memorial Hospital Authority (Authority), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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 yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
April 21, 2016