



Management's Discussion and Analysis  
and Financial Statements  
December 31, 2016 and 2015

Arbuckle Memorial Hospital Authority

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## Independent Auditor's Report

The Board of Trustees  
Arbuckle Memorial Hospital Authority  
Sulphur, Oklahoma

### Report on the Financial Statements

We have audited the accompanying statements of net position of Arbuckle Memorial Hospital Authority (Authority), as of December 31, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arbuckle Memorial Hospital Authority as of December 31, 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 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated May 22, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
May 22, 2017

This discussion and analysis of the financial performance of Arbuckle Memorial Hospital Authority (Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2016, 2015 and 2014. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes there to enhance their understanding of the Authority's financial status.

### **Financial Highlights – Financial Statements**

- The Authority's net position increased by \$191,719 or 2.7% in 2016 and increased by \$69,618 or 1% in 2015.
- The Authority reported an operating loss in 2016 of \$509,410 and operating loss in 2015 of \$640,479. Operating loss in 2016 decreased by \$131,069 or 20% over the loss reported in 2015. Operating loss reported in 2015 decreased by \$419,363 or 190% over the income reported in 2014.
- Net nonoperating revenues decreased by \$56,853 or 8% in 2016 compared to 2015. Net nonoperating revenues increased by \$46,327 or 7% in 2015 compared to 2014.

### **Organization Highlights**

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

### **Using This Annual Report**

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

### **The Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position**

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

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

### Overview of the Financial Statements

The statement of net position at December 31, 2016 indicated total assets of \$22,077,776, total liabilities of \$14,702,043 and net position of \$7,375,733. Total current assets were \$9,899,904 and total current liabilities were \$1,462,043 for a current ratio of 6.8. The statement of net position at December 31, 2015 had total assets of \$22,145,949 which had current assets of \$9,409,216 and total liabilities of \$14,961,935 which had current liabilities of \$1,451,935 for a current ratio of 6.5 in 2014.

The statements of revenues, expenses, and changes in net position for the year ended December 31, 2016 indicated total operating revenues of \$12,604,585 and operating expenses of \$13,113,995, operating loss of \$509,410 nonoperating revenues (net) of \$643,489, and capital contributions of \$57,640. The net position increased by \$191,719 from \$7,184,014 at December 31, 2015 to \$7,375,733 at December 31, 2016.

As reported in the statements of cash flows, cash and cash equivalents increased from \$5,768,200 at December 31, 2015 to \$6,492,809 at December 31, 2016.

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

The Authority's net position is the difference between its assets and liabilities reported on the combined balance sheet. The Authority's net position increased by \$191,719 or 2.7% in 2016 and increased by \$69,618 or 1% in 2015.

**Table 1: Assets, Liabilities, and Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Current assets	\$ 9,899,904	\$ 9,409,216	\$ 9,227,925
Capital assets	10,379,893	10,935,388	11,666,960
Other assets	1,797,979	1,801,345	1,800,552
	<u>14,077,776</u>	<u>22,145,949</u>	<u>22,695,437</u>
	<u>\$ 22,077,776</u>	<u>\$ 22,145,949</u>	<u>\$ 22,695,437</u>
<b>Liabilities</b>			
Current liabilities	\$ 1,462,043	\$ 1,451,935	\$ 1,821,041
Long-term debt, net of current portion	13,240,000	13,510,000	13,760,000
	<u>14,702,043</u>	<u>14,961,935</u>	<u>15,581,041</u>
	<u>14,702,043</u>	<u>14,961,935</u>	<u>15,581,041</u>
<b>Net Position</b>			
Net investment in capital assets	(2,685,381)	(2,371,657)	(2,002,650)
Restricted - expendable for debt service	1,564,107	1,544,528	1,530,915
Unrestricted	8,497,007	8,011,143	7,586,131
	<u>7,375,733</u>	<u>7,184,014</u>	<u>7,114,396</u>
	<u>7,375,733</u>	<u>7,184,014</u>	<u>7,114,396</u>
	<u>\$ 22,077,776</u>	<u>\$ 22,145,949</u>	<u>\$ 22,695,437</u>
	<u>\$ 22,077,776</u>	<u>\$ 22,145,949</u>	<u>\$ 22,695,437</u>

A significant component of the change in the Authority's assets is the increase in unrestricted cash of \$723,605 due to excess payments from third parties, the decrease of estimated third party receivables of \$166,422 due to excess payments received during the year and a decrease in patient receivables of \$252,229 which is the result of volume declines. In addition depreciation exceeded property additions by \$555,495.

**Table 2: Operating Results and Changes in Net Position**

	2016	2015	2014
Operating Revenues			
Net patient service revenue	\$ 12,358,657	\$ 12,356,889	\$ 12,864,496
Other revenue	245,928	42,090	24,752
Total operating revenue	<u>12,604,585</u>	<u>12,398,979</u>	<u>12,889,248</u>
Operating Expenses			
Salaries and wages	7,640,805	7,411,032	7,179,098
Supplies and other	4,422,668	4,562,098	4,641,803
Depreciation	1,050,522	1,066,328	1,289,463
Total operating expenses	<u>13,113,995</u>	<u>13,039,458</u>	<u>13,110,364</u>
Operating Loss	<u>(509,410)</u>	<u>(640,479)</u>	<u>(221,116)</u>
Nonoperating Revenue (Expenses)			
Tax appropriations	1,614,979	1,689,136	1,663,881
Investment income	6,521	6,837	6,167
Interest expense	(978,076)	(995,731)	(1,022,134)
Noncapital contributions	65	100	6,101
Total nonoperating revenue, net	<u>643,489</u>	<u>700,342</u>	<u>654,015</u>
Revenues in Excess of Expenses Before Capital Contributions	134,079	59,863	432,899
Capital Contributions	<u>57,640</u>	<u>9,755</u>	<u>10,005</u>
Change in Net Position	<u>191,719</u>	<u>69,618</u>	<u>442,904</u>
Net Position, Beginning of Year	<u>7,184,014</u>	<u>7,114,396</u>	<u>6,671,492</u>
Net Position, End of Year	<u>\$ 7,375,733</u>	<u>\$ 7,184,014</u>	<u>\$ 7,114,396</u>

### Operating Loss

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

The operating loss for 2016 decreased by \$131,069 or 20% as compared to 2015 and the operating loss increased in 2015 by \$419,363 or 190% compared to 2014. The primary components of the increased operating loss are:

- Increase in other operating revenue of \$203,838 or 484% due the implementation of a 340b program in 2016 as compared to an increase of \$17,338 or 70% in 2015.
- An increase in salaries and wages of \$229,773 or 3% in 2016 as compared to an increase of \$231,934 or 3% during 2015.
- Reduction in supplies and other expense of \$139,430 or 3.1% in 2016 as compared to a decrease of \$79,705 or 1.7% during 2015

### Nonoperating Revenues and Expenses

Net nonoperating revenues consist primarily of sales tax proceeds, interest expense, investment earnings, and contributions. The net nonoperating revenues decreased in 2016 by \$56,853 or 8% and increased by \$46,327 or 7% in 2015.

### Capital Contributions

Capital contributions consist of contributions received for the purpose of purchasing capital assets or direct contributions of capital assets. The capital contributions increased \$47,885 or 491% in 2016 and decreased \$250 or 3% 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 \$724,609 in 2016 and an increase of \$5,687 in 2015. Cash flows from operating activities increased by \$688,006 during 2016. This was due primarily to the increase in receipts from and on behalf of patients. Cash flows from operating activities decreased by \$1,290,135 in 2015. Cash from noncapital financing activities increased by \$11,660 when compared with 2015 and decreased by \$7,667 when compared with 2014. Cash used for capital and capital related financing activities decreased by \$25,045 when compared with 2015 and increased \$86,956 when compared to 2014. Cash from investing activities decreased by \$5,789 in 2015 and increased \$2,192 in 2015 when compared to 2014.

### Capital Assets

The Authority had capital assets and net of accumulated depreciation of \$10,350,726 and \$10,935,388 at December 31, 2016 and 2015. This investment in capital assets includes land, buildings and improvements, equipment, and construction in progress.

Capital assets consisted of the following at December 31:

	2016	2015	2014
Land	\$ 108,799	\$ 108,799	\$ 108,799
Buildings, improvements and fixed equipment	15,220,994	16,263,410	16,239,532
Major moveable equipment	4,506,729	4,504,757	4,184,878
Construction in progress	-	27,636	36,637
Accumulated depreciation	(9,456,629)	(9,969,214)	(8,902,886)
Total capital assets	\$ 10,379,893	\$ 10,935,388	\$ 11,666,960

### **Debt**

The Authority has bond obligations outstanding of \$13,510,000 and \$13,760,000 as of December 31, 2016 and 2015. These obligations require the Authority to maintain a debt service coverage ratio of 1.1 to 1. These obligations also require the Authority to maintain 45 days cash on hand. As of December 31, 2016 and 2015, the Authority was in compliance with these covenants.

### **Economic Factors**

Since 1959, Arbuckle Memorial Hospital Authority has provided quality health care to the families of Murray County and the thousands of visitors drawn to this recreational area each year. In addition to being an award winning health care facility, Arbuckle Memorial Hospital Authority is also one of the area's largest employers. Caring, highly-qualified physicians and nurses provide much needed inpatient and outpatient services. The authority served over 26,000 patients in 2016. The authority continues to monitor costs throughout the year. The Authority strives to be conscientious, consumer oriented, and dedicated to teamwork, leadership, and education.

### **Requests for Information**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Arbuckle Memorial Hospital Authority, P.O.Box 1109, Sulphur, Oklahoma 73086.

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	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,944,265	\$ 5,220,660
Restricted by trustee for debt service	759,658	748,308
Receivables		
Patients, net of estimated uncollectibles of approximately \$1,534,000 in 2016 and \$1,470,000 in 2015	2,173,986	2,426,215
Estimated third-party payor settlements	39,021	205,443
Sales tax	380,903	435,164
Other	161,795	1,918
Supplies	370,879	293,629
Prepaid expenses and other assets	69,397	77,879
Total current assets	<u>9,899,904</u>	<u>9,409,216</u>
Noncurrent Cash and Investments		
Internally designated for capital improvements	548,544	547,540
Restricted by trustee for debt service, net of current portion	1,249,175	1,249,175
Total noncurrent cash and investments	<u>1,797,719</u>	<u>1,796,715</u>
Capital Assets		
Capital assets not being depreciated	108,799	136,435
Capital assets being depreciated, net	10,271,094	10,798,953
Total capital assets	<u>10,379,893</u>	<u>10,935,388</u>
Other Assets		
Other receivables, net of current portion	260	4,630
Total assets	<u>\$ 22,077,776</u>	<u>\$ 22,145,949</u>

See Notes to Financial Statements

Arbuckle Memorial Hospital Authority  
 Statements of Net Position  
 December 31, 2016 and 2015

	2016	2015
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 270,000	\$ 250,000
Accounts payable		
Trade	210,445	257,644
Accrued expenses		
Salaries, wages and benefits	492,560	446,503
Interest	489,038	497,788
Total current liabilities	1,462,043	1,451,935
Total liabilities	14,702,043	14,961,935
Long-term Debt, Less Current Maturities	13,240,000	13,510,000
Total liabilities	14,702,043	14,961,935
<b>Net Position</b>		
Net investment in capital assets	(2,685,381)	(2,371,657)
Restricted		
Expendable for debt service	1,564,107	1,544,528
Unrestricted	8,497,007	8,011,143
Total net position	7,375,733	7,184,014
Total liabilities and net position	\$ 22,077,776	\$ 22,145,949

Arbuckle Memorial Hospital Authority  
 Statements of Revenues, Expenses, and Changes in Net Position  
 Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$2,050,618 in 2016 and \$2,230,278 in 2015)	\$ 12,358,657	\$ 12,356,889
Other revenue	245,928	42,090
Total operating revenues	12,604,585	12,398,979
Operating Expenses		
Salaries and wages	7,640,805	7,411,032
Supplies and other	4,422,668	4,562,098
Depreciation	1,050,522	1,066,328
Total operating expenses	13,113,995	13,039,458
Operating Loss	(509,410)	(640,479)
Nonoperating Revenue (Expenses)		
Tax appropriations	1,614,979	1,689,136
Investment income	6,521	6,837
Interest expense	(978,076)	(995,731)
Noncapital contributions	65	100
Total nonoperating revenue (expenses)	643,489	700,342
Revenues in Excess of Expenses Before Capital Contributions	134,079	59,863
Capital Contributions	57,640	9,755
Change in Net Position	191,719	69,618
Net Position, Beginning of Year	7,184,014	7,114,396
Net Position, End of Year	\$ 7,375,733	\$ 7,184,014

Arbuckle Memorial Hospital Authority  
Statements of Cash Flows  
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 12,777,308	\$ 11,888,176
Payments to suppliers and contractors	(4,538,635)	(4,514,063)
Payments to and on behalf of employees	(7,594,748)	(7,374,466)
Other receipts and payments, net	90,421	46,693
	734,346	46,340
Net Cash from Operating Activities		
Noncapital Financing Activities		
Noncapital contributions	65	100
Sales tax proceeds for operations	1,669,240	1,657,545
	1,669,305	1,657,645
Net Cash from Noncapital Financing Activities		
Capital and Capital Related Financing Activities		
Capital contributions	57,640	9,755
Principal payments on long-term debt	(250,000)	(370,301)
Interest paid	(986,826)	(1,003,956)
Purchase of capital assets	(495,027)	(334,756)
	(1,674,213)	(1,699,258)
Net Cash used for Capital and Capital Related Financing Activities		
Investing Activities		
Purchase of investments	(1,250,675)	(1,247,177)
Proceeds from sale of investments	1,239,325	1,241,300
Investment income	6,521	6,837
	(4,829)	960
Net cash from (used for) provided by investing activities		
Net Change in Cash and Cash Equivalents	724,609	5,687
Cash and Cash Equivalents, Beginning of Year	5,768,200	5,762,513
Cash and Cash Equivalents, End of Year	\$ 6,492,809	\$ 5,768,200
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 5,944,265	\$ 5,220,660
Cash and cash equivalents in noncurrent cash and investments	548,544	547,540
Total cash and cash equivalents	\$ 6,492,809	\$ 5,768,200

Arbuckle Memorial Hospital Authority  
 Statements of Cash Flows  
 Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Operating Loss to Net Cash from		
Operating Activities		
Operating loss	\$ (509,410)	\$ (640,479)
Adjustments to reconcile operating loss to net		
cash from operating activities		
Depreciation	1,050,522	1,066,328
Provision for bad debts	2,050,618	2,230,278
Changes in assets and liabilities		
Patient receivables	(1,798,389)	(2,232,760)
Supplies	(77,250)	(714)
Other receivables	(155,507)	4,603
Prepaid expenses and other assets	8,482	65,107
Accounts payable	(47,199)	(16,358)
Accrued salaries, wages, and benefits	46,057	36,566
Estimated third-party payor settlements	166,422	(466,231)
	\$ 734,346	\$ 46,340

## **Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

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

### **Reporting Entity**

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

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

### **Blended Component Units**

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

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

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

### **Measurement Focus and Basis of Accounting**

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

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

### **Basis of Presentation**

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

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

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

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

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

### **Use of Estimates**

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

### **New Accounting Pronouncements**

The Authority adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72), which addresses accounting and financial reporting issues related to fair value measurements, during the year ended December 31, 2016. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of GASB No. 72 expanded the Authority's disclosure requirements as seen in Note 4, but did not impact amounts recorded by the Authority.

### **Cash and Cash Equivalents**

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

### **Patient Receivables**

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. The net patient service revenue for the years ended December 31, 2016 and 2015 decreased approximately \$118,600 and \$469,800 due to a change in estimate related to allowances.

### **Tax Appropriation Revenue**

On March 7, 2006, the voters of Murray County passed a perpetual 1 cent sales tax. The sales tax must be used exclusively for the operation, planning, financing, construction, improvements to and maintenance of Arbuckle Memorial Hospital. For the years ended December 31, 2016 and 2015, the Hospital received approximately 11% and 12% of its revenue from the tax appropriation.

### **Supplies**

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

### **Noncurrent Cash and Investments**

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

### **Investment Income**

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

### Capital Assets

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

Land improvements	2 - 40 years
Building, improvements, and fixed equipment	5 - 40 years
Major moveable equipment	3 - 20 years

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

The Authority considers whether indicators of impairment are present and performs analysis to determine if carrying value of assets are appropriate. No impairments were identified for years ending December 31, 2016 and 2015.

### Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

### Operating Revenues and Expenses

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

### Net Patient Service Revenue

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

accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### **Charity Care**

The Authority provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$453,000 and \$382,000 for the years ended December 31, 2016 and 2015, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

### **Grants and Contributions**

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

### **Supplemental Hospital Offset Payment Program Act**

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

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

The Authority received SHOPP payments totaling approximately \$290,000 and \$223,000 for the years ended December 31, 2016 and 2015, which is included in net patient service revenue.

### **Note 2 - Net Patient Service Revenue**

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

Medicare: The Authority is licensed as a (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement method with final settlement determined after submission of annual cost reports by the Authority and is subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended December 31, 2014. Clinical services are paid on a cost basis or fixed fee schedule.

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

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

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended December 31, 2016 and 2015:

	2016	2015
Medicare	53%	52%
Medicaid	10%	11%
Other commercial payors	26%	25%
Self pay and other	11%	12%
	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.

### Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2016 and 2015 are as follows:

	2016	2015
Carrying amount		
Cash and deposits	\$ 6,492,809	\$ 5,768,200
Investments	2,008,833	1,997,483
Total	\$ 8,501,642	\$ 7,765,683

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

	2016	2015
Cash and cash equivalents	\$ 5,944,265	\$ 5,220,660
Current restricted by trustee for debt service	759,658	748,308
Noncurrent cash and investments - internally designated for capital improvements	548,544	547,540
Noncurrent cash and investments - restricted by trustee for debt service, net of current portion	1,249,175	1,249,175
	\$ 8,501,642	\$ 7,765,683

**Deposits - Custodial Credit Risk**

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

The Authority’s deposits in banks at December 31, 2016 and 2015 were entirely covered by federal depository insurance or collateral held by the custodial banks in the Hospital’s and County’s names.

**Investments**

Investments are reported at fair market value. Under state law, investments are limited to full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities, repurchase agreements collateralized by those securities, collateralized or insured certificates of deposit and other evidences of deposit, negotiable certificates of deposit, bankers' acceptances, limited top-rated commercial paper, certain money market mutual funds, obligations of state and local governments, including obligations of Oklahoma state public trusts and bond notes, debentures or other similar obligations of a foreign government that meet specific requirements. The Authority had the following investments at December 31, 2016 and 2015:

	Maturities	2016	2015
U.S. Treasury Obligations	Daily	\$ 2,008,833	\$ 1,997,483

**Interest Rate Risk**

Interest rate risk is the risk that changes in market rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority’s investment policy does not contain a provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

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

**Concentration of Credit Risk**

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

**Investment Income**

Investment income, primarily interest income, for the years ended December 31, 2016 and 2015 was \$6,521 and \$6,837.

**Note 4 - Fair Value Measurement**

GASB No. 72 specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical instruments in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are directly or indirectly observable. Examples would be matrix pricing, market corroborated pricing and inputs such as yield curves and indices.

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable and may rely on the reporting entity’s own assumptions, but the market participant’s assumptions may be used in pricing the asset or liability.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Authority defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Hospital performed a detailed analysis of the assets and liabilities that are subject to GASB No. 72.

The following table presents fair value measurements as of December 31, 2016 and 2015:

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
December 31, 2016				
Investments				
U.S. Treasury Obligations	<u>\$ 2,008,833</u>	<u>\$ 2,008,833</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
December 31, 2015				
Investments				
U.S. Treasury Obligations	<u>\$ 1,997,483</u>	<u>\$ 1,997,483</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of the above investments was determined based on quoted prices for identical securities in active markets.

**Note 5 - Capital Assets**

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2016 are as follows:

	Balance December 31, 2015	Additions	Transfers and Retirements	Balance December 31, 2016
Capital assets not being depreciated				
Land	\$ 108,799	\$ -	\$ -	\$ 108,799
Construction in progress	27,636	-	(27,636)	-
Total capital assets not being depreciated	<u>\$ 136,435</u>	<u>\$ -</u>	<u>\$ (27,636)</u>	<u>\$ 108,799</u>
Capital assets being depreciated				
Buildings, improvements, and fixed equipment	\$ 16,263,410	\$ -	\$ (1,042,416)	\$ 15,220,994
Major moveable equipment	4,504,757	495,027	(493,055)	4,506,729
Total capital assets being depreciated	<u>20,768,167</u>	<u>\$ 495,027</u>	<u>\$ (1,535,471)</u>	<u>19,727,723</u>
Less accumulated depreciation for				
Buildings, improvements, and fixed equipment	(6,282,730)	\$ (757,943)	\$ 1,042,416	(5,998,257)
Major moveable equipment	(3,686,484)	(292,579)	520,691	(3,458,372)
Total accumulated depreciation	<u>(9,969,214)</u>	<u>\$ (1,050,522)</u>	<u>\$ 1,563,107</u>	<u>(9,456,629)</u>
Net capital assets being depreciated	<u>\$ 10,798,953</u>			<u>\$ 10,271,094</u>
Capital assets, net	<u>\$ 10,935,388</u>			<u>\$ 10,379,893</u>

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

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

**Note 6 - Lease Obligations**

The Authority leases certain equipment under non-cancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total operating expense for the years ended December 31, 2016 and 2015 for all operating leases was \$117,462 and \$170,256. There were no capitalized leased assets as of December 31, 2016 and 2015.

Minimum future lease payments for operating leases are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2017	<u>\$ 89,106</u>

**Note 7 - Long-term Debt**

A schedule of changes in the Authority's long-term debt for 2016 and 2015 is as follows:

	Balance 12/31/15	Additions	Reductions	Balance 12/31/16	Due Within One Year
Series 2008 Revenue Bonds	\$ 13,760,000	\$ -	\$ (250,000)	\$ 13,510,000	\$ 270,000
	Balance 12/31/14	Additions	Reductions	Balance 12/31/15	Due Within One Year
Series 2008 Revenue Bonds	\$ 13,995,000	\$ -	\$ (235,000)	\$ 13,760,000	\$ 250,000
Capital lease obligation	135,301	-	(135,301)	-	-
Total long-term debt	\$ 14,130,301	\$ -	\$ (370,301)	\$ 13,760,000	\$ 250,000

The terms and due dates of the Authority's long-term debt at December 31, 2016 and 2015 are as follows:

**Revenue Bonds**

The Authority has issued hospital and sales tax revenue bonds in the past, where the Authority pledges income derived from a 1 cent sales tax levied within Murray County and unrestricted Hospital revenues to pay debt service. Revenue bonds outstanding at December 31, 2016 are as follows:

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

The Authority has pledged future sales tax and unrestricted hospital revenues to repay \$14,890,000 in sales tax revenue bonds issued in January 1, 2008. Proceeds from the bonds originally provided financing for the construction of the Arbuckle Memorial Hospital. The bonds are payable solely from sales tax and Hospital revenue and are payable through December 31, 2038. Annual principal and interest payments on the bonds are expected to require 8% of the pledged revenues. The total principal and interest remaining to be paid on the bonds is \$27,422,802. Principal and interest paid for the current year and pledged revenues received were \$1,245,575 and \$13,695,344, respectively. Under the terms of the revenue bonds agreements, the Authority is required to maintain certain deposits with a trustee. Such deposits are included in restricted cash on the statement of net position. The bond agreement also places limits on the incurrence of additional borrowings and requires that the Authority satisfy certain measures of financial performance as long as the bonds are outstanding. At December 31, 2016 and 2015, the Authority was in compliance with the financial covenants of the Revenue Bonds.

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

<u>Years Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 270,000	\$ 978,075
2018	290,000	959,175
2019	305,000	938,875
2020	330,000	916,763
2021	355,000	892,838
2022-2026	2,190,000	4,040,063
2027-2031	3,110,000	3,121,850
2032-2036	4,415,000	1,818,300
2037-2038	2,245,000	246,863
Total	<u>\$ 13,510,000</u>	<u>\$ 13,912,802</u>

**Note 8 - Pension Plan**

The Authority contributes to a defined contribution pension plan covering substantially all employees. The plan allows for an employer match which is determined by the Board annually. Pension expense is recorded for the amount of the Authority's contributions, determined in accordance with the terms of the plan. The plan is administered by a Board of Trustees appointed by the governing body of the Authority. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Authority's governing body. Total pension plan expense for the years ended December 31, 2016, 2015 and 2014, was \$165,356, \$160,992 and \$172,550.

**Note 9 - Management and Affiliate Agreements**

On June 1, 1998, the Authority entered into a management agreement with Preferred Management Corporation, whereby Preferred Management Corporation agreed to administer the operations of the Authority and provide shared services for a predetermined fee. Fees incurred under the management agreement were \$367,604 and \$315,251 for the years ended December 31, 2016 and 2015.

The Authority has an agreement with Mercy Memorial Health Center, whereby Mercy Memorial Health Center may provide hospital-physician liaison services and information systems support under an Affiliate agreement, which renews on a yearly basis. Fees incurred under the services agreement were \$12,000 and \$13,000 for years ended December 31, 2016 and 2015.

**Note 10 - Concentrations of Credit Risk**

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2016 and 2015 was as follows:

	2016	2015
Medicare	30%	31%
Medicaid	4%	5%
Other third-party payors	24%	27%
Patients	42%	37%
Total	100%	100%

**Note 11 - Contingencies**

**Risk Management**

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Malpractice Insurance**

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

**Litigations, Claims, and Disputes**

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

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

**Note 12 - Condensed Combining Information**

The following summarizes combining information for the Authority, Hospital and Foundation, which have been presented as blended component units, as of and for the year ended December 31, 2016.

Statement of net position as of December 31, 2016:

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
<b>Assets</b>				
Current assets	\$ 759,658	\$ 8,998,749	\$ 141,497	\$ 9,899,904
Capital assets, net	9,214,070	1,136,656	29,167	10,379,893
Other assets	1,249,175	548,544	260	1,797,979
	<u>11,222,903</u>	<u>10,683,949</u>	<u>170,924</u>	<u>22,077,776</u>
<b>Total assets</b>	<b>\$ 11,222,903</b>	<b>\$ 10,683,949</b>	<b>\$ 170,924</b>	<b>\$ 22,077,776</b>
<b>Liabilities and Net Position</b>				
<b>Liabilities</b>				
Current liabilities	\$ 759,038	\$ 703,005	\$ -	\$ 1,462,043
Long-term liabilities	13,240,000	-	-	13,240,000
	<u>13,999,038</u>	<u>703,005</u>	<u>-</u>	<u>14,702,043</u>
<b>Total liabilities</b>	<b>13,999,038</b>	<b>703,005</b>	<b>-</b>	<b>14,702,043</b>
<b>Net Position</b>				
Net investment in capital assets	(3,851,204)	1,136,656	29,167	(2,685,381)
Restricted - expendable for debt service	1,564,107	-	-	1,564,107
Unrestricted	(489,038)	8,844,288	141,757	8,497,007
	<u>(2,776,135)</u>	<u>9,980,944</u>	<u>170,924</u>	<u>7,375,733</u>
<b>Total net position</b>	<b>(2,776,135)</b>	<b>9,980,944</b>	<b>170,924</b>	<b>7,375,733</b>
<b>Total liabilities and net position</b>	<b>\$ 11,222,903</b>	<b>\$ 10,683,949</b>	<b>\$ 170,924</b>	<b>\$ 22,077,776</b>

Arbuckle Memorial Hospital Authority  
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Operating results and changes in net position for the year ended December 31, 2016:

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ -	\$ 12,358,657	\$ -	\$ 12,358,657
Other operating revenue	1,250,675	(1,005,512)	765	245,928
Total operating revenue	<u>1,250,675</u>	<u>11,353,145</u>	<u>765</u>	<u>12,604,585</u>
Operating Expenses				
Depreciation	749,359	300,330	833	1,050,522
Other operating expenses	2,500	12,058,783	2,190	12,063,473
Total operating expense	<u>751,859</u>	<u>12,359,113</u>	<u>3,023</u>	<u>13,113,995</u>
Operating Income (Loss)	<u>498,816</u>	<u>(1,005,968)</u>	<u>(2,258)</u>	<u>(509,410)</u>
Nonoperating Revenue (Expense)				
Tax appropriations	-	1,614,979	-	1,614,979
Investment income	-	6,498	23	6,521
Interest expense	(978,075)	(1)	-	(978,076)
Contributions	-	-	65	65
Total nonoperating revenue (expense)	<u>(978,075)</u>	<u>1,621,476</u>	<u>88</u>	<u>643,489</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	(479,259)	615,508	(2,170)	134,079
Capital Contributions	<u>-</u>	<u>-</u>	<u>57,640</u>	<u>57,640</u>
Change in Net Position	(479,259)	615,508	55,470	191,719
Net position, Beginning of Year	<u>(2,296,876)</u>	<u>9,365,436</u>	<u>115,454</u>	<u>7,184,014</u>
Net Position, End of Year	<u>\$ (2,776,135)</u>	<u>\$ 9,980,944</u>	<u>\$ 170,924</u>	<u>\$ 7,375,733</u>

Arbuckle Memorial Hospital Authority  
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Cash flows for the year ended December 31, 2016:

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Net Cash from Operating Activities	\$ 1,248,175	\$ (515,100)	\$ 1,271	\$ 734,346
Net Cash from Noncapital Financing Activities	-	1,669,305	-	1,669,305
Net Cash from (used for) Capital and Related Financing Activities	(1,236,826)	(465,027)	27,640	(1,674,213)
Net Cash from (used for) Investing Activities	-	(4,852)	23	(4,829)
Net Change in Cash and Cash Equivalents	11,349	684,326	28,934	724,609
Cash and Cash Equivalents, Beginning of Year	748,308	4,908,327	111,565	5,768,200
Cash and Cash Equivalents, End of Year	<u>\$ 759,657</u>	<u>\$ 5,592,653</u>	<u>\$ 140,499</u>	<u>\$ 6,492,809</u>

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

Statement of net position as of December 31, 2015:

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

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

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

Arbuckle Memorial Hospital Authority  
Notes to Financial Statements  
December 31, 2016 and 2015

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Cash flows for the year ended December 31, 2015:

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Net Cash from Operating Activities	\$ 1,244,677	\$ (1,202,690)	\$ 4,353	\$ 46,340
Net Cash from Noncapital Financing Activities	-	1,657,545	100	1,657,645
Net Cash from (used for) Capital and Related Financing Activities	(1,238,800)	(470,213)	9,755	(1,699,258)
Net Cash from (used for) Investing Activities	-	943	17	960
Net Change in Cash and Cash Equivalents	5,877	(14,415)	14,225	5,687
Cash and Cash Equivalents, Beginning of Year	<u>742,431</u>	<u>4,922,742</u>	<u>97,340</u>	<u>5,762,513</u>
Cash and Cash Equivalents, End of Year	<u>\$ 748,308</u>	<u>\$ 4,908,327</u>	<u>\$ 111,565</u>	<u>\$ 5,768,200</u>



Supplementary Information  
December 31, 2016 and 2015

# Arbuckle Memorial Hospital Authority

## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
Arbuckle Memorial Hospital Authority  
Sulphur, Oklahoma

We have audited the financial statements of Arbuckle Memorial Hospital Authority (Authority) as of and for the years ended December 31, 2016 and 2015, and our report thereon dated May 22, 2017 which expresses an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient service revenue – Hospital and Authority, and schedules of expenses – Hospital and Authority are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Oklahoma City, Oklahoma  
May 22, 2017

Arbuckle Memorial Hospital Authority  
Schedules of Net Patient Service Revenue – Hospital  
Years Ended December 31, 2016 and 2015

	2016			2015		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Routine Services						
Adults and pediatrics	\$ 438,400	\$ 1,255,410	\$ 1,693,810	\$ 521,343	\$ 1,261,650	\$ 1,782,993
Ancillary Services						
Operating room	\$ 6,438	\$ 173,473	\$ 179,911	\$ 17,287	\$ 194,872	\$ 212,159
Radiology	241,428	4,086,677	4,328,105	314,221	3,921,165	4,235,386
Laboratory	482,779	3,614,138	4,096,917	487,072	2,992,030	3,479,102
Respiratory therapy	533,202	137,994	671,196	603,825	132,975	736,800
Physical therapy	617,986	738,229	1,356,215	549,330	541,684	1,091,014
Electrocardiology	67,585	357,754	425,339	73,028	316,969	389,997
Medical supplies	1,431,237	527,707	1,958,944	1,608,450	511,625	2,120,075
Pharmacy	852,967	861,821	1,714,788	1,018,378	726,828	1,745,206
Clinic	-	812,784	812,784	-	775,136	775,136
Emergency	19,804	3,486,048	3,505,852	29,001	3,770,737	3,799,738
Physician fees	377,542	1,890,674	2,268,216	340,846	1,990,622	2,331,468
Special care	12,700	204,112	216,812	8,011	255,637	263,648
Total ancillary services	\$ 4,643,668	\$ 16,891,411	21,535,079	\$ 5,049,449	\$ 16,130,280	21,179,729
Charity Care			(822,582)			(674,068)
Gross Patient Service Revenue			22,406,307			22,288,654
Contractual Adjustments			(7,997,032)			(7,701,487)
Provision for Bad Debts			(2,050,618)			(2,230,278)
Net patient service revenue			\$ 12,358,657			\$ 12,356,889

Arbuckle Memorial Hospital Authority  
Schedules of Expenses – Hospital  
Years Ended December 31, 2016 and 2015

	2016			2015		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Adults and pediatrics	\$ 1,711,532	\$ 111,901	\$ 1,823,433	\$ 1,749,554	\$ 124,628	\$ 1,874,182
Other Professional Services						
Operating room	35,056	16,373	51,429	56,052	27,227	83,279
Radiology	288,704	119,566	408,270	292,850	151,797	444,647
Laboratory	374,297	432,187	806,484	341,478	437,098	778,576
Respiratory therapy	175,043	45,924	220,967	164,316	62,427	226,743
Physical therapy	565,686	85,325	651,011	496,272	89,813	586,085
Medical supplies	-	110,816	110,816	-	185,362	185,362
Pharmacy	101,639	470,300	571,939	91,967	348,139	440,106
Clinic	577,051	98,003	675,054	568,089	110,431	678,520
Emergency	2,139,017	13,333	2,152,350	1,975,972	14,497	1,990,469
Total other professional services	4,256,493	1,391,827	5,648,320	3,986,996	1,426,791	5,413,787
General Services						
Dietary	157,425	87,356	244,781	159,561	95,410	254,971
Plant operations and maintenance	80,681	275,994	356,675	81,481	281,626	363,107
Housekeeping	180,661	42,998	223,659	169,504	40,854	210,358
Laundry	-	81,687	81,687	-	122,758	122,758
Medical records	123,484	27,806	151,290	121,084	30,003	151,087
Total general services	542,251	515,841	1,058,092	531,630	570,651	1,102,281
Administrative Services						
Administration and general	868,405	1,150,221	2,018,626	829,537	1,174,680	2,004,217
Nursing administration	262,124	8,920	271,044	313,315	10,398	323,713
Employee health and welfare	-	1,241,768	1,241,768	-	1,252,490	1,252,490
Total administrative services	1,130,529	2,400,909	3,531,438	1,142,852	2,437,568	3,580,420
Depreciation	-	1,049,689	1,049,689	-	1,066,328	1,066,328
Total operating expenses	\$ 7,640,805	\$ 5,470,167	\$ 13,110,972	\$ 7,411,032	\$ 5,625,966	\$ 13,036,998

See Auditor's Report on Supplementary Information



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

The Board of Directors  
Arbuckle Memorial Hospital Authority  
Sulphur, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Arbuckle Memorial Hospital Authority (Authority), as of and for the year ended December 31, 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 May 22, 2017

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

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

Oklahoma City, Oklahoma  
May 22, 2017