



Management's Discussion and Analysis
and Financial Statements
June 30, 2015 and 2014

Fairview Municipal Hospital Authority

Fairview Municipal Hospital Authority

Table of Contents

June 30, 2015 and 2014

Independent Auditor’s Report.....	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses, and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	11
Independent Auditor's Report on Supplementary Information	30
Supplemental Information	
Schedules of Net Patient Service Revenue	31
Schedules of Other Revenue	32
Schedules of Expenses.....	34
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	35
Schedule of Findings and Responses.....	37



Independent Auditor's Report

Board of Trustees
Fairview Municipal Hospital Authority
Fairview, Oklahoma

We have audited the accompanying statements of net position of Fairview Municipal Hospital Authority (Authority), as of June 30, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Fairview Municipal Hospital Authority, as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 on our consideration of Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
October 23, 2015

Our discussion and analysis for Fairview Municipal Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2015 and 2014. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position decreased \$309,540 or 13 percent in 2015, and increased \$285,997 or 13 percent in 2014.
- The Authority reported operating losses of \$700,780 in 2015 and \$74,405 in 2014. The loss in 2015 increased by \$626,375 or 842 percent over the loss reported in 2014. Operating losses in 2014 decreased by \$177,509 or 70 percent over the loss reported in 2013.
- Nonoperating income increased by \$30,838 or 9 percent in 2015 compared to 2014. Nonoperating income decreased in 2014 by \$130,327 or 27 percent compared to 2013.

Using This Annual Report

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

The Statement of Net position and 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 cash is received or paid.

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

Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 7. The Authority's net position decreased in 2015 by \$309,540 and increased by \$285,997 in 2014 with a 12 percent decrease in 2015 and a 13 percent increase in 2014.

Condensed Statement of Net Position

	2015	2014	2013
Assets			
Cash and cash equivalents	\$ 657,492	\$ 84,314	199,911
Patient accounts receivable, net	749,688	613,645	989,973
Other current assets	224,560	1,561,934	276,241
Non current cash and receivables	3,324,408	5,041,098	303,802
Capital assets, net	3,629,945	4,173,115	3,941,637
Total assets	\$ 8,586,093	\$ 11,474,106	\$ 5,711,564
Liabilities			
Accounts payable	\$ 326,232	\$ 1,478,962	\$ 412,609
Short-term note payable	37,226	25,801	16,558
Current maturities of long-term debt	309,278	328,736	361,348
Other current liabilities	983,002	315,470	342,484
Long-term debt, net	1,779,812	2,091,967	2,369,677
Total liabilities	3,435,550	4,240,936	3,502,676
Net Position			
Net investment in capital assets	1,540,855	1,752,429	1,210,612
Restricted, expendable for capital acquisitions	439,365	377,995	303,802
Unrestricted net position	205,125	364,461	694,474
Total net position	2,185,345	2,494,885	2,208,888
Total liabilities and net position	\$ 5,620,895	\$ 6,735,821	\$ 5,711,564

Assets, Liabilities, and Net Position

A significant component of the change in the Authority's assets, liabilities, and net position is the change in current assets, capital assets and other current liabilities. This was primarily due to the decrease in other current assets which decreased \$1,337,374 or 90 percent due to electronic health record and other third party settlements, and the increase in other current liabilities which increased by \$753,795 or 239 percent due to 2015 cost report settlements. Capital assets decreased by \$543,170 or 13 percent from 2014.

Operating Results and Changes in Net Position

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenue			
Net patient service revenue	\$ 5,532,814	\$ 4,633,721	\$ 4,997,816
Other revenue	243,765	1,026,594	263,045
Total operating revenue	<u>5,776,579</u>	<u>5,660,315</u>	<u>5,260,861</u>
Operating Expenses			
Daily patient services	698,030	668,103	715,527
Nursing services	631,429	297,243	161,306
Other professional services	2,133,861	2,094,478	2,206,401
Other operating expenses	2,350,306	2,102,229	1,961,113
Depreciation and amortization	663,733	572,667	468,428
Total operating expenses	<u>6,477,359</u>	<u>5,734,720</u>	<u>5,512,775</u>
Operating Loss	<u>(700,780)</u>	<u>(74,405)</u>	<u>(251,914)</u>
Nonoperating Revenues (Expenses)			
Sales tax	470,620	456,979	479,508
Investment income	1,113	1,028	1,587
Debt forgiveness	-	-	100,000
Interest expense	(102,052)	(115,738)	(135,655)
Loss on sale of assets	-	(449)	-
Other	-	-	(5,345)
Non capital grants and contributions	21,559	18,582	50,634
Total nonoperating revenues	<u>391,240</u>	<u>360,402</u>	<u>490,729</u>
Change in Net Position	<u>\$ (309,540)</u>	<u>\$ 285,997</u>	<u>\$ 238,815</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally the operating loss is the difference between net patient service revenues and the expenses incurred to perform those services. The operating loss for 2015 was \$700,780. The operating loss in 2015 increased by \$626,375 compared to the 2014 operating loss of \$74,405. The primary components of the change in the operating loss are as follows:

- Electronic Health Record incentive income decreased \$768,620
- Net patient service revenue increased \$899,093
- Operating expenses increased \$742,639 primarily in nursing and administrative services

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Authority when it was established. There was \$17,900 of charity care provided in 2015 and \$56,300 in 2014 based on charges foregone. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax revenues, interest expense, gains on sale of assets, donations and investment income. The major change in nonoperating revenue is due to the increase in sales tax revenue which increased in 2015 by \$13,641 compared to 2014 and the decrease in interest expense which decreased in 2015 by \$13,686 compared to 2014. As a result of these factors, nonoperating revenues increased by \$30,838 in 2015.

The Authority's Cash Flows

The Authority's overall liquidity increased during the year with a net increase to cash and cash equivalents, of \$629,575 when compared with 2014. Cash flows provided by operating activities increased by \$729,222 during 2015 when compared with 2014. This was due primarily to the increase in receipts from or on behalf of patients and the change in payments to suppliers. Cash used for non-capital financing activities increased by \$25,935 when compared with 2014. Cash used for capital and capital related financing activities decreased by \$20,932 when compared with 2014. Cash from investing activities was \$1,113 in 2015 compared to \$1,028 in 2014.

Capital Assets

At the end of 2015 and 2014, the Authority had \$3,629,945 and \$4,173,115 invested in net capital assets, as detailed in Note 4 to the financial statements.

Debt

At June 30, 2015, the Authority had \$2,089,090 in outstanding long-term debt, a decrease of \$331,613 from the prior year. For additional information regarding long-term debt, please see Note 6 to the financial statements.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Fairview Regional Medical Center Authority, Administrator's Office, 523 State Road, Fairview, Oklahoma 73737.

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Assets	2015	2014
Current Assets		
Cash and cash equivalents	\$ 657,492	\$ 84,314
Cash, restricted	359,210	302,813
Receivables		
Patient, net of estimated uncollectibles of approximately \$352,000 in 2015 and \$488,000 in 2014	749,688	613,645
Other	1,019	911,709
Sales tax, restricted	80,155	75,182
Supplies	96,994	85,436
Estimated third party payor settlements	-	442,820
Prepays	46,392	46,787
Total current assets	1,990,950	2,562,706
Capital Assets		
Capital assets not being depreciated	4,044	25,956
Capital assets being depreciated	3,625,901	4,147,159
Total capital assets	3,629,945	4,173,115
Total assets	\$ 5,620,895	\$ 6,735,821

See Notes to Financial Statements

Fairview Municipal Hospital Authority
 Statements of Net Position
 June 30, 2015 and 2014

	2015	2014
Liabilities and Net Position		
Current Liabilities		
Notes payable	\$ 37,226	\$ 25,801
Current maturities of long-term debt	309,278	328,736
Accounts payable	326,232	1,478,962
Accrued expenses		
Salaries and payroll taxes	144,776	145,907
Vacation	191,078	165,764
Other	3,799	3,799
Estimated third party payor settlements	643,349	-
Total current liabilities	1,655,738	2,148,969
Long Term Debt, Less Current Maturities	1,779,812	2,091,967
Total liabilities	3,435,550	4,240,936
Net Position		
Net investment in capital assets	1,540,855	1,752,429
Restricted, expendable for capital acquisitions	439,365	377,995
Unrestricted	205,125	364,461
Total net position	2,185,345	2,494,885
Total liabilities and net position	\$ 5,620,895	\$ 6,735,821

Fairview Municipal Hospital Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenue		
Patient service revenue, net of provision for bad debts of approximately \$335,000 in 2015 and \$581,000 in 2014	\$ 5,532,814	\$ 4,633,721
Other revenue	243,765	1,026,594
Total operating revenue	5,776,579	5,660,315
Operating Expenses		
Daily patient services	698,030	668,103
Nursing services	631,429	297,243
Other professional services	2,133,861	2,094,478
General services	437,327	460,222
Administrative services	1,912,979	1,642,007
Depreciation	663,733	572,667
Total operating expenses	6,477,359	5,734,720
Operating Loss	(700,780)	(74,405)
Nonoperating Revenues (Expenses)		
Sales tax	470,620	456,979
Investment income	1,113	1,028
Interest expense	(102,052)	(115,738)
Loss on Sale of Assets	-	(449)
Non capital grants and contributions	21,559	18,582
Total nonoperating revenues (expenses)	391,240	360,402
Change in Net Position	(309,540)	285,997
Net Position, Beginning of the Year	2,494,885	2,208,888
Net Position, End of Year	\$ 2,185,345	\$ 2,494,885

Fairview Municipal Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from or on behalf of patients	\$ 6,482,940	\$ 4,695,569
Other receipts	1,154,455	115,268
Payments to suppliers	(4,113,800)	(1,639,179)
Payments to employees	(2,731,148)	(3,108,433)
Net Cash from Operating Activities	792,447	63,225
Noncapital Related Financing Activities		
Payments on financed insurance	(96,963)	(67,999)
Proceeds from line of credit	75,000	50,000
Payments on line of credit	(75,000)	(50,052)
Non capital contributions and donations	21,559	18,582
Net Cash used for Noncapital Financing Activities	(75,404)	(49,469)
Capital and Capital Related Financing Activities		
Purchase of capital assets	(120,563)	(21,914)
Sales tax restricted to capital acquisitions	465,647	445,518
Principal payments on debt obligations	(331,613)	(375,510)
Interest paid on debt obligations	(102,052)	(115,743)
Net Cash used for Capital and Capital Related Financing Activities	(88,581)	(67,649)
Investing Activities		
Investment income	1,113	1,028
Net Change in Cash and Cash Equivalents	629,575	(52,865)
Cash and Cash Equivalents, Beginning of Year	387,127	439,992
Cash and Cash Equivalents, End of Year	\$ 1,016,702	\$ 387,127
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 657,492	\$ 84,314
Cash, restricted	359,210	302,813
Total Cash and Cash Equivalents	\$ 1,016,702	\$ 387,127

Fairview Municipal Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Loss to Net		
Cash from Operating Activities		
Operating loss	\$ (700,780)	\$ (74,405)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	663,733	572,667
Provision for bad debts	559,477	581,400
Changes in assets and liabilities		
Patient receivables	(695,520)	(205,072)
Other receivables	910,690	(911,321)
Supplies	(11,558)	3,502
Prepaid expenses	108,783	89,030
Estimated third party payor settlements	1,086,169	(314,480)
Accounts payable	(1,152,730)	348,913
Accrued salaries	(1,131)	(5,320)
Accrued vacation	25,314	(21,689)
Net Cash from Operating Activities	\$ 792,447	\$ 63,225
Supplemental Disclosure of Noncash Capital and Non Capital Related Financing Activities		
Assets purchased under other financing arrangements	\$ -	\$ 65,240
Capital assets included in accounts payable	\$ -	\$ 717,440
Financed insurance	\$ 108,388	\$ 77,242

Note 1 - Principal Activity and Significant Accounting Policies

Reporting Entity

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

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

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

Blended Component Unit

Fairview Regional Medical Center Authority is a Title 60 Trust exempt under section 115 of the Internal Revenue Code. The Fairview Regional Medical Center Authority is included as a blended component unit of the Authority. The financial statements include the financial activity of the Fairview Municipal Hospital Authority and the Fairview Regional Medical Center Authority, collectively referred to as the Authority. Financial statements of the Fairview Regional Medical Center Authority can be obtained by contacting the Authority's Administrator.

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, deferred outflows, liabilities, and deferred inflows, 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 and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted, expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

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

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

Supplies

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

Restricted Cash and Receivables

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

Capital Assets

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

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

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 employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is reported as accrued vacation in the accompanying financial statements.

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 care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately \$18,000 and \$56,000 for the years ended June 30, 2015 and 2014. Total direct and indirect costs related to these foregone charges were approximately \$10,000 and \$29,000 based on an average ratio of cost to gross charges.

Grants and Contributions

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

Electronic Health Record Incentive Payments

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

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

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

During the year ended June 30, 2015 and 2014, the Authority recorded approximately \$0 and \$949,000 related to the Medicare program and recorded \$180,000 and \$0 related to the Medicaid program in other operating revenue for meaningful use incentives.

Supplemental Hospital Offset Payment Program Act

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

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

The Authority received SHOPP payments totaling approximately \$176,000 and \$142,000 for the years ended June 30, 2015 and 2014, which is included in net patient service revenue.

Sales Tax Revenue

The Authority received approximately 7% and 7% of its financial support during 2015 and 2014 from sales taxes levied. These funds were used entirely to support building renovations, major repairs and improvements. The tax was effective April 2002, and shall terminate after September 2022.

Reclassifications

Reclassifications have been made to the June 30, 2014 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

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

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement method with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended June 30, 2013. Clinical services are paid on a cost basis or fixed fee schedule.

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

Other: The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended June 30, 2015 and 2014:

	2015	2014
Medicare	54%	52%
Medicaid	7%	10%
Commercial	33%	29%
Self-pay	6%	9%
	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 June 30, 2015 and 2014 increased approximately \$209,000 and \$56,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Authority may incur a liability for a claims overpayment at a future date. The Authority is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Authority's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Authority and CMS.

Note 3 - Deposits

The carrying amounts of the Authority's deposits and investments are included in the Statement of Net Position at June 30, 2015 and 2014 as follows:

	2015	2014
Carrying Amount		
Cash Deposits in Banks	\$ 1,016,702	\$ 387,127

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

	2015	2014
Cash and cash equivalents	\$ 657,492	\$ 84,314
Cash, restricted	359,210	302,813
	\$ 1,016,702	\$ 387,127

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

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.

The Authority's deposits in banks at June 30, 2015 and 2014 were exposed to custodial credit risk in the amount of \$74,729 and \$0.

Interest Rate Risk

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

Concentration of Credit Risk

The Authority does not have a formally adopted investment policy for managing credit risk.

Note 4 - Capital Assets

Capital assets additions, retirements or transfers, and balances for the year ended June 30, 2015 are as follows:

	2015			
	Balance June 30, 2014	Additions	Transfers and Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 4,044	\$ -	\$ -	\$ 4,044
Construction in progress	21,912		(10,743)	32,655
	25,956	-	(10,743)	36,699
Capital assets being depreciated				
Building and improvements	7,167,117	-	-	7,167,117
Equipment	2,980,201	120,563	10,743	3,090,021
Total capital assets being depreciated	10,147,318	120,563	10,743	10,257,138
Less accumulated depreciation for:				
Building and improvements	4,124,423	283,005	-	4,407,428
Equipment	1,875,736	380,728	-	2,256,464
Total accumulated depreciation	6,000,159	\$ 663,733	\$ -	6,663,892
Net capital assets being depreciated	4,147,159			3,593,246
Capital assets, net	\$ 4,173,115			\$ 3,629,945

Construction in progress at June 30, 2015 represents costs for architecture plans to construct a building to house a new CT scanner. The total estimated cost of the project is \$570,000 and is expected to be completed by February of 2016. There were no commitments associated with the construction at June 30, 2015. Management is evaluating funding alternatives.

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2015 and 2014

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

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

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. The rental expense for all operating leases were \$196,073 and \$9,292 for 2015 and 2014. The capitalized lease assets consist of:

	2015	2014
Major movable equipment	\$ 170,269	\$ 450,985
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(107,870)</u>	<u>(307,358)</u>
	<u>\$ 62,399</u>	<u>\$ 143,627</u>

Minimum future lease payments for capital leases are as follows:

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2016	\$ 37,098	\$ 3,499
2017	10,255	1,524
2018	2,257	1,524
2019	-	1,524
	49,610	\$ 8,071
Total minimum lease payments	49,610	\$ 8,071
Less interest	(2,501)	
	\$ 47,109	
Present value of minimum lease payments - Note 6	\$ 47,109	

Note 6 - Notes Payable and Long-Term Debt

Notes payable at June 30, 2015 and 2014 consist of:

	<u>Balance 6/30/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/15</u>
Notes payable:				
Financed insurance (1)	\$ 25,801	\$ 108,388	\$ 96,963	\$ 37,226
Short term note (2)	-	75,000	75,000	-
	\$ 25,801	\$ 183,388	\$ 171,963	\$ 37,226
	\$ 25,801	\$ 183,388	\$ 171,963	\$ 37,226
	<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/14</u>
Notes payable:				
Financed insurance (1)	\$ 16,558	\$ 77,242	\$ 67,999	\$ 25,801
Short term note (2)	52	50,000	50,052	-
	\$ 16,610	\$ 127,242	\$ 118,051	\$ 25,801
	\$ 16,610	\$ 127,242	\$ 118,051	\$ 25,801

Long-term debt at June 30, 2015 and 2014 consists of:

	Balance 6/30/14	Additions	Reductions	Balance 6/30/15	Due Within One Year
Long-term notes payable:					
Note payable to bank (3)	\$ 1,486,445	\$ -	\$ 143,963	\$ 1,342,482	\$ 151,328
Note payable to bank (4)	\$ 823,318	-	123,819	699,499	122,977
Total long-term Notes Payable	2,309,763	-	267,782	2,041,981	274,305
Capitalized lease obligations (6)	110,940	-	63,831	47,109	34,973
Total long-term debt	\$ 2,420,703	\$ -	\$ 331,613	\$ 2,089,090	\$ 309,278

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

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at June 30, 2015 and 2014 are as follows:

- (1) Financed insurance at various rates, due within one year, uncollateralized.
- (2) Line of credit up to \$125,000, 4.9% interest rate, due October 2015, collateralized by accounts receivable and equipment.
- (3) Note payable to bank, 5% interest rate, due in monthly installments of \$17,917 including interest, through December 2022, collateralized by a 1% city sales tax ordinance.
- (4) Note payable to bank, 1.65% variable interest rate, due in monthly installments of \$11,130 including interest, through July 2027, collateralized by accounts receivable, equipment and real estate, advance payments made in prior years, anticipated maturity is December 2024.
- (5) Note payable to City of Fairview, 6.25% interest rate, due in monthly installments of \$2,938, through April 2014, collateralized by all property of the Authority.
- (6) Capital leases with varying interest rates from 5.95% to 16.92% collateralized by associated equipment, with varying maturity dates from May 2014 through October 2017.

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

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 274,305	\$ 74,276	\$ 348,581
2017	284,080	64,502	348,582
2018	294,283	54,299	348,582
2019	304,938	43,644	348,582
2020	316,065	32,516	348,581
2021-2025	568,310	33,537	601,847
Total	<u>\$ 2,041,981</u>	<u>\$ 302,774</u>	<u>\$ 2,344,755</u>

Note 7 - Retirement Plan

Defined Contribution Plan

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

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

Participants are immediately vested in their voluntary contribution plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100% vested after three years of service. The discretionary contributions to the Plan were discontinued on July 1, 2014. Contributions for the year ended June 30, 2014 totaled \$25,254.

Note 8 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Medicare and Medicaid	43%	40%
Other third-party payors	27%	31%
Patients	30%	29%
	<u>100%</u>	<u>100%</u>

Note 9 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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 insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims and Disputes

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

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

Note 10 - Related Parties

During the years ended June 30, 2015 and 2014, the Authority received \$0 and \$5,000 from Fairview Hospital Foundation. The Foundation was established to solicit contributions from the general public for funding various activities of the Authority.

As of June 30, 2015 and 2014, the Authority has utilities payables due to the City of Fairview in the amount of \$101,704 and \$130,149.

Note 11 - Presentation of Blended Component Units

The following summarized combining information for Fairview Municipal Hospital Authority and Fairview Regional Medical Center Authority which has been presented as a blended component unit, as of and for the year ended June 30, 2015:

	June 30, 2015		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Statement of Net Position			
Assets			
Current assets	\$ 439,365	\$ 1,551,585	\$ 1,990,950
Capital assets	3,101,860	528,085	3,629,945
Total Assets	<u>\$ 3,541,225</u>	<u>\$ 2,079,670</u>	<u>\$ 5,620,895</u>
Liabilities			
Current liabilities	\$ 278,094	\$ 1,377,644	\$ 1,655,738
Long term liabilities	1,767,676	12,136	1,779,812
Total liabilities	<u>\$ 2,045,770</u>	<u>\$ 1,389,780</u>	<u>\$ 3,435,550</u>
Net Position			
Net investment in capital assets	\$ 1,059,879	\$ 480,976	\$ 1,540,855
Restricted, expendable for capital acquisitions	439,365	-	439,365
Unrestricted net position	(3,789)	208,914	205,125
	<u>\$ 1,495,455</u>	<u>\$ 689,890</u>	<u>\$ 2,185,345</u>
Total liabilities and net position	<u>\$ 3,541,225</u>	<u>\$ 2,079,670</u>	<u>\$ 5,620,895</u>

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2015 and 2014

	Year ended June 30, 2015		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Operating Results and Changes in Net Position			
Operating Revenues			
Net patient service revenue	\$ -	\$ 5,532,814	\$ 5,532,814
Other operating revenue	-	243,765	243,765
Total operating revenue	-	5,776,579	5,776,579
Operating Expenses			
Depreciation	373,922	289,811	663,733
Other operating expenses	(4,855)	5,818,481	5,813,626
Total operating expense	369,067	6,108,292	6,477,359
Operating Income (Loss)	(369,067)	(331,713)	(700,780)
Nonoperating Revenue (Expense)			
Sales tax revenue	470,620	-	470,620
Interest expense	(80,800)	(21,252)	(102,052)
Non capital grants and contributions	-	21,559	21,559
Other revenue	814	299	1,113
Total non operating revenue	390,634	606	391,240
Change in Net Position	21,567	(331,107)	(309,540)
Net Position Beginning of Year	1,473,888	1,020,997	2,494,885
Net Position End of Year	\$ 1,495,455	\$ 689,890	\$ 2,185,345

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2015 and 2014

Statement of Cash Flows	Year ended June 30, 2015		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Net Cash from Operating Activities	\$ 4,855	\$ 787,592	\$ 792,447
Net Cash used for Noncapital Financing Activities	-	(75,404)	(75,404)
Net Cash used for Capital and related Financing Activities	50,728	(139,309)	(88,581)
Net Cash from Investing Activities	814	299	1,113
Change in Cash and Cash Equivalents	56,397	573,178	629,575
Cash and Cash Equivalents, Beginning of Year	302,813	84,314	387,127
Cash and Cash Equivalents, End of Year	\$ 359,210	\$ 657,492	\$ 1,016,702

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2015 and 2014

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

Statement of Net Position	June 30, 2014		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Assets			
Current assets	\$ 377,995	\$ 2,184,711	\$ 2,562,706
Capital assets	3,409,445	763,670	4,173,115
Total Assets	\$ 3,787,440	\$ 2,948,381	\$ 6,735,821
Liabilities			
Current liabilities	\$ 268,730	\$ 1,880,239	\$ 2,148,969
Long term liabilities	2,044,822	47,145	2,091,967
Total liabilities	\$ 2,313,552	\$ 1,927,384	\$ 4,240,936
Net Position			
Net investment in capital assets	\$ 1,099,682	\$ 652,747	\$ 1,752,429
Restricted, expendable for capital acquisitions	377,995	-	377,995
Unrestricted net position	(3,789)	368,250	364,461
	\$ 1,473,888	\$ 1,020,997	\$ 2,494,885
Total liabilities and net position	\$ 3,787,440	\$ 2,948,381	\$ 6,735,821

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2015 and 2014

Operating Results and Changes in Net Position	Year ended June 30, 2014		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Operating Revenues			
Net patient service revenue	\$ -	\$ 4,633,721	\$ 4,633,721
Other operating revenue	-	1,026,594	1,026,594
Total operating revenue	-	5,660,315	5,660,315
Operating Expenses			
Depreciation	396,180	176,487	572,667
Other operating expenses	12,922	5,149,131	5,162,053
Total operating expense	409,102	5,325,618	5,734,720
Operating Income (Loss)	(409,102)	334,697	(74,405)
Nonoperating Revenue (Expense)			
Sales tax revenue	456,979	-	456,979
Interest expense	(91,998)	(23,740)	(115,738)
Non capital grants and contributions	-	18,582	18,582
Other revenue	181	398	579
Total non operating revenue (expense)	365,162	(4,760)	360,402
Change in Net Position	(43,940)	329,937	285,997
Net Position Beginning of Year	1,517,828	691,060	2,208,888
Net Position End of Year	\$ 1,473,888	\$ 1,020,997	\$ 2,494,885

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2015 and 2014

Statement of Cash Flows	Year ended June 30, 2014		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Net Cash from (used for) Operating Activities	\$ (12,906)	\$ 793,571	\$ 780,665
Net Cash used for Noncapital Financing Activities	(52)	(49,417)	(49,469)
Net Cash from (used for) Capital and related Financing Activities	75,060	(860,149)	(785,089)
Net Cash from Investing Activities	630	398	1,028
Change in Cash and Cash Equivalents	62,732	(115,597)	(52,865)
Cash and Cash Equivalents, Beginning of Year	240,081	199,911	439,992
Cash and Cash Equivalents, End of Year	\$ 302,813	\$ 84,314	\$ 387,127

Note 12 - Subsequent Events

The Authority has evaluated subsequent events through October 23, 2015, the date which the financial statements were issued.



Supplementary Information
June 30, 2015 and 2014

Fairview Municipal Hospital Authority



Independent Auditor's Report on Supplementary Information

The Board of Trustees
Fairview Municipal Hospital Authority
Fairview, Oklahoma

We have audited the financial statements of Fairview Municipal Hospital Authority (Authority) as of and for the years ended June 30, 2015 and 2014, and our report thereon dated October 23, 2015, which expressed an unqualified opinion on those financial statements, appears on pages 1 through 2. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 23, 2015

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	2015		
	Inpatient	Outpatient	Total
Daily Patient Services			
Adults and Peds	\$ 1,040,105	\$ 20,100	\$ 1,060,205
	<u>1,040,105</u>	<u>20,100</u>	<u>1,060,205</u>
Other Nursing Services			
Operating room	14,237	936,120	950,357
Central services and supply	216,028	94,367	310,395
Emergency room	26,998	1,784,220	1,811,218
	<u>257,263</u>	<u>2,814,707</u>	<u>3,071,970</u>
Other Professional Services			
Radiology	177,773	1,749,704	1,927,477
Laboratory	286,627	1,681,816	1,968,443
Speech therapy	2,391	2,194	4,585
Respiratory therapy	257,112	111,723	368,835
Cardiac rehabilitation	1,177	157,222	158,399
Pharmacy	501,116	587,221	1,088,337
Physical therapy	62,272	363,274	425,546
Rural Health Clinic	-	1,114,361	1,114,361
Nutritional education	-	451	451
Occupational therapy	5,743	1,783	7,526
	<u>1,294,211</u>	<u>5,769,749</u>	<u>7,063,960</u>
Gross Patient Service Revenue	<u>\$ 2,591,579</u>	<u>\$ 8,604,556</u>	\$ 11,196,135
Re: Charity care			<u>(17,907)</u>
Total patient service revenue			<u>11,178,228</u>
Less Contractual Adjustments			
Medicare and Medicaid			(3,408,731)
Other			<u>(1,677,206)</u>
Total contractual adjustments			<u>(5,085,937)</u>
Provision for Bad Debts			<u>(559,477)</u>
Net Patient Service Revenue			<u>\$ 5,532,814</u>

See the Accompanying Independent Auditor's Report on Supplementary Information

Fairview Municipal Hospital Authority
Schedules of Net Patient Service Revenue
Years Ended June 30, 2015 and 2014

	2014		
	Inpatient	Outpatient	Total
Daily Patient Services			
Adults and Peds	\$ 1,082,214	\$ 279,063	\$ 1,361,277
	<u>1,082,214</u>	<u>279,063</u>	<u>1,361,277</u>
Other Nursing Services			
Operating room	-	741,466	741,466
Central services and supply	55,558	56,620	112,178
Emergency room	60,135	1,406,815	1,466,950
	<u>115,693</u>	<u>2,204,901</u>	<u>2,320,594</u>
Other Professional Services			
Radiology	111,731	1,033,444	1,145,175
Laboratory	159,632	1,141,711	1,301,343
Speech therapy	2,856	3,944	6,800
Respiratory therapy	191,209	64,887	256,096
Cardiac rehabilitation	185	120,974	121,159
Pharmacy	305,637	674,640	980,277
Physical therapy	28,860	320,836	349,696
Rural Health Clinic	-	1,138,412	1,138,412
Nutritional education	-	1,580	1,580
Occupational therapy	2,279	4,937	7,216
	<u>802,389</u>	<u>4,505,365</u>	<u>5,307,754</u>
Gross Patient Service Revenue	<u>\$ 2,000,296</u>	<u>\$ 6,989,329</u>	\$ 8,989,625
Charity care			<u>(56,300)</u>
Total patient service revenue			<u>8,933,325</u>
Less Contractual Adjustments			
Medicare and Medicaid			(2,299,780)
Other			<u>(1,418,424)</u>
Total contractual adjustments			<u>(3,718,204)</u>
Provision for Bad Debts			<u>(581,400)</u>
Net Patient Service Revenue			<u>\$ 4,633,721</u>

Fairview Municipal Hospital Authority
Schedules of Other Revenue
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Other Revenue		
Dietary meals	\$ 4,537	\$ 5,315
Electronic Health Record incentive	180,336	948,956
Medical records	831	1,029
Rental income	8,855	13,337
Miscellaneous	<u>49,206</u>	<u>57,957</u>
Total Other Revenue	<u>\$ 243,765</u>	<u>\$ 1,026,594</u>

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2015

	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority		
	Expenses	Salaries	Supplies and Expenses	Total
Daily Patient Services Adults and Peds	\$ -	\$ 619,061	\$ 78,969	\$ 698,030
	-	619,061	78,969	698,030
Other Nursing Services				
Operating room	-	36,989	104,331	141,320
Emergency services	-	97,127	392,982	490,109
	-	134,116	497,313	631,429
Other Professional Services				
Radiology	-	118,006	329,981	447,987
Laboratory	-	182,189	286,107	468,296
Speech therapy	-	1,196	-	1,196
Respiratory therapy	-	-	10,815	10,815
Cardiac rehabilitation	-	74,157	3,022	77,179
Pharmacy	-	22,374	211,724	234,098
Physical therapy	-	139,591	4,217	143,808
Rural Health Clinic	-	676,845	72,060	748,905
Occupational therapy	-	472	1,105	1,577
	-	1,214,830	919,031	2,133,861
General Services				
Dietary	-	54,479	25,560	80,039
Medical records	-	93,968	10,918	104,886
Operation of plant	-	53,000	125,392	178,392
Housekeeping	-	61,664	12,346	74,010
	-	263,111	174,216	437,327
Administrative Services				
Administrative	2,000	524,213	935,562	1,459,775
Employee benefits	-	-	454,408	454,408
Other	(6,855)	-	3,651	3,651
Administrative Services	(4,855)	524,213	1,393,621	1,917,834
Depreciation and Amortization	373,922	-	289,811	289,811
Total Expenses	\$ 369,067	\$ 2,755,331	\$ 3,352,961	\$ 6,108,292

See the Accompanying Independent Auditor's Report on Supplementary Information

Fairview Municipal Hospital Authority
Schedules of Expenses
Years Ended June 30, 2015 and 2014

		2014		
Fairview Municipal Hospital Authority		Fairview Regional Medical Center Authority		
Expenses		Salaries	Supplies and Expenses	Total
Daily Patient Services				
Adults and Peds	\$ -	\$ 630,586	\$ 37,517	\$ 668,103
	-	630,586	37,517	668,103
Other Nursing Services				
Operating room	-	36,508	70,994	107,502
Central services and supply	-	-	7	7
Emergency services	-	86,742	102,992	189,734
	-	123,250	173,993	297,243
Other Professional Services				
Radiology	-	112,903	81,132	194,035
Laboratory	-	181,727	214,546	396,273
Speech therapy	-	2,195	-	2,195
Respiratory therapy	-	-	8,540	8,540
Cardiac rehabilitation	-	69,866	1,273	71,139
Pharmacy	-	14,673	242,350	257,023
Physical therapy	-	140,542	2,722	143,264
Rural Health Clinic	-	904,437	116,195	1,020,632
Occupational therapy	-	713	664	1,377
	-	1,427,056	667,422	2,094,478
General Services				
Dietary	-	55,615	28,881	84,496
Medical records	-	115,246	19,612	134,858
Operation of plant	4,985	47,882	113,471	166,338
Housekeeping	-	61,035	13,495	74,530
	4,985	279,778	175,459	460,222
Administrative Services				
Administrative	1,000	541,883	629,372	1,172,255
Employee benefits	-	-	462,815	462,815
Other	6,937	-	-	6,937
	7,937	541,883	1,092,187	1,642,007
Administrative Services	7,937	541,883	1,092,187	1,642,007
Depreciation and Amortization	396,180	-	176,487	572,667
Total Expenses	\$ 409,102	\$ 3,002,553	\$ 2,323,065	\$ 5,734,720



CPAs & BUSINESS ADVISORS

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

Board of Trustees
Fairview Municipal Hospital Authority
Fairview, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Fairview Municipal Hospital Authority (Authority) as of and for the year ended June 30, 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 October 23, 2015.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses, 2015-A and 2015-B.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in described in the accompanying Schedule of Findings and Responses, to be a significant deficiency 2015-C.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance and is described in the accompanying Schedule of Findings and Responses at 2015-001.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

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

Oklahoma City, Oklahoma
October 23, 2015

Material Weaknesses In Internal Control Over Financial Reporting:

2015-A Preparation of Financial Statements

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

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

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

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

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

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

2015-B Material Audit Adjustments

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

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

Cause: The Authority has developed a calculation for contractual allowances and bad debt allowances. However, changes in the accounting department at year end prevented the controls from being implemented for all payor classes prior to year-end. There was no control in place to estimate the current year cost report settlement.

Findings Related to Financial Statements: (continued)

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

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

Management Response: The condition has been corrected subsequent to year-end.

Significant Deficiency In Internal Control Over Financial Reporting:

2015-C Segregation of Duties

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

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

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

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

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

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

Findings Related to Financial Statements: (continued)

Internal Control Over Compliance:

2015-001 Unsecured Deposits

Criteria: 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.

Condition: At June 30, 2015, the balance in the Authority's cash account was in excess of the collateral pledged to secure the account.

Cause: The Authority did not have a process in place with the bank to adequately monitor compliance with required collateral limits.

Effect: Potential violation of the regulations for governmental entities.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to ensure the Authority is in compliance with all laws and regulations, we recommend management review collateral amounts on a regular basis to ensure compliance.

Management Response: Subsequent to year end, additional amounts were pledged to secure the Authority's account and the condition above has been corrected. Additional controls are now in place to monitor the Authority's account balances against the collateral amounts.