



Management's Discussion and Analysis
and Financial Statements
June 30, 2016 and 2015

Fairview Municipal Hospital Authority

Fairview Municipal Hospital Authority

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June 30, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
Fairview Municipal Hospital Authority
Fairview, Oklahoma

Report on Financial Statements

We have audited the accompanying statements of net position of Fairview Municipal Hospital Authority (Authority), as of June 30, 2016 and 2015, 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 net position of Fairview Municipal Hospital Authority, as of June 30, 2016 and 2015, 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 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 17, 2016

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, 2016 and 2015. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position decreased \$464,124 or 21 percent in 2016, and decreased \$309,540 or 13 percent in 2015.
- The Authority reported operating losses of \$839,815 in 2016 and \$700,780 in 2015. The loss in 2016 increased by \$139,035 or 20 percent over the loss reported in 2015. Operating losses in 2015 increased by \$626,375 or 842 percent over the loss reported in 2014.
- Nonoperating income decreased by \$81,885 or 21 percent in 2016 compared to 2015. Nonoperating income increased in 2015 by \$30,838 or 9 percent compared to 2014.
- The Authority received a capital contribution of \$66,336 in 2016 compared to no capital contributions in 2015 and 2014.

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 2016 by \$464,124 and decreased by \$309,540 in 2015 with a 21 percent decrease in 2016 and a 12 percent increase in 2015.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Cash and cash equivalents	\$ 349,817	\$ 1,016,702	\$ 387,127
Patient accounts receivable, net	546,884	749,688	613,645
Other current assets	205,684	224,560	1,561,934
Capital assets, net	<u>3,866,262</u>	<u>3,629,945</u>	<u>4,173,115</u>
Total assets	<u>\$ 4,968,647</u>	<u>\$ 5,620,895</u>	<u>\$ 6,735,821</u>
Liabilities			
Accounts payable	\$ 551,849	\$ 969,581	\$ 1,478,962
Short-term note payable	20,559	37,226	25,801
Current maturities of long-term debt	262,247	309,278	328,736
Other current liabilities	417,855	339,653	315,470
Long-term debt, net	<u>1,994,916</u>	<u>1,779,812</u>	<u>2,091,967</u>
Total liabilities	<u>3,247,426</u>	<u>3,435,550</u>	<u>4,240,936</u>
Net Position			
Net investment in capital assets	1,609,099	1,540,855	1,752,429
Restricted, expendable for capital acquisitions	247,255	439,365	377,995
Unrestricted net position	<u>(135,133)</u>	<u>205,125</u>	<u>364,461</u>
Total net position	<u>1,721,221</u>	<u>2,185,345</u>	<u>2,494,885</u>
Total liabilities and net position	<u>\$ 4,968,647</u>	<u>\$ 5,620,895</u>	<u>\$ 6,735,821</u>

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 due the decrease in cash and cash equivalents of \$666,885 or 66% and the decrease in patient accounts receivable of \$202,804 of 27 percent over 2015. The decrease in cash is attributable to the decrease in other revenue and increase in operating expenses. Patient receivables decreased as a result of process improvements in the business office which reduced patient receivable days.

Operating Results and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenue			
Net patient service revenue	\$ 5,952,995	\$ 5,532,814	\$ 4,633,721
Other revenue	37,614	243,765	1,026,594
	<u>5,990,609</u>	<u>5,776,579</u>	<u>5,660,315</u>
Operating Expenses			
Daily patient services	773,189	698,030	668,103
Nursing services	698,674	631,429	297,243
Other professional services	2,419,598	2,133,861	2,094,478
Other operating expenses	2,307,063	2,350,306	2,102,229
Depreciation and amortization	631,900	663,733	572,667
	<u>6,830,424</u>	<u>6,477,359</u>	<u>5,734,720</u>
Operating Loss	<u>(839,815)</u>	<u>(700,780)</u>	<u>(74,405)</u>
Nonoperating Revenues (Expenses)			
Sales tax	379,246	470,620	456,979
Investment income	2,689	1,113	1,028
Interest expense	(96,987)	(102,052)	(115,738)
Loss on sale of assets	-	-	(449)
Non capital grants and contributions	24,407	21,559	18,582
	<u>309,355</u>	<u>391,240</u>	<u>360,402</u>
Capital Contributions	<u>66,336</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ (464,124)</u>	<u>\$ (309,540)</u>	<u>\$ 285,997</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 2016 was \$839,815. The operating loss in 2016 increased by \$139,035 compared to the 2015 operating loss of \$700,780. The primary components of the change in the operating loss are as follows:

- Net patient service revenue increased \$420,181 and other revenue decreased by \$206,151
- Operating expenses increased \$353,065 primarily in other professional 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 \$34,027 of charity care provided in 2016 and \$17,900 in 2015 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 sales tax revenue which decreased in 2016 by \$91,374 compared to 2015. As a result of these factors, nonoperating revenues decreased by \$81,885 in 2016 compared to an increase of \$30,828 in 2015.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents, of \$666,885 when compared with 2015. Cash flows used for operating activities was \$340,430 or an increase of \$1,138,877 during 2016 when compared with 2015. This was due primarily to the decrease in other receipts and the increase in payments to Medicare for excess reimbursement and additional payments to suppliers. Cash used for non-capital financing activities was \$53,214 or a decrease of \$22,190 when compared with 2015. Cash used for capital and capital related financing activities was \$269,930 or an increase of \$181,349 when compared with 2015. Cash from investing activities was \$2,689 in 2016 compared to \$1,113 in 2015.

Capital Assets

At the end of 2016 and 2015, the Authority had \$3,866,262 and \$3,629,945 invested in net capital assets, as detailed in Note 4 to the financial statements. In 2016 the Authority purchased \$868,217 of capital assets compared with purchases of \$120,563 in 2015.

Debt

During the year ended June 30, 2016, the Authority advance refunded a note payable in the amount of approximately \$592,000 in addition the Authority received additional debt of approximately \$481,000 related to the advance refunding. The Authority had \$2,257,163 in outstanding long-term debt, an increase of \$168,073 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	2016	2015
Current Assets		
Cash and cash equivalents	\$ 167,437	\$ 657,492
Cash, restricted	182,380	359,210
Receivables		
Patient, net of estimated uncollectibles of approximately \$305,000 in 2016 and \$577,000 in 2015	546,884	749,688
Other	-	1,019
Sales tax, restricted	64,875	80,155
Supplies	107,871	96,994
Prepays	32,938	46,392
	<u>1,102,385</u>	<u>1,990,950</u>
Total current assets	1,102,385	1,990,950
Capital Assets		
Capital assets not being depreciated	147,888	15,213
Capital assets being depreciated	3,718,374	3,614,732
	<u>3,866,262</u>	<u>3,629,945</u>
Total capital assets	3,866,262	3,629,945
Total assets	\$ 4,968,647	\$ 5,620,895

See Notes to Financial Statements

Fairview Municipal Hospital Authority
 Statements of Net Position
 June 30, 2016 and 2015

	2016	2015
Liabilities and Net Position		
Current Liabilities		
Notes payable	\$ 20,559	\$ 37,226
Current maturities of long-term debt	262,247	309,278
Accounts payable		
Trade	498,401	326,232
Estimated third party payor settlements	53,448	643,349
Accrued expenses		
Salaries and payroll taxes	175,094	144,776
Vacation	238,962	191,078
Other	3,799	3,799
Total current liabilities	1,252,510	1,655,738
Long Term Debt, Less Current Maturities	1,994,916	1,779,812
Total liabilities	3,247,426	3,435,550
Net Position		
Net investment in capital assets	1,609,099	1,540,855
Restricted, expendable for capital acquisitions	247,255	439,365
Unrestricted	(135,133)	205,125
Total net position	1,721,221	2,185,345
Total liabilities and net position	\$ 4,968,647	\$ 5,620,895

Fairview Municipal Hospital Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenue		
Patient service revenue, net of provision for bad debts of approximately \$538,000 in 2016 and \$559,000 in 2015	\$ 5,952,995	\$ 5,532,814
Other revenue	37,614	243,765
Total operating revenue	5,990,609	5,776,579
Operating Expenses		
Daily patient services	773,189	698,030
Nursing services	698,674	631,429
Other professional services	2,419,598	2,133,861
General services	440,813	437,327
Administrative services	1,866,250	1,912,979
Depreciation	631,900	663,733
Total operating expenses	6,830,424	6,477,359
Operating Loss	(839,815)	(700,780)
Nonoperating Revenues (Expenses)		
Sales tax	379,246	470,620
Investment income	2,689	1,113
Interest expense	(96,987)	(102,052)
Non capital grants and contributions	24,407	21,559
Total nonoperating revenues	309,355	391,240
Excess of Expenses over Revenues Before Capital Contributions	(530,460)	(309,540)
Capital Contributions	66,336	-
Change in Net Position	(464,124)	(309,540)
Net Position, Beginning of the Year	2,185,345	2,494,885
Net Position, End of Year	\$ 1,721,221	\$ 2,185,345

Fairview Municipal Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from or on behalf of patients	\$ 5,565,898	\$ 6,482,940
Other receipts	38,633	1,154,455
Payments to suppliers	(2,843,094)	(4,113,800)
Payments to employees	(3,107,867)	(2,731,148)
Net Cash from (used for) Operating Activities	(346,430)	792,447
Noncapital Related Financing Activities		
Payments on financed insurance	(77,621)	(96,963)
Proceeds from line of credit	-	75,000
Payments on line of credit	-	(75,000)
Non capital contributions and donations	24,407	21,559
Net Cash used for Noncapital Financing Activities	(53,214)	(75,404)
Capital and Capital Related Financing Activities		
Purchase of capital assets	(801,878)	(120,563)
Sales tax restricted to capital acquisitions	394,526	465,647
Proceeds from issuance of debt	1,073,125	-
Principal payments on debt obligations	(905,052)	(331,613)
Interest paid on debt obligations	(96,987)	(102,052)
Capital contributions	66,336	-
Net Cash used for Capital and Capital Related Financing Activities	(269,930)	(88,581)
Investing Activities		
Investment income	2,689	1,113
Net Change in Cash and Cash Equivalents	(666,885)	629,575
Cash and Cash Equivalents, Beginning of Year	1,016,702	387,127
Cash and Cash Equivalents, End of Year	\$ 349,817	\$ 1,016,702
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 167,437	\$ 657,492
Cash, restricted	182,380	359,210
Total Cash and Cash Equivalents	\$ 349,817	\$ 1,016,702

Fairview Municipal Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Loss to Net		
Cash from (used for) Operating Activities		
Operating loss	\$ (839,815)	\$ (700,780)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	631,900	663,733
Provision for bad debts	537,720	559,477
Changes in assets and liabilities		
Patient receivables	(333,897)	(695,520)
Other receivables	-	910,690
Supplies	(10,877)	(11,558)
Prepaid expenses	74,408	108,783
Estimated third party payor settlements	(589,901)	1,086,169
Accounts payable	105,830	(1,152,730)
Accrued salaries	30,318	(1,131)
Accrued vacation	47,884	25,314
Net Cash from (used for) Operating Activities	\$ (346,430)	\$ 792,447
Supplemental Disclosure of Noncash Capital and Non Capital Related Financing Activities		
Capital assets included in accounts payable	\$ 66,339	\$ -
Financed insurance	\$ 60,954	\$ 108,388

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 was entered into 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 \$34,000 and \$18,000 for the years ended June 30, 2016 and 2015. Total direct and indirect costs related to these foregone charges were approximately \$20,000 and \$10,000 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, 2016 and 2015, the Authority recorded approximately \$0 and \$0 related to the Medicare program and recorded \$0 and \$180,000 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 \$159,000 and \$176,000 for the years ended June 30, 2016 and 2015, which is included in net patient service revenue.

Sales Tax Revenue

The Authority received approximately 6% and 7% of its financial support during 2016 and 2015 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.

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, 2014. 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, 2016 and 2015:

	2016	2015
Medicare	54%	54%
Medicaid	8%	7%
Commercial	33%	33%
Self-pay	5%	6%
	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, 2016 and 2015 increased approximately \$52,000 and \$209,000 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.

Note 3 - Deposits

The carrying amounts of the Authority's deposits and investments are included in the Statement of Net Position at June 30, 2016 and 2015 as follows:

	2016	2015
Carrying Amount		
Cash Deposits in Banks	\$ 349,817	\$ 1,016,702

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

	2016	2015
Cash and cash equivalents	\$ 167,437	\$ 657,492
Cash, restricted	182,380	359,210
	\$ 349,817	\$ 1,016,702

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, 2016 and 2015 were exposed to custodial credit risk in the amount of \$0 and \$74,729.

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, 2016 are as follows:

	2016			
	Balance June 30, 2015	Additions	Transfers and Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 4,044	\$ -	\$ -	\$ 4,044
Construction in progress	11,169	132,675	-	143,844
	<u>15,213</u>	<u>132,675</u>	<u>-</u>	<u>147,888</u>
Capital assets being depreciated				
Building and improvements	7,167,117	399,529	-	7,566,646
Equipment	3,111,507	336,013	-	3,447,520
Total capital assets being depreciated	<u>10,278,624</u>	<u>735,542</u>	<u>-</u>	<u>11,014,166</u>
Less accumulated depreciation for:				
Building and improvements	4,407,428	267,672	-	4,675,100
Equipment	2,256,464	364,228	-	2,620,692
Total accumulated depreciation	<u>6,663,892</u>	<u>\$ 631,900</u>	<u>\$ -</u>	<u>7,295,792</u>
Net capital assets being depreciated	<u>3,614,732</u>			<u>3,718,374</u>
Capital assets, net	<u>\$ 3,629,945</u>			<u>\$ 3,866,262</u>

Construction in progress at June 30, 2016 represents cardiac equipment not yet placed in service. There was approximately \$66,000 in accounts payable associated with the project at June 30, 2016. The equipment was placed in service subsequent to year end. The project was funded internally and with donations.

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

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

	Balance June 30, 2014	Additions and Transfers	Transfers and Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 4,044	\$ -	\$ -	\$ 4,044
Construction in progress	21,912	-	(10,743)	11,169
	<u>25,956</u>	<u>-</u>	<u>(10,743)</u>	<u>15,213</u>
Capital assets being depreciated				
Building and improvements	7,167,117	-	-	7,167,117
Equipment	2,980,201	120,563	10,743	3,111,507
	<u>10,147,318</u>	<u>120,563</u>	<u>10,743</u>	<u>10,278,624</u>
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	<u>6,000,159</u>	<u>\$ 663,733</u>	<u>\$ -</u>	<u>6,663,892</u>
Net capital assets being depreciated	<u>4,147,159</u>			<u>3,614,732</u>
Capital assets, net	<u>\$ 4,173,115</u>			<u>\$ 3,629,945</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 \$221,455 and \$196,073 for 2016 and 2015. The capitalized lease assets consist of:

	2016	2015
Major movable equipment	\$ 170,269	\$ 170,269
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(131,666)</u>	<u>(107,870)</u>
	<u>\$ 38,603</u>	<u>\$ 62,399</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>
2017	\$ 10,338	\$ 3,499
2018	2,257	1,524
2019	-	1,524
Total minimum lease payments	12,595	<u>\$ 6,547</u>
Less interest	(459)	
Present value of minimum lease payments - Note 6	<u>\$ 12,136</u>	

Note 6 - Notes Payable and Long-Term Debt

Notes payable at June 30, 2016 and 2015 consist of:

	<u>Balance 6/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/16</u>
Notes payable:				
Financed insurance (1)	\$ 37,226	\$ 60,954	\$ 77,621	\$ 20,559
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Notes payable:				
Financed insurance (1)	\$ 25,801	\$ 108,388	\$ 96,963	\$ 37,226
Short term note (2)	-	75,000	75,000	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 25,801</u>	<u>\$ 183,388</u>	<u>\$ 171,963</u>	<u>\$ 37,226</u>

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Long-term debt at June 30, 2016 and 2015 consists of:

	Balance 6/30/15	Additions	Reductions	Balance 6/30/16	Due Within One Year
Long-term notes payable:					
Note payable to bank (3)	\$ 1,342,482	\$ -	\$ 151,321	\$ 1,191,161	\$ 159,071
Note payable to bank (4)	699,499	-	699,499	-	-
Note payable to bank (5)	-	1,073,125	19,259	1,053,866	93,269
Total long-term Notes Payable	2,041,981	1,073,125	870,079	2,245,027	252,340
Capitalized lease obligations (6)	47,109	-	34,973	12,136	9,907
Total long-term debt	\$ 2,089,090	\$ 1,073,125	\$ 905,052	\$ 2,257,163	\$ 262,247

	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

The Authority issued a \$1,073,125 note payable to refinance a \$592,003 note payable with a variable interest rate of 1.45% plus the 1 year Treasury constant (.56% at April 30, 2016 or 2.01%). The refinancing did not result in a difference between the reacquisition price and carrying value of the old debt. The Authority completed the refinancing to obtain additional debt of \$487,122 in order to complete the CT scanner project. The refinancing resulted in an economic loss (difference between the present value of the old and new debt service payments) of approximately \$30,000.

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at June 30, 2016 and 2015 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, 2.01% variable interest rate, due in monthly installments of \$11,130 including interest, through July 2027, refinanced in April 2016.
- (5) Note payable to bank, total principal advance of \$1,073,125 which includes refinanced principal of approximately \$592,000, 3.85% fixed interest rate, due in monthly installments of \$11,032 including interest, through January 2026, collateralized by accounts receivable, equipment and real estate.
- (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>	
2017	\$ 262,247	\$ 95,492	\$ 357,739
2018	266,367	83,290	349,657
2019	276,497	70,903	347,400
2020	289,369	58,030	347,399
2021	303,002	44,398	347,400
2022-2025	789,707	62,411	852,118
2026-2030	69,974	911	70,885
Total	<u>\$ 2,257,163</u>	<u>\$ 415,435</u>	<u>\$ 2,672,598</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.

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, 2016 and 2015 were as follows:

	2016	2015
Medicare and Medicaid	42%	43%
Other third-party payors	27%	27%
Patients	31%	30%
	100%	100%

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

As of June 30, 2016 and 2015, the Authority has utilities payables due to the City of Fairview in the amount of \$115,249 and \$101,704.

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, 2016:

	June 30, 2016		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Statement of Net Position			
Assets			
Current assets	\$ 247,255	\$ 855,130	\$ 1,102,385
Capital assets	3,448,647	417,615	3,866,262
Total Assets	<u>\$ 3,695,902</u>	<u>\$ 1,272,745</u>	<u>\$ 4,968,647</u>
Liabilities			
Current liabilities	\$ 256,129	\$ 996,381	\$ 1,252,510
Long term liabilities	1,992,687	2,229	1,994,916
Total liabilities	<u>2,248,816</u>	<u>998,610</u>	<u>3,247,426</u>
Net Position			
Net investment in capital assets	1,203,620	405,479	1,609,099
Restricted, expendable for capital acquisitions	247,255	-	247,255
Unrestricted net position	(3,789)	(131,344)	(135,133)
	<u>1,447,086</u>	<u>274,135</u>	<u>1,721,221</u>
Total liabilities and net position	<u>\$ 3,695,902</u>	<u>\$ 1,272,745</u>	<u>\$ 4,968,647</u>

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

	Year ended June 30, 2016		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Operating Results and Changes in Net Position			
Operating Revenues			
Net patient service revenue	\$ -	\$ 5,952,995	\$ 5,952,995
Other operating revenue	-	37,614	37,614
Total operating revenue	-	5,990,609	5,990,609
Operating Expenses			
Depreciation	344,736	287,164	631,900
Other operating expenses	2,149	6,196,375	6,198,524
Total operating expense	346,885	6,483,539	6,830,424
Operating Loss	(346,885)	(492,930)	(839,815)
Nonoperating Revenue (Expense)			
Sales tax revenue	379,246	-	379,246
Interest expense	(81,829)	(15,158)	(96,987)
Non capital grants and contributions	-	24,407	24,407
Other revenue	1,099	1,590	2,689
Total non operating revenue	298,516	10,839	309,355
Capital Contributions	-	66,336	66,336
Change in Net Position	(48,369)	(415,755)	(464,124)
Net Position Beginning of Year	1,495,455	689,890	2,185,345
Net Position End of Year	\$ 1,447,086	\$ 274,135	\$ 1,721,221

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

	Year ended June 30, 2016		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Statement of Cash Flows			
Net Cash used for Operating Activities	\$ (68,488)	\$ (277,942)	\$ (346,430)
Net Cash used for Noncapital Financing Activities	-	(53,214)	(53,214)
Net Cash used for Capital and related Financing Activities	(109,441)	(160,489)	(269,930)
Net Cash from Investing Activities	1,099	1,590	2,689
Change in Cash and Cash Equivalents	(176,830)	(490,055)	(666,885)
Cash and Cash Equivalents, Beginning of Year	359,210	657,492	1,016,702
Cash and Cash Equivalents, End of Year	\$ 182,380	\$ 167,437	\$ 349,817

Fairview Municipal Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

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:

Statement of Net Position	June 30, 2015		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
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, 2016 and 2015

	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 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 (expense)	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

	Year ended June 30, 2015		
	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority	Total
Statement of Cash Flows			
Net Cash from Operating Activities	\$ 4,855	\$ 787,592	\$ 792,447
Net Cash used for Noncapital Financing Activities	-	(75,404)	(75,404)
Net Cash from (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

Note 12 - Subsequent Events

The Authority has evaluated subsequent events through October 17, 2016, the date which the financial statements were issued.



Supplementary Information
June 30, 2016 and 2015

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, 2016 and 2015, and our report thereon dated October 17, 2016, which expressed an unmodified 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.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
October 17, 2016

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	2016		
	Inpatient	Outpatient	Total
Daily Patient Services			
Adults and Peds	\$ 795,705	\$ 19,701	\$ 815,406
Other Nursing Services			
Operating room	-	868,821	868,821
Central services and supply	174,030	143,806	317,836
Emergency room	19,223	1,775,180	1,794,403
	193,253	2,787,807	2,981,060
Other Professional Services			
Radiology	202,370	2,240,200	2,442,570
Laboratory	187,455	1,769,403	1,956,858
Speech therapy	2,209	2,917	5,126
Respiratory therapy	204,231	126,924	331,155
Cardiac rehabilitation	2,130	150,239	152,369
Pharmacy	401,867	872,360	1,274,227
Physical therapy	54,366	380,427	434,793
Rural Health Clinic	-	1,206,773	1,206,773
Nutritional education	-	1,430	1,430
Occupational therapy	160	4,081	4,241
	1,054,788	6,754,754	7,809,542
Gross Patient Service Revenue	\$ 2,043,746	\$ 9,562,262	11,606,008
Charity care			(34,027)
Total patient service revenue			11,571,981
Less Contractual Adjustments			
Medicare and Medicaid			(3,115,793)
Other			(1,965,473)
Total contractual adjustments			(5,081,266)
Provision for Bad Debts			(537,720)
Net Patient Service Revenue			\$ 5,952,995

See the Accompanying Independent Auditor's Report on Supplementary Information

Fairview Municipal Hospital Authority
Schedules of Net Patient Service Revenue
Years Ended June 30, 2016 and 2015

	2015		
	Inpatient	Outpatient	Total
Daily Patient Services			
Adults and Peds	\$ 1,040,105	\$ 20,100	\$ 1,060,205
Other Nursing Services			
Operating room	16,037	934,320	950,357
Central services and supply	216,028	94,367	310,395
Emergency room	26,998	1,784,220	1,811,218
	<u>259,063</u>	<u>2,812,907</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>\$ 2,593,379</u>	<u>\$ 8,602,756</u>	11,196,135
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>

Fairview Municipal Hospital Authority
Schedules of Other Revenue
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Other Revenue		
Dietary meals	\$ 7,050	\$ 4,537
Electronic Health Record incentive	-	180,336
Medical records	333	831
Rental income	9,902	8,855
Miscellaneous	<u>20,329</u>	<u>49,206</u>
Total Other Revenue	<u>\$ 37,614</u>	<u>\$ 243,765</u>

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2016

	Fairview Municipal Hospital Authority	Fairview Regional Medical Center Authority		
	Expenses	Salaries	Supplies and Expenses	Total
Daily Patient Services				
Adults and Peds	\$ -	\$ 697,307	\$ 75,882	\$ 773,189
Other Nursing Services				
Operating room	-	32,919	113,333	146,252
Central services and supply	-	-	136	136
Emergency services	-	176,897	375,389	552,286
	-	209,816	488,858	698,674
Other Professional Services				
Radiology	-	113,415	334,621	448,036
Laboratory	-	199,223	261,505	460,728
Speech therapy	-	1,910	-	1,910
Respiratory therapy	-	-	12,530	12,530
Cardiac rehabilitation	-	74,514	2,075	76,589
Pharmacy	-	18,841	205,342	224,183
Physical therapy	-	140,649	7,968	148,617
Rural Health Clinic	-	941,053	105,952	1,047,005
Occupational therapy	-	-	-	-
	-	1,489,605	929,993	2,419,598
General Services				
Dietary	-	61,115	29,523	90,638
Medical records	-	95,109	9,646	104,755
Operation of plant	-	52,319	112,790	165,109
Housekeeping	-	66,827	13,484	80,311
	-	275,370	165,443	440,813
Administrative Services				
Administrative	2,149	513,971	809,958	1,323,929
Employee benefits	-	-	540,172	540,172
Other	300	-	-	-
Administrative Services	2,449	513,971	1,350,130	1,864,101
Depreciation and Amortization	344,737	-	287,164	287,164
Total Expenses	\$ 347,186	\$ 3,186,069	\$ 3,297,470	\$ 6,483,539

See the Accompanying Independent Auditor's Report on Supplementary Information

Fairview Municipal Hospital Authority
Schedules of Expenses
Years Ended June 30, 2016 and 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
Other Nursing Services				
Operating room	-	36,989	104,331	141,320
Labor and delivery room	-	-	-	-
Central services and supply	-	-	-	-
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



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, 2016, 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 17, 2016.

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, 2016-A and 2016-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 2016-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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 17, 2016

Material Weaknesses In Internal Control Over Financial Reporting:

2016-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.

2016-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.