



Management's Discussion and Analysis
and Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018, 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.

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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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Classification of Net Position

As discussed in Note 13 to the financial statements, management identified the following classification errors to net position an understatement of net investment in capital assets with overstatements to restricted – capital improvements, restricted debt-debt service, and unrestricted net position as of December 31, 2018. The correction of the error did not require an adjustment to total net position as of December 31, 2018. Our opinion is not modified with respect to that matter.

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 8 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 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 effectiveness of the Authority's 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.



Oklahoma City, Oklahoma
June 26, 2020

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, 2019, 2018 and 2017. 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 notes to the financial statements to enhance their understanding of the Authority's financial status.

Financial Highlights – Financial Statements

- The Authority's net position increased by \$963,981 or 13% in 2019 and increased by \$89,286 or 1% in 2018 and decreased by \$144,972 or 2% in 2017.
- The Authority reported an operating loss in 2019 of \$721,855 and an operating loss in 2018 of \$643,011. Operating loss in 2019 increased by \$78,844 or 12% over the loss reported in 2018. Operating loss reported in 2018 decreased by \$254,451 or 28% over the income reported in 2017.
- Net nonoperating revenues increased by \$539,385 or 74% in 2019 compared to 2018. Net nonoperating revenues decreased by \$471 or less than 1% in 2018 compared to 2017.

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.

The 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 cash came from, what was cash used for and what was the change in cash balance during the reporting period.

Overview of the Financial Statements

The statement of net position at December 31, 2019 indicated total assets of \$25,505,604, total liabilities of \$17,221,576 and net position of \$8,284,028. Total current assets were \$13,591,017 and total current liabilities were \$2,213,514 for a current ratio of 6.1. The statement of net position at December 31, 2018 had total assets of \$24,748,923 which had current assets of \$13,548,875 and total liabilities of \$17,428,876 which had current liabilities of \$1,856,199 for a current ratio of 7.3 in 2018.

The statements of revenues, expenses, and changes in net position for the year ended December 31, 2019 indicated total operating revenues of \$15,543,548 and operating expenses of \$16,256,403, operating loss of \$721,855, nonoperating revenues (net) of \$1,271,296, and capital contributions of \$414,540. The net position increased by \$963,981, from \$7,320,047 at December 31, 2018 to \$8,294,028 at December 31, 2019.

As reported in the statements of cash flows, cash and cash equivalents increased from \$6,702,322 at December 31, 2018 to \$8,523,506 at December 31, 2019.

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

The Authority's Net Position

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 \$963,981 or 13% in 2019 and by \$89,286 or 1% in 2018.

Table 1: Assets, Liabilities, and Net Position

	<u>2019</u>	<u>2018</u> Restated	<u>2017</u>
Assets			
Current assets	\$ 13,591,017	\$ 13,548,875	\$ 10,444,295
Capital assets	10,001,668	9,279,375	9,848,951
Other assets	<u>1,912,919</u>	<u>1,920,673</u>	<u>1,799,008</u>
Total assets	<u>\$ 25,505,604</u>	<u>\$ 24,748,923</u>	<u>\$ 22,092,254</u>
Liabilities			
Current liabilities	\$ 2,213,514	\$ 1,856,199	\$ 1,911,493
Long-term debt, net of current portion	<u>15,008,062</u>	<u>15,572,677</u>	<u>12,950,000</u>
Total liabilities	<u>17,221,576</u>	<u>17,428,876</u>	<u>14,861,493</u>
Net Position			
Net investment in capital assets	(3,089,175)	(2,861,198)	(2,974,378)
Restricted - expendable for debt service	1,999,533	1,982,953	1,590,485
Restricted - expendable for capital improvements	1,104,135	2,576,071	-
Unrestricted	<u>8,269,535</u>	<u>5,622,221</u>	<u>8,614,654</u>
Total net position	<u>8,284,028</u>	<u>7,320,047</u>	<u>7,230,761</u>
Total liabilities and net position	<u>\$ 25,505,604</u>	<u>\$ 24,748,923</u>	<u>\$ 22,092,254</u>

Patient accounts receivable decreased approximately \$71,000 due primarily to a lag in billing that was corrected during the year. Amounts receivable from estimated third party payor settlements decreased \$473,896, from a receivable of \$328,301 at December 31, 2018 to a payable of \$145,595 at December 31, 2019. The Authority had approximately \$1.8 million in construction and fixed asset purchases during the year ended December 31, 2019.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	\$ 15,313,670	\$ 13,893,379	\$ 13,167,311
Other revenue	229,878	317,163	207,377
Total operating revenue	<u>15,543,548</u>	<u>14,210,542</u>	<u>13,374,688</u>
Operating Expenses			
Salaries and wages	9,623,834	8,856,062	8,207,572
Supplies and other	5,551,589	4,913,207	4,981,957
Depreciation	1,089,980	1,084,284	1,082,621
Total operating expenses	<u>16,265,403</u>	<u>14,853,553</u>	<u>14,272,150</u>
Operating Loss	<u>(721,855)</u>	<u>(643,011)</u>	<u>(897,462)</u>
Nonoperating Revenue (Expenses)			
Tax appropriations	1,762,392	1,774,632	1,668,790
Investment income	104,859	64,931	19,861
Interest expense	(593,041)	(789,731)	(959,165)
Debt issuance cost	-	(317,921)	-
Noncapital contributions	(2,914)	-	2,896
Total nonoperating revenue, net	<u>1,271,296</u>	<u>731,911</u>	<u>732,382</u>
Revenues in Excess of (less than) Expenses Before Capital Contributions	549,441	88,900	(165,080)
Capital Contributions	<u>414,540</u>	<u>386</u>	<u>20,108</u>
Change in Net Position	<u>963,981</u>	<u>89,286</u>	<u>(144,972)</u>
Net Position, Beginning of Year	<u>7,320,047</u>	<u>7,230,761</u>	<u>7,375,733</u>
Net Position, End of Year	<u><u>\$ 8,284,028</u></u>	<u><u>\$ 7,320,047</u></u>	<u><u>\$ 7,230,761</u></u>

Operating Loss

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

The operating loss for 2019 increased by \$78,844 or 12% as compared to 2018 and the operating loss decreased in 2018 by \$254,451 or 28% compared to 2017. The primary components of the increased operating loss are:

- Increase in net patient service revenue of \$1,420,291 or 10% in 2019 as compared to an increase of \$726,068 or 5% in 2018.
- A decrease in other revenue of 87,285 or 28% in 2019 as compared to an increase of \$109,786 or 53% during 2018.
- An increase in salaries and wages of \$767,772 or 9% in 2019 as compared to an increase of \$648,490 or 8% during 2018.
- An increase in supplies and other expense of \$638,382 or 13% in 2019 as compared to a decrease of \$68,750 or 1% during 2018.

Nonoperating Revenues and Expenses

Net nonoperating revenues consist primarily of sales tax proceeds, interest expense, investment earnings, and contributions. The net nonoperating revenues increased in 2019 by \$539,385 or 73% and decreased by \$471 or .1% in 2018.

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 \$414,154 or 107294% in 2019 and decreased \$19,722 or 98% in 2018.

The Authority's Cash Flows

The Authority's overall liquidity increased during the year with a net increase to cash and cash equivalents, of \$1,821,184 in 2019 and an decrease of \$442,248 in 2018. Cash flows from operating activities increased by \$1,636,054 during 2019. Cash flows used for operating activities increased by \$1,335,012 in 2018. Cash from noncapital financing activities decreased by \$46,759 when compared with 2018 and increased by \$124,365 when compared with 2017. Cash used for capital and capital related financing activities decreased by \$2,988,848 when compared with 2018 and increased \$2,221,779 when compared to 2017. This was due to the increased construction of Clinic. Cash from investing activities increased by \$3,662,985 in 2019 and cash from investing activities increased \$2,105,141 in 2018 when compared to 2017.

Capital Assets

The Authority had capital assets, net of accumulated depreciation, of \$10,001,668 and \$9,279,375 at December 31, 2019 and 2018. This investment in capital assets includes land, buildings and improvements, equipment, and construction in progress.

Arbuckle Memorial Hospital Authority
Management's Discussion and Analysis

Capital assets consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 108,799	\$ 108,799	\$ 108,799
Buildings, improvements and fixed equipment	15,307,809	15,278,994	15,220,994
Major moveable equipment	5,232,208	4,968,224	4,778,666
Construction in progress	1,670,623	141,983	279,742
Accumulated depreciation	<u>(12,317,771)</u>	<u>(11,218,625)</u>	<u>(10,539,250)</u>
Total capital assets	<u>\$ 10,001,668</u>	<u>\$ 9,279,375</u>	<u>\$ 9,848,951</u>

Debt

The Authority has bond obligations outstanding of \$15,485,000 and \$16,015,000 as of December 31, 2019 and 2018 as detailed in Note 7 to the financial statements.

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 30,000 patients in 2019. 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.

Arbuckle Memorial Hospital Authority
 Statements of Net Position
 December 31, 2019 and 2018

	2019	2018 Restated
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 7,997,345	\$ 6,179,126
Restricted by trustee for debt service	852,353	838,002
Restricted by trustee for capital improvements	1,104,135	2,576,071
Receivables		
Patients, net of estimated uncollectibles of approximately \$3,420,000 in 2019 and \$1,941,000 in 2018	2,781,333	2,852,059
Estimated third-party payor settlements	-	328,301
Sales tax	415,996	390,368
Other	25,097	28,736
Supplies	338,292	294,209
Prepaid expenses and other assets	76,466	62,003
Total current assets	13,591,017	13,548,875
Noncurrent Cash and Investments		
Internally designated for capital improvements	526,161	523,196
Restricted by trustee for debt service, net of current portion	1,147,180	1,144,951
Total noncurrent cash and investments	1,673,341	1,668,147
Capital Assets		
Capital assets not being depreciated	1,779,422	250,782
Capital assets being depreciated, net	8,222,246	9,028,593
Total capital assets	10,001,668	9,279,375
Deferred Outflows of Resources		
Refunding costs	239,578	252,526
Total assets	\$ 25,505,604	\$ 24,748,923

Arbuckle Memorial Hospital Authority
 Statements of Net Position
 December 31, 2019 and 2018

	2019	2018 Restated
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 560,000	\$ 530,000
Accounts payable		
Trade	446,576	324,023
Estimated third-party payor settlements	145,595	-
Accrued expenses		
Salaries, wages and benefits	768,990	694,174
Interest	292,353	308,002
Total current liabilities	2,213,514	1,856,199
Long-term Debt, Less Current Maturities	15,008,062	15,572,677
Total liabilities	17,221,576	17,428,876
Net Position		
Net investment in capital assets	(3,089,175)	(2,861,198)
Restricted		
Expendable for debt service	1,999,533	1,982,953
Expendable for capital improvements	1,104,135	2,576,071
Unrestricted	8,269,535	5,622,221
Total net position	8,284,028	7,320,047
Total liabilities and net position	\$ 25,505,604	\$ 24,748,923

Arbuckle Memorial Hospital Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$4,610,396 in 2019 and \$2,535,100 in 2018)	\$ 15,313,670	\$ 13,893,379
Other revenue	229,878	317,163
Total operating revenues	15,543,548	14,210,542
Operating Expenses		
Salaries and wages	9,623,834	8,856,062
Supplies and other	5,551,589	4,913,207
Depreciation	1,089,980	1,084,284
Total operating expenses	16,265,403	14,853,553
Operating Loss	(721,855)	(643,011)
Nonoperating Revenue (Expenses)		
Tax appropriations	1,762,392	1,774,632
Investment income	104,859	64,931
Interest expense	(593,041)	(789,731)
Debt issuance cost	-	(317,921)
Noncapital contributions	(2,914)	-
Total nonoperating revenue (expenses)	1,271,296	731,911
Revenues in Excess of Expenses Before Capital Contributions	549,441	88,900
Capital Contributions	414,540	386
Change in Net Position	963,981	89,286
Net Position, Beginning of Year	7,320,047	7,230,761
Net Position, End of Year	\$ 8,284,028	\$ 7,320,047

Arbuckle Memorial Hospital Authority

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 15,858,291	\$ 12,775,643
Payments to suppliers and contractors	(5,478,415)	(4,918,805)
Payments to and on behalf of employees	(9,549,018)	(8,755,072)
Other receipts and payments, net	233,517	326,555
Net Cash from (used for) Operating Activities	<u>1,064,375</u>	<u>(571,679)</u>
Noncapital Financing Activities		
Noncapital contributions	(2,914)	-
Sales tax proceeds for operations	1,736,764	1,780,609
Net Cash from Noncapital Financing Activities	<u>1,733,850</u>	<u>1,780,609</u>
Capital and Capital Related Financing Activities		
Capital contributions	414,540	386
Principal payments on long-term debt	(530,000)	(290,000)
Interest paid	(600,357)	(959,457)
Payments for refunding debt premium	-	(259,000)
Payments for bond premium	-	92,292
Purchase of capital assets	(1,821,439)	(514,708)
Proceeds from issuance of debt	-	2,700,000
Payments for debt issuance costs	-	(317,921)
Net Cash from (used for) Capital and Capital Related Financing Activities	<u>(2,537,256)</u>	<u>451,592</u>
Investing Activities		
Purchase of investments	(1,226,889)	(4,669,069)
Proceeds from sale of investments	2,682,245	2,501,368
Investment income	104,859	64,931
Net cash from (used for) investing activities	<u>1,560,215</u>	<u>(2,102,770)</u>
Net Change in Cash and Cash Equivalents	1,821,184	(442,248)
Cash and Cash Equivalents, Beginning of Year	<u>6,702,322</u>	<u>7,144,570</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,523,506</u>	<u>\$ 6,702,322</u>

Arbuckle Memorial Hospital Authority

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 7,997,345	\$ 6,179,126
Cash and cash equivalents in noncurrent cash and investments	<u>526,161</u>	<u>523,196</u>
Total cash and cash equivalents	<u>\$ 8,523,506</u>	<u>\$ 6,702,322</u>
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities		
Operating loss	\$ (721,855)	\$ (643,011)
Adjustments to reconcile operating loss to net cash from (used for) operating activities		
Depreciation	1,089,980	1,084,284
Impairment loss	9,167	-
Provision for bad debts	4,610,396	2,535,100
Changes in assets and liabilities		
Patient receivables	(4,539,670)	(3,136,107)
Supplies	(44,083)	29,236
Other receivables	3,638	9,392
Prepaid expenses and other assets	(14,463)	1,437
Accounts payable	122,553	(36,271)
Accrued salaries, wages and benefits	74,816	100,990
Estimated third-party payor settlements	<u>473,896</u>	<u>(516,729)</u>
Net cash from (used for) operating activities	<u>\$ 1,064,375</u>	<u>\$ (571,679)</u>

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Receivables

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

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

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, 2019 and 2018, the Hospital received approximately 10% and 11% 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. The estimated useful lives of capital assets are as follows:

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 reported after nonoperating revenues. 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, 2019 and 2018.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category, which is refunding costs. These costs are the result of the advanced refunding of the Series 2008 Bonds. The amount is systematically and rationally amortized over 20 years, the life of the debt issued to refund the Series 2008 Bonds.

Bond Premiums and Discounts

Bonds payable are reported net of the applicable bond premium. Bond premiums and discounts are amortized over the life debt using the effective interest method. Amortization is included in interest expense.

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as time paid 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. 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 the compensated 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 \$212,000 and \$214,000 for the years ended December 31, 2019 and 2018, 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 \$240,000 and \$237,000 for the years ended December 31, 2019 and 2018, which is included in net patient service revenue.

New Accounting Pronouncements Adopted in Fiscal Year 2019

The Authority adopted the GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements on January 1, 2019. The new statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The Authority adopted GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period on January 1, 2019, which enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these interest costs will not be included in the historical cost of capital assets reported.

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, 2016. 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Medicare	57%	58%
Medicaid	10%	9%
Other commercial payors	22%	23%
Self pay and other	11%	10%
	<u>100%</u>	<u>100%</u>

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, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Carrying amount		
Cash and deposits	\$ 8,523,506	\$ 6,702,322
Investments	3,103,668	4,559,024
	<u>\$ 11,627,174</u>	<u>\$ 11,261,346</u>

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 7,997,345	\$ 6,179,126
Current restricted by trustee for debt service	852,353	838,002
Current restricted by trustee for capital improvements	1,104,135	2,576,071
Noncurrent cash and investments - internally designated for capital improvements	526,161	523,196
Noncurrent cash and investments - restricted by trustee for debt service, net of current portion	1,147,180	1,144,951
	<u>\$ 11,627,174</u>	<u>\$ 11,261,346</u>

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, 2019 and 2018 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 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, 2019 and 2018:

	<u>Maturities</u>	<u>2019</u>	<u>2018</u>
U.S. Treasury Obligations	Daily	<u>\$ 3,103,668</u>	<u>\$ 4,559,024</u>

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, 2019 and 2018 was \$104,859 and \$64,931.

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.

Arbuckle Memorial Hospital Authority

Notes to Financial Statements

December 31, 2019 and 2018

The following table presents fair value measurements as of December 31, 2019 and 2018:

	<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, 2019				
Investments				
U.S. Treasury Obligations	<u>\$ 3,103,668</u>	<u>\$ 3,103,668</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, 2018				
Investments				
U.S. Treasury Obligations	<u>\$ 4,559,024</u>	<u>\$ 4,559,024</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, 2019 are as follows:

	Balance December 31, 2018	Additions	Transfers and Retirements	Balance December 31, 2019
Capital assets not being depreciated				
Land	\$ 108,799	\$ -	\$ -	\$ 108,799
Construction in progress	141,983	1,528,640	-	1,670,623
Total capital assets not being depreciated	\$ 250,782	\$ 1,528,640	\$ -	\$ 1,779,422
Capital assets being depreciated				
Buildings, improvements and fixed equipment	\$ 15,278,994	\$ 28,815	\$ -	\$ 15,307,809
Major moveable equipment	4,968,224	263,984	-	5,232,208
Total capital assets being depreciated	20,247,218	\$ 292,799	\$ -	20,540,017
Less accumulated depreciation for				
Buildings, improvements and fixed equipment	(7,505,235)	\$ (713,091)	\$ -	(8,218,326)
Major moveable equipment	(3,713,390)	(376,889)	(9,166)	(4,099,445)
Total accumulated depreciation	(11,218,625)	\$ (1,089,980)	\$ (9,166)	(12,317,771)
Net capital assets being depreciated	\$ 9,028,593			\$ 8,222,246
Capital assets, net	\$ 9,279,375			\$ 10,001,668

Construction in progress at December 31, 2019 represents the construction of a clinic building, which is expected to be completed August 2020. The total estimated cost of the project is approximately \$3.5 million. The Authority is financing \$2.7 million from the Series 2018 Bonds, with the remaining cost of the project funded by Hospital operations. The cost to complete the project was approximately \$1.5 million at December 31, 2019.

Arbuckle Memorial Hospital Authority

Notes to Financial Statements

December 31, 2019 and 2018

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2018 are as follows:

	Balance December 31, 2017	Additions	Transfers and Retirements	Balance December 31, 2018
Capital assets not being depreciated				
Land	\$ 108,799	\$ -	\$ -	\$ 108,799
Construction in progress	279,742	141,983	(279,742)	141,983
Total capital assets not being depreciated	\$ 388,541	\$ 141,983	\$ (279,742)	\$ 250,782
Capital assets being depreciated				
Buildings, improvements, and fixed equipment	\$ 15,220,994	\$ 58,000	\$ -	\$ 15,278,994
Major moveable equipment	4,778,666	314,725	(125,167)	4,968,224
Total capital assets being depreciated	19,999,660	\$ 372,725	\$ (125,167)	20,247,218
Less accumulated depreciation for				
Buildings, improvements, and fixed equipment	(6,756,078)	\$ (749,157)	\$ -	(7,505,235)
Major moveable equipment	(3,783,172)	(335,127)	404,909	(3,713,390)
Total accumulated depreciation	(10,539,250)	\$ (1,084,284)	\$ 404,909	(11,218,625)
Net capital assets being depreciated	\$ 9,460,410			\$ 9,028,593
Capital assets, net	\$ 9,848,951			\$ 9,279,375

Note 6 - Lease Obligations

The Authority leases certain equipment under non-cancelable long-term lease agreements. Total operating expense for the years ended December 31, 2019 and 2018 for all operating leases was \$95,294 and \$57,657. There were no capitalized leased assets as of December 31, 2019 and 2018.

Note 7 - Long-term Debt

A schedule of changes in the Authority's long-term debt for 2019 and 2018 is as follows:

	Balance 12/31/18	Additions	Reductions	Balance 12/31/19	Due Within One Year
Series 2018 Revenue Bonds	\$ 16,015,000	\$ -	\$ (530,000)	\$ 15,485,000	\$ 560,000
Premium	87,677	-	(4,615)	83,062	4,615
Total long-term debt	\$ 16,102,677	\$ -	\$ (534,615)	\$ 15,568,062	\$ 564,615
	Balance 12/31/17	Additions	Reductions	Balance 12/31/18	Due Within One Year
Series 2008 Revenue Bonds	\$ 13,240,000	\$ -	\$ (13,240,000)	\$ -	\$ -
Series 2018 Revenue Bonds	-	16,015,000	-	16,015,000	530,000
Premium	-	92,292	(4,615)	87,677	4,615
Total long-term debt	\$ 13,240,000	\$ 16,107,292	\$ (13,244,615)	\$ 16,102,677	\$ 534,615

Revenue Bonds

During 2018, the Authority issued \$16,015,000 in Sales Tax Revenue Bonds, Series 2018 (Series 2018 Bonds) with interest rates ranging from 3% to 5% per annum to advance refund \$12,950,000 of outstanding Series 2008 Sales Tax Revenue Bonds with interest rates ranging from 7% to 7.5% per annum. The net proceeds, after payment of the Series 2018 Bonds and related costs, totaling approximately \$2,700,000, were deposited in an account with the trustee which is restricted for a future capital project.

The advance refunding resulting in a difference between the reacquisition price and net carrying amount of the old debt of \$259,000. This difference, recorded as deferred refunding costs and reported in the accompanying financial statements as a deferred outflow of resources, net of accumulated amortization, is being charged to operations through the term of the Series 2018 Bonds using the straight-line method. The Authority completed its advance refunding to reduce its total debt service payments over the next 20 years by approximately \$6,100,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$2,300,000.

The Authority has pledged future sales tax revenues to the Series 2018 Bonds. The bonds are payable solely from sales tax and are payable through December 31, 2038. The total principal and interest remaining to be paid on the bonds is \$21,491,333. Principal and interest paid for the current year and pledged revenues received were \$1,130,355 and approximately \$877,000, 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 Authority was not in violation of their required covenants at December 31, 2019 and 2018.

The sales tax revenues are first used to provide for the payment of principle, interest and redemption of the premium on the Series 2018 Bonds, then to fund the reserve requirements pursuant to the Series 2018 Bond indenture. After satisfying debt service obligations and reserve requirements, if no event of default has occurred, the excess revenues can be used for any lawful purpose by the Authority.

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

<u>Years Ending December 31:</u>	<u>Notes from Direct Borrowings</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 560,000	\$ 573,506
2021	580,000	550,706
2022	605,000	523,981
2023	640,000	492,856
2024	670,000	460,106
2025-2029	3,780,000	1,877,181
2030-2034	4,450,000	1,205,497
2035-2039	4,200,000	322,500
Total	<u>\$ 15,485,000</u>	<u>\$ 6,006,333</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, 2019, 2018 and 2017, was \$190,929, \$189,926 and \$174,415.

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 \$428,713 and \$426,343 for the years ended December 31, 2019 and 2018.

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 \$11,000 for years ended December 31, 2019 and 2018.

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, 2019 and 2018 was as follows:

	2019	2018
Medicare	26%	33%
Medicaid	6%	9%
Other third-party payors	22%	22%
Patients	46%	36%
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.

Litigation, 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, 2019.

Statement of net position as of December 31, 2019:

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Assets				
Current assets	\$ 1,970,162	\$ 11,451,330	\$ 169,525	\$ 13,591,017
Capital assets, net	8,694,199	1,307,469	-	10,001,668
Other assets	1,373,084	539,835	-	1,912,919
	<u>12,037,445</u>	<u>13,298,634</u>	<u>169,525</u>	<u>25,505,604</u>
Total assets	\$ 12,037,445	\$ 13,298,634	\$ 169,525	\$ 25,505,604
Liabilities and Net Position				
Liabilities				
Current liabilities	\$ 839,415	\$ 1,374,099	\$ -	\$ 2,213,514
Long-term liabilities	15,008,062	-	-	15,008,062
	<u>15,847,477</u>	<u>1,374,099</u>	<u>-</u>	<u>17,221,576</u>
Total liabilities	15,847,477	1,374,099	-	17,221,576
Net Position				
Net investment in capital assets	(4,396,644)	1,307,469	-	(3,089,175)
Restricted - expendable for debt service	1,999,533	-	-	1,999,533
Restricted - expendable for capital improvements	1,104,135	-	-	1,104,135
Unrestricted	(2,517,056)	10,617,066	169,525	8,269,535
	<u>(3,810,032)</u>	<u>11,924,535</u>	<u>169,525</u>	<u>8,284,028</u>
Total net position	(3,810,032)	11,924,535	169,525	8,284,028
Total liabilities and net position	\$ 12,037,445	\$ 13,298,634	\$ 169,525	\$ 25,505,604

Arbuckle Memorial Hospital Authority

Notes to Financial Statements

December 31, 2019 and 2018

Operating results and changes in net position for the year ended December 31, 2019:

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ -	\$ 15,313,670	\$ -	\$ 15,313,670
Other operating revenue	1,206,140	(977,292)	1,030	229,878
Total operating revenue	<u>1,206,140</u>	<u>14,336,378</u>	<u>1,030</u>	<u>15,543,548</u>
Operating Expenses				
Depreciation and amortization	702,427	377,553	10,000	1,089,980
Other operating expenses	2,510	15,162,760	10,153	15,175,423
Total operating expense	<u>704,937</u>	<u>15,540,313</u>	<u>20,153</u>	<u>16,265,403</u>
Operating Income (Loss)	<u>501,203</u>	<u>(1,203,935)</u>	<u>(19,123)</u>	<u>(721,855)</u>
Nonoperating Revenue (Expense)				
Tax appropriations	-	1,762,392	-	1,762,392
Investment income	-	103,143	1,716	104,859
Interest expense	(580,091)	(12,950)	-	(593,041)
Contributions	-	-	(2,914)	(2,914)
Total nonoperating revenue (expense)	<u>(580,091)</u>	<u>1,852,585</u>	<u>(1,198)</u>	<u>1,271,296</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	(78,888)	648,650	(20,321)	549,441
Capital Contributions	-	350,000	64,540	414,540
Change in Net Position	(78,888)	998,650	44,219	963,981
Net position, Beginning of Year	<u>(3,731,144)</u>	<u>10,925,885</u>	<u>125,306</u>	<u>7,320,047</u>
Net Position, End of Year	<u>\$ (3,810,032)</u>	<u>\$ 11,924,535</u>	<u>\$ 169,525</u>	<u>\$ 8,284,028</u>

Arbuckle Memorial Hospital Authority

Notes to Financial Statements
December 31, 2019 and 2018

Cash flows for the year ended December 31, 2019:

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Net Cash from Operating Activities	\$ 623,539	\$ 460,087	\$ (19,251)	\$ 1,064,375
Net Cash from Noncapital Financing Activities	-	1,675,138	58,712	1,733,850
Net Cash used for Capital and Related Financing Activities	(2,658,997)	121,741	-	(2,537,256)
Net Cash from (used for) Investing Activities	<u>1,455,356</u>	<u>103,143</u>	<u>1,716</u>	<u>1,560,215</u>
Net Change in Cash and Cash Equivalents	(580,102)	2,360,109	41,177	1,821,184
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>6,595,331</u>	<u>106,991</u>	<u>6,702,322</u>
Cash and Cash Equivalents, End of Year	<u>\$ (580,102)</u>	<u>\$ 8,955,440</u>	<u>\$ 148,168</u>	<u>\$ 8,523,506</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, 2018:

Statement of net position as of December 31, 2018:

	<u>Authority Restated</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Assets				
Current assets	\$ 3,425,518	\$ 10,017,218	\$ 106,139	\$ 13,548,875
Capital assets, net	7,867,986	1,392,222	19,167	9,279,375
Other assets	<u>1,386,032</u>	<u>534,641</u>	<u>-</u>	<u>1,920,673</u>
Total assets	<u>\$ 12,679,536</u>	<u>\$ 11,944,081</u>	<u>\$ 125,306</u>	<u>\$ 24,748,923</u>
Liabilities and Net Position				
Liabilities				
Current liabilities	\$ 838,003	\$ 1,018,196	\$ -	\$ 1,856,199
Long-term liabilities	<u>15,572,677</u>	<u>-</u>	<u>-</u>	<u>15,572,677</u>
Total liabilities	<u>16,410,680</u>	<u>1,018,196</u>	<u>-</u>	<u>17,428,876</u>
Net Position				
Net investment in capital assets	(4,272,587)	1,392,222	19,167	(2,861,198)
Restricted - expendable for debt service	1,982,953	-	-	1,982,953
Restricted - expendable for capital improvements	2,576,071	-	-	2,576,071
Unrestricted	<u>(4,017,581)</u>	<u>9,533,663</u>	<u>106,139</u>	<u>5,622,221</u>
Total net position	<u>(3,731,144)</u>	<u>10,925,885</u>	<u>125,306</u>	<u>7,320,047</u>
Total liabilities and net position	<u>\$ 12,679,536</u>	<u>\$ 11,944,081</u>	<u>\$ 125,306</u>	<u>\$ 24,748,923</u>

Arbuckle Memorial Hospital Authority

Notes to Financial Statements

December 31, 2019 and 2018

Operating results and changes in net position for the year ended December 31, 2018:

	Authority	Hospital	Foundation	Total
Operating Revenues				
Net patient service revenue	\$ -	\$ 13,893,379	\$ -	\$ 13,893,379
Other operating revenue	1,346,280	(1,039,381)	10,264	317,163
Total operating revenue	1,346,280	12,853,998	10,264	14,210,542
Operating Expenses				
Depreciation	738,709	345,575	-	1,084,284
Other operating expenses	2,510	13,766,042	717	13,769,269
Total operating expense	741,219	14,111,617	717	14,853,553
Operating Income (Loss)	605,061	(1,257,619)	9,547	(643,011)
Nonoperating Revenue (Expense)				
Tax appropriations	-	1,774,632	-	1,774,632
Investment income	-	64,131	800	64,931
Interest expense	(789,731)	-	-	(789,731)
Debt issuance fees	(317,921)	-	-	(317,921)
Contributions	-	26,202	(26,202)	-
Total nonoperating revenue (expense)	(1,107,652)	1,864,965	(25,402)	731,911
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	(502,591)	607,346	(15,855)	88,900
Capital Contributions	-	-	386	386
Change in Net Position	(502,591)	607,346	(15,469)	89,286
Net Position, Beginning of Year	(3,228,553)	10,318,539	140,775	7,230,761
Net Position, End of Year	\$ (3,731,144)	\$ 10,925,885	\$ 125,306	\$ 7,320,047

Arbuckle Memorial Hospital Authority

Notes to Financial Statements

December 31, 2019 and 2018

Cash flows for the year ended December 31, 2018:

	Authority	Hospital	Foundation	Total
Net Cash from (used for) Operating Activities	\$ 236,118	\$ (818,344)	\$ 10,547	\$ (571,679)
Net Cash from (used for) Noncapital Financing Activities	-	1,806,425	(25,816)	1,780,609
Net Cash from (used for) Capital and Related Financing Activities	823,931	(372,339)	-	451,592
Net Cash from (used for) Investing Activities	<u>(1,060,049)</u>	<u>(1,043,521)</u>	<u>800</u>	<u>(2,102,770)</u>
Net Change in Cash and Cash Equivalents	-	(427,779)	(14,469)	(442,248)
Cash and Cash Equivalents, Beginning of Year	<u>-</u>	<u>7,023,110</u>	<u>121,460</u>	<u>7,144,570</u>
Cash and Cash Equivalents, End of Year	<u>\$ -</u>	<u>\$ 6,595,331</u>	<u>\$ 106,991</u>	<u>\$ 6,702,322</u>

Note 13 – Classification of Net Position

The statement of net position was restated for the year ended December 31, 2018 to correct the classification of net position. The Authority had unspent debt proceeds at December 31, 2018 which were not reduced from the calculation of net investment in capital assets.

The following is a summary of the effects of the restatement in the Authority's statement of net position.

	As Previously Reported December 31, 2018	Correction of Error	As Restated December 31, 2018
Net Position - Unrestricted			
Net investment in capital assets	\$ (6,493,948)	\$ (3,632,750)	\$ (2,861,198)
Restricted - Debt Service	1,653,599	(329,354)	1,982,953
Restricted - Capital Improvements	2,576,071	-	2,576,071
Unrestricted	<u>9,584,325</u>	<u>3,962,104</u>	<u>5,622,221</u>
Total net position	<u>\$ 7,320,047</u>	<u>\$ -</u>	<u>\$ 7,320,047</u>

Note 14 - Subsequent Events

The Authority has evaluated subsequent events through June 26, 2020, the date which the financial statements were available to be issued.

Subsequent to year end, the Authority has been impacted by the effects of the world-wide coronavirus pandemic. The Authority is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Hospital's financial position is not known.

On April 29, 2020, the Authority obtained \$1,835,200 of loan proceeds through participation in the Paycheck Protection Program. The loan proceeds are expected to be used to cover costs related to payroll and employee benefits, rent and utilities. Funds borrowed under this program carry an interest rate of 1%, are due within two years of inception and may be forgiven if certain conditions are met. Subject to any potential forgiveness, monthly payments including interest, that could be due starting due starting November 2020 until the loan is paid in full.

During April 2020, the Authority received three payments totaling \$4,080,696 from the Department of Health and Human Services (HHS) as part of the CARES Act Provider Relief Fund to support healthcare related expenses or lost revenue attributable to COVID-19. These funds are subject to specific HHS terms and conditions.



Supplementary Information
December 31, 2019 and 2018

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, 2019 and 2018, and our report thereon dated 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.

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

Oklahoma City, Oklahoma
June 26, 2020

Arbuckle Memorial Hospital Authority
Schedules of Net Patient Service Revenue – Hospital and Authority
Years Ended December 31, 2019 and 2018

	2019			2018		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Routine Services						
Adults and pediatrics	\$ 1,547,200	\$ 2,942,800	\$ 4,490,000	\$ 618,415	\$ 1,725,360	\$ 2,343,775
Ancillary Services						
Operating room	\$ 10,286	\$ 111,970	\$ 122,256	\$ 6,673	\$ 150,692	\$ 157,365
Radiology	374,843	4,537,477	4,912,320	309,610	3,845,479	4,155,089
Laboratory	606,605	4,086,744	4,693,349	489,460	3,751,102	4,240,562
Respiratory therapy	968,378	75,533	1,043,911	934,115	121,149	1,055,264
Physical therapy	811,923	598,895	1,410,818	881,209	602,070	1,483,279
Electrocardiology	51,870	379,797	431,667	41,891	361,500	403,391
Medical supplies	2,452,334	697,836	3,150,170	1,908,535	570,499	2,479,034
Pharmacy	1,863,610	1,110,768	2,974,378	1,524,251	882,998	2,407,249
Clinic	-	1,347,434	1,347,434	-	1,063,239	1,063,239
Emergency	45,809	5,399,008	5,444,817	42,023	3,339,534	3,381,557
Physician fees	481,658	3,052,096	3,533,754	382,286	1,967,028	2,349,314
Special care	30,892	261,327	292,219	8,903	189,169	198,072
Total ancillary services	\$ 7,698,208	\$ 21,658,885	29,357,093	\$ 6,528,956	\$ 16,844,459	23,373,415
Charity Care			(448,554)			(379,054)
Gross Patient Service Revenue			33,398,539			25,338,136
Contractual Adjustments			(13,474,473)			(8,909,657)
Provision for Bad Debts			(4,610,396)			(2,535,100)
Net patient service revenue			\$ 15,313,670			\$ 13,893,379

Arbuckle Memorial Hospital Authority
Schedules of Expenses – Hospital and Authority
Years Ended December 31, 2019 and 2018

	2019			2018		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Adults and pediatrics	\$ 2,349,681	\$ 122,511	\$ 2,472,192	\$ 2,194,368	\$ 133,620	\$ 2,327,988
Other Professional Services						
Operating room	16,333	13,158	29,491	10,738	12,903	23,641
Radiology	398,171	141,037	539,208	331,587	114,084	445,671
Laboratory	455,899	566,854	1,022,753	431,146	456,442	887,588
Respiratory therapy	194,232	60,948	255,180	194,155	48,757	242,912
Physical therapy	697,793	100,446	798,239	679,883	52,998	732,881
Medical supplies	-	197,066	197,066	-	191,460	191,460
Pharmacy	120,070	600,626	720,696	111,316	547,847	659,163
Clinic	1,270,173	271,749	1,541,922	1,111,406	151,013	1,262,419
Emergency	2,056,915	50,612	2,107,527	1,951,144	5,893	1,957,037
Total other professional services	5,209,586	2,002,496	7,212,082	4,821,375	1,581,397	6,402,772
General Services						
Dietary	205,669	132,673	338,342	180,697	112,783	293,480
Plant operations and maintenance	105,018	334,068	439,086	83,898	341,245	425,143
Housekeeping	219,282	48,965	268,247	198,832	44,179	243,011
Laundry	-	90,635	90,635	-	77,894	77,894
Medical records	129,530	40,583	170,113	130,319	32,452	162,771
Total general services	659,499	646,924	1,306,423	593,746	608,553	1,202,299
Administrative Services						
Administration and general	1,098,452	1,238,178	2,336,630	952,814	1,179,512	2,132,326
Nursing administration	306,616	9,531	316,147	293,759	9,419	303,178
Employee health and welfare	-	1,521,796	1,521,796	-	1,399,989	1,399,989
Total administrative services	1,405,068	2,769,505	4,174,573	1,246,573	2,588,920	3,835,493
Depreciation and Amortization	-	1,079,980	1,079,980	-	1,084,284	1,084,284
Total operating expenses	\$ 9,623,834	\$ 6,621,416	\$ 16,245,250	\$ 8,856,062	\$ 5,996,774	\$ 14,852,836



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 Trustees
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, 2019, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated .

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 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 have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a material weakness: 2019-001.

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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*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Oklahoma City, Oklahoma
June 26, 2020

2019-001 Classification of Net Position

Criteria: A properly designed system of internal control over financial reporting includes the proper classification of net position in the statements of net position. 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 U.S. generally accepted accounting principles (GAAP).

Condition: The Authority did not have an internal control system designed to provide for the proper classification of net position (equity) in the statement of net position. This condition resulted in a restatement to the 2018 financial statements.

Cause: This weakness was due to the limited review of the net position classification.

Effect: The financial statements required a prior period restatement.

Auditor's Recommendation: We recommend that management develop an understanding of the net position classifications and periodically review those classifications in order to obtain the maximum internal control over financial reporting.

Views of Responsible Officials: We knew a weakness existed in the Authority's ability to record a refinancing transaction and engaged a consultant to assist with the recording of the refinancing transaction, however we did not consider and the consultant did not advise management on the refinancing's impact to net position classification. We agree with the auditors recommendation to obtain an understanding of net position classifications and periodically review those classifications.