



Management's Discussion and Analysis
and Financial Statements
December 31, 2013 and 2012

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 financial statements of Arbuckle Memorial Hospital Authority (Authority), which comprise the basic balance sheets as of December 31, 2013 and 2012, and the related basic statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 basic financial statements referred to above present fairly, in all material respects, the combined balance sheets of Arbuckle Memorial Hospital Authority as of December 31, 2013 and 2012 and the results of its operations, changes in net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Authority adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As discussed in Note 11 to the financial statements, the Authority has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this Statement. Our opinion is not modified with respect to this 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2014 on our consideration of Arbuckle Memorial Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
June 25, 2014

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, 2013 and 2012. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights – Financial Statements

- The Authority's net position decreased by \$360,231 or 5.1% in 2013 and increased by \$844,259 or 13.6% in 2012.
- The Authority reported an operating loss in 2013 of \$1,003,332 and operating income in 2012 of \$240,468. Operating income in 2013 decreased by \$1,243,800 or 517% over the income reported in 2012. Operating income reported in 2012 increased by \$1,166,478 or 126% over the loss reported in 2011.
- Non-operating revenues decreased by \$2,913 or .5% in 2013 compared to 2012. Non-operating revenues increased by \$174,509 or 42.7% in 2012 compared to 2011.

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 – Balance Sheets; 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 Balance Sheet; 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 Balance Sheet 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 did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Overview of the Financial Statements

The financial statements include the balance sheets, statements of revenues, expenses, and changes in net position, and statements of cash flows.

The balance sheet at December 31, 2013 indicated total assets of \$22,433,861, total liabilities of \$15,762,369 and net position of \$6,671,492. Total current assets were \$7,843,753 and total current liabilities were \$1,632,068 for a current ratio of 4.8. The balance sheet at December 31, 2012 had current assets of \$8,144,906 and current liabilities of \$2,028,938 for a current ratio of 4.0.

The statements of revenues, expenses, and changes in net position for the year ended December 31, 2013 indicated total operating revenues of \$11,387,272 and operating expenses of \$12,390,604, operating loss of \$1,003,332, non-operating revenues (net) of \$579,822, and capital contributions of \$63,279. The net position decreased by \$360,231 from \$7,031,723 at December 31, 2012 to \$6,671,492 at December 31, 2013.

As reported in the statements of cash flows, cash and cash equivalents decreased from \$5,027,087 at December 31, 2012 to \$4,548,172 at December 31, 2013.

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 decreased by \$360,231 or 5.1% in 2013 and increased by \$844,259 or 13.6% in 2012.

Table 1 Assets, Liabilities, and Net Position

	2013	2012 (Restated)	2011 (Restated)
Assets			
Current assets	\$ 7,843,753	\$ 8,144,906	\$ 6,691,916
Capital assets	12,780,606	13,827,212	15,083,146
Other non-current assets	1,809,502	1,809,413	1,809,567
Total assets	\$ 22,433,861	\$ 23,781,531	\$ 23,584,629
Liabilities			
Current liabilities	\$ 1,632,068	\$ 2,028,938	\$ 2,111,666
Long-term debt, net of current portion	14,130,301	14,720,870	15,285,499
Total liabilities	15,762,369	16,749,808	17,397,165
Net Position			
Net investment in capital assets	(691,088)	(209,113)	507,808
Restricted - expendable for debt service	1,984,207	1,976,295	1,976,890
Unrestricted	5,378,373	5,264,541	3,702,766
Total net position	6,671,492	7,031,723	6,187,464
Total liabilities and net position	\$ 22,433,861	\$ 23,781,531	\$ 23,584,629

A significant component of the change in the Authority's assets is the accumulated depreciation taken against the capital assets throughout the year as well as a decrease in volume which led to a decrease in accounts receivable and cash balances throughout the year.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues		(Restated)	(Restated)
Net patient service revenue	\$ 11,353,712	\$ 11,873,149	\$ 11,308,833
Electronic health record incentive	-	523,634	150,000
Other revenue	33,560	42,695	59,404
Total operating revenue	<u>11,387,272</u>	<u>12,439,478</u>	<u>11,518,237</u>
Operating Expenses			
Salaries and wages	6,815,720	6,436,235	6,219,678
Supplies and other	4,290,146	4,351,594	4,819,358
Depreciation	1,284,738	1,411,181	1,405,211
Total operating expenses	<u>12,390,604</u>	<u>12,199,010</u>	<u>12,444,247</u>
Operating Income (Loss)	<u>(1,003,332)</u>	<u>240,468</u>	<u>(926,010)</u>
Non-operating Revenue (Expenses)			
Tax appropriations	1,614,746	1,640,863	1,492,687
Investment income	5,324	14,294	11,381
Interest expense	(1,048,466)	(1,073,412)	(1,097,404)
Noncapital contributions	8,218	990	1,562
Total non-operating revenue, net	<u>579,822</u>	<u>582,735</u>	<u>408,226</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	(423,510)	823,203	(517,784)
Capital Contributions	<u>63,279</u>	<u>21,056</u>	<u>53,766</u>
Increase (Decrease) in Net Position	<u>(360,231)</u>	<u>844,259</u>	<u>(464,018)</u>
Net Position, Beginning of Year	<u>7,031,723</u>	<u>6,187,464</u>	<u>6,651,482</u>
Net Position, End of Year	<u>\$ 6,671,492</u>	<u>\$ 7,031,723</u>	<u>\$ 6,187,464</u>

Operating Income (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 income for 2013 decreased by \$1,243,800 or 517% as compared to 2012 and the operating income increased in 2012 by \$1,166,478 or 126% compared to 2011. The primary components of the decreased operating income are:

- A decrease in net patient service revenue of \$519,437, or 4.4% in 2013 as compared to an increase of \$564,316, or 4.9% in 2012.
- A decrease in EHR incentive payments of \$523,634 or 100% in 2013 as compared to an increase of \$373,634 or 249.1% during 2012.

Non-operating Revenues and Expenses

Non-operating revenues consist primarily of sales tax proceeds, interest expense, investment earnings, and contributions. The non-operating revenues decreased in 2013 by \$2,913 or .5% and increased by \$174,509 or 42.7% in 2012.

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 \$42,223 or 200.5% in 2013 and decreased \$32,710 or 60.8% in 2012.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and non-operating revenues and expenses, as discussed earlier.

Capital Assets

The Authority had capital assets and net accumulated depreciation at December 31, 2013 amounting to \$12,780,606. This investment in capital assets includes land, buildings and improvements, equipment, and construction in progress.

Capital assets consisted of the following at December 31:

	2013	2012	2011
Land	\$ 58,799	\$ 58,799	\$ 58,799
Buildings and fixed equipment	16,239,532	16,231,643	16,231,643
Major moveable equipment	4,095,698	3,865,455	3,710,208
Accumulated depreciation	(7,613,423)	(6,328,685)	(4,917,504)
Total capital assets	\$ 12,780,606	\$ 13,827,212	\$ 15,083,146

Debt

As of December 31, 2013 and 2012 the Authority had \$505,869 and \$865,500 in outstanding capital lease obligations as detailed in notes 6 and 7.

The Authority has bond obligations outstanding of \$14,215,000 and \$14,420,000 as of December 31, 2013 and 2012. 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, 2013 and 2012, the Authority was in compliance with these covenants.

Economic Factors

The Authority has increased rates during the current fiscal year, which should continue to increase revenues for the upcoming year. The Authority continues to monitor costs throughout the year. The Authority's continued mission is to be a health care leader in the area and to enhance services to patients in a fiscally responsible manner. The Authority strives to be conscientious, consumer oriented, and dedicated to teamwork, leadership, and education.

Requests for Information

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Arbuckle Memorial Hospital Authority, 2011 W Broadway Ave., Sulphur, Oklahoma 73066.

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	<u>2013</u>	<u>2012</u> (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,002,213	\$ 4,481,854
Held by trustee for debt service	735,032	727,120
Receivables		
Patients, net of estimated uncollectibles of approximately \$1,410,000 in 2013 and \$1,395,000 in 2012	1,878,749	2,214,597
Sales tax	398,903	387,347
Other receivables	6,023	14,699
Estimated third-party payor settlements	476,860	-
Supplies	248,682	229,281
Prepaid and other assets	97,291	90,008
Total current assets	<u>7,843,753</u>	<u>8,144,906</u>
Assets Limited as to Use		
By Board of Trustees for capital acquisitions	545,959	545,233
Held by trustee for debt service, net of current portion	1,249,175	1,249,175
Total assets limited as to use	<u>1,795,134</u>	<u>1,794,408</u>
Other Assets		
Other receivables, net of current portion	14,368	15,005
Capital Assets		
Land	58,799	58,799
Depreciable assets, net of accumulated depreciation	12,721,807	13,768,413
Total capital assets	<u>12,780,606</u>	<u>13,827,212</u>
Total assets	<u>\$ 22,433,861</u>	<u>\$ 23,781,531</u>

See Notes to Financial Statements

Arbuckle Memorial Hospital Authority
Balance Sheets
December 31, 2013 and 2012

	2013	2012 (Restated)
Liabilities and Net Position		
Current Liabilities		
Current portion of long-term debt	\$ 590,568	\$ 564,630
Accounts payable	178,224	245,801
Estimated third-party payor settlements	-	368,299
Accrued expenses		
Salaries, wages, and benefits	349,563	329,320
Interest	513,713	520,888
Total current liabilities	1,632,068	2,028,938
Long-term Debt, Net of Current Portion		
	14,130,301	14,720,870
Total liabilities	15,762,369	16,749,808
Net Position		
Net investment in capital assets	(691,088)	(209,113)
Restricted		
Expendable for debt service	1,984,207	1,976,295
Unrestricted	5,378,373	5,264,541
Total net position	6,671,492	7,031,723
Total liabilities and net position	\$ 22,433,861	\$ 23,781,531

Arbuckle Memorial Hospital Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$2,139,418 in 2013 and \$2,202,029 in 2012	\$ 11,353,712	\$ 11,873,149
Electronic health record incentive	-	523,634
Other revenue	33,560	42,695
Total operating revenues	11,387,272	12,439,478
Operating Expenses		
Salaries and wages	6,815,720	6,436,235
Supplies and other	4,290,146	4,351,594
Depreciation	1,284,738	1,411,181
Total operating expenses	12,390,604	12,199,010
Operating Income (Loss)	(1,003,332)	240,468
Nonoperating Revenue (Expenses)		
Tax appropriations	1,614,746	1,640,863
Investment income	5,324	14,294
Interest expense	(1,048,466)	(1,073,412)
Noncapital contributions	8,218	990
Total nonoperating revenue, net	579,822	582,735
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	(423,510)	823,203
Capital Contributions	63,279	21,056
Increase (Decrease) in Net Position	(360,231)	844,259
Net Position, Beginning of Year	7,031,723	6,187,464
Net Position, End of Year	\$ 6,671,492	\$ 7,031,723

Arbuckle Memorial Hospital Authority
 Statements of Cash Flows
 Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Operating Activities		
Cash received from patient services	\$ 10,844,401	\$ 12,102,858
Cash payments to suppliers for goods and services	(4,384,407)	(4,315,225)
Cash payments to employees for services	(6,795,477)	(6,421,119)
Other operating revenues	42,873	86,110
	(292,610)	1,452,624
Net cash (used for) provided by operating activities		
Noncapital Related Financing Activity		
Grants and contributions	8,218	990
Sales tax proceeds for operations	1,603,190	1,613,447
	1,611,408	1,614,437
Net cash provided by noncapital financing activities		
Noncapital Related Financing Activities		
Capital contributions	63,279	21,056
Principal paid on long-term debt	(564,631)	(539,013)
Interest paid	(1,055,641)	(1,080,062)
Purchase of capital assets	(238,132)	(155,247)
	(1,795,125)	(1,753,266)
Net cash used for capital and capital related financing activities		
Investing Activities		
Purchase of investments	(1,250,001)	(1,241,448)
Proceeds from sale of investments	1,242,089	1,242,224
Investment income	5,324	14,294
	(2,588)	15,070
Net cash (used for) provided by investing activities		
Net (Decrease) Increase in Cash and Cash Equivalents	(478,915)	1,328,865
Cash and Cash Equivalents, Beginning of Year	5,027,087	3,698,222
Cash and Cash Equivalents, End of Year	\$ 4,548,172	\$ 5,027,087
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 4,002,213	\$ 4,481,854
Cash and cash equivalents included in assets limited as to use	545,959	545,233
	\$ 4,548,172	\$ 5,027,087

Arbuckle Memorial Hospital Authority
 Statements of Cash Flows
 Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Reconciliation of Operating Income (Loss) to Net Cash		
(Used for) Provided by Operating Activities		
Operating income (loss)	\$ (1,003,332)	\$ 240,468
Adjustments to reconcile operating income (loss) to net cash (used for) provided by operating activities		
Depreciation	1,284,738	1,411,181
Provision for bad debts	2,139,418	2,202,029
Changes in assets and liabilities		
Accounts receivable	(1,803,570)	(2,297,996)
Supplies	(19,401)	(27,139)
Other receivables	9,313	43,415
Prepaid expenses	(7,283)	(17,640)
Accounts payable	(67,577)	81,148
Accrued salaries, wages, and benefits	20,243	15,116
Estimated third-party payor settlements	(845,159)	(197,958)
Net cash (used for) provided by operating activities	\$ (292,610)	\$ 1,452,624

Note 1 - Organization and Significant Accounting Policies

Arbuckle Memorial Hospital Authority

Arbuckle Memorial Hospital Authority (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. The Authority's board is made up of members of Arbuckle Memorial Hospital's (Hospital) Board of Trustees. The Authority is considered to be a component unit of Murray County.

Blended Component Units

The Murray County Healthcare Foundation (Foundation) has been included as a blended component unit because the Foundation exists for the exclusive benefit and support of the Hospital.

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 is owned by Murray County and governed by a Board of Trustees appointed by the County commissioners. The Hospital has been included as a blended component unit because the Hospital exists to support the healthcare needs of the citizens of Murray County and provide the support for the Authority.

The blending method has been used to incorporate the Foundation's and Hospital's financial statements into the Authority's financial statements. Under the blending method, transactions between the Authority and the Foundation and Hospital that generate intercompany receivables, payables, revenues, and expenses are eliminated. After elimination, the remaining balances and transactions of the Foundation and Hospital are included in the Authority's assets, liabilities, revenues, and expenses.

Change in Accounting Principle

Beginning in fiscal year 2012, the Authority implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenditures. As a result of early implementing this statement, the Authority changed the classification of certain liabilities to deferred inflows. The Authority also restated beginning net position to write-off bond issuance costs as required by this Statement (see Note 11).

Enterprise Fund Accounting

The Authority uses proprietary fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Tax Exempt Status

The Authority is exempt from income taxes under Internal Revenue Code Section 115 and a similar provision of state law as a political subdivision of the State of Oklahoma.

The Foundation is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The Foundation is required to file an annual return of organization exempt from income tax (Form 990) with the Internal Revenue Service (IRS).

The Foundation believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS.

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 and 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 assets limited as to use.

Assets Limited as to Use

Designated investments include assets 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. Restricted investments include assets restricted under debt agreements. Designated or restricted investments that are available for obligations classified as current liabilities are reported in current assets.

Patient Receivables

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

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

Supplies

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

Capital Assets

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

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

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

Net Position

Net position is presented in the following three components:

Net Investment in Capital Assets – Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Restricted, Expendable for Debt Service - Restricted for debt service consists of assets whose use is restricted to payment of long-term debt.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted for debt service.

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.

Supplemental Hospital Offset Payment Program Act

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

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

The Authority received SHOPP payments totaling approximately \$72,000 and \$82,000 for the years ended December 31, 2013 and 2012, which is included in net patient service revenue.

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 amount of charges foregone, based on established rates were \$459,526 and \$604,083 for the years ended December 31, 2013 and 2012. The estimated costs of the charges foregone, based upon the Authority's overall cost-to-charge ratio calculation, for the years ended December 31, 2013 and 2012, were \$267,000 and \$321,000.

Advertising Costs

The Authority expenses advertising costs as incurred.

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 result from exchange transactions associated with providing health care services - the Authority's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Sales Tax 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. The tax was effective as of January 1, 2007.

Electronic Health Record Incentive

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

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

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments.

The Authority did not record EHR incentives during the year ending December 31, 2013. During the year ended December 31, 2012, the Authority recorded \$523,634 related to the Medicare program and recorded \$-0- related to the Medicaid program in operating revenues for meaningful use incentives.

Grants and Contributions

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

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.

Note 2 - Net Patient Service Revenue

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

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement method with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2010. 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.

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

Revenue from the Medicare and Medicaid programs accounts for approximately 65% and 5% of the Authority's net patient service revenue for the year ended December 31, 2013 and 63% and 7% for the year ended December 31, 2012. 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.

A summary of patient service revenue and contractual adjustments for the years ended December 31, 2013 and 2012 is as follows:

	2013	2012
Total patient service revenue	\$ 21,278,586	\$ 22,930,965
Contractual adjustments		
Medicare and Medicaid	(5,410,491)	(6,373,011)
Other	(2,374,965)	(2,482,776)
Provisions for bad debt	(2,139,418)	(2,202,029)
Total contractual adjustments and provisions for bad debt	(9,924,874)	(11,057,816)
Net patient service revenue	\$ 11,353,712	\$ 11,873,149

Note 3 - Deposits and Investments

Deposits

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

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. The Authority has a general investment policy to minimize custodial credit risk. 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. At December 31, 2013 and 2012, the Authority's deposits exposed to custodial credit risk were as follows:

	2013	2012
Insured (FDIC)	\$ 408,106	\$ 1,060,812
Collateralized by U.S. government securities held by the Authority's agents in the Authority's name	4,100,665	4,138,251
Total	\$ 4,508,771	\$ 5,199,063
Carrying value	\$ 4,548,172	\$ 5,027,087

Investments

Investments are stated at fair market value and include the following at December 31, 2013 and 2012:

	Maturities	2013	2012
U.S. Treasury Obligations	Daily	\$ 1,984,207	\$ 1,976,295

Credit Risk

Statutes require that investments be made only in U.S. government obligations. The Authority's investment policy does not further limit its investment options.

Interest Rate Risk

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

Concentration of Credit Risk

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

Summary of Carrying Amounts

The carrying amounts of the Authority's deposits and investments are included in the balance sheets at December 31, 2013 and 2012 as follows:

	2013	2012
Carrying amount		
Deposits	\$ 4,548,172	\$ 5,027,087
Investments	1,984,207	1,976,295
Total carrying amount	\$ 6,532,379	\$ 7,003,382

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 4,002,213	\$ 4,481,854
Current assets limited as to use - held by trustee for debt service	735,032	727,120
Assets Limited as to Use - by Board of Trustees for capital acquisition	545,959	545,233
Assets Limited as to Use - held by trustee for debt service	1,249,175	1,249,175
Total carrying amount	\$ 6,532,379	\$ 7,003,382

Note 4 - Capital Assets

Capital assets additions, retirements, and balances for the year ended December 31, 2013 are as follows:

	Balance 2012	Additions	Retirements	Transfers	Balance 2013
Non-depreciable capital assets					
Land	\$ 58,799	\$ -	\$ -	\$ -	\$ 58,799
Depreciable capital assets					
Buildings, improvements, and fixed equipment	\$ 16,231,643	\$ 7,889	\$ -	\$ -	\$ 16,239,532
Major moveable equipment	3,865,455	230,243	-	-	4,095,698
Total depreciable capital assets	20,097,098	\$ 238,132	\$ -	\$ -	20,335,230
Less accumulated depreciation for					
Buildings, improvements, and fixed equipment	(3,733,334)	\$ (892,436)	\$ -	\$ -	(4,625,770)
Major moveable equipment	(2,595,351)	(392,302)	-	-	(2,987,653)
Total accumulated depreciation	(6,328,685)	\$ (1,284,738)	\$ -	\$ -	(7,613,423)
Net depreciable capital assets	13,768,413				12,721,807
Capital assets, net	\$ 13,827,212				\$ 12,780,606

Capital assets additions, retirements, and balances for the year ended December 31, 2012 are as follows:

	Balance 2011	Additions	Retirements	Transfers	Balance 2012
Non-depreciable capital assets					
Land	\$ 58,799	\$ -	\$ -	\$ -	\$ 58,799
Depreciable capital assets					
Buildings, improvements, and fixed equipment	\$ 16,231,643	\$ -	\$ -	\$ -	\$ 16,231,643
Major moveable equipment	3,710,208	155,247	-	-	3,865,455
Total depreciable capital assets	19,941,851	\$ 155,247	\$ -	\$ -	20,097,098
Less accumulated depreciation for					
Buildings, improvements, and fixed equipment	\$ (2,839,172)	\$ (894,162)	\$ -	\$ -	\$ (3,733,334)
Major moveable equipment	(2,078,332)	(517,019)	-	-	(2,595,351)
Total accumulated depreciation	\$ (4,917,504)	\$ (1,411,181)	\$ -	\$ -	\$ (6,328,685)
Net depreciable capital assets	15,024,347				13,768,413
Capital assets, net	\$ 15,083,146				\$ 13,827,212

Note 5 - Leases

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. At December 31, 2013 and 2012, the capitalized leased assets consisted of:

	2013	2012
Major movable equipment	\$ 1,766,546	\$ 1,766,546
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(1,534,282)	(1,178,320)
Total	\$ 232,264	\$ 588,226

The Authority leases certain equipment under noncancelable long-term lease agreements. The rental expense for all operating leases was \$147,083 and \$141,590 for the years ended December 31, 2013 and 2012. Minimum future lease payments for operating leases are as follows:

Years Ending June 30,	Operating Leases
2014	\$ 36,360
2015	14,148
2016	14,148
2017	14,148
Total minimum lease payments	\$ 78,804

Note 6 - Long-term Debt

Long-term debt activity for the years ended December 31, 2013 and 2012, follows:

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Amounts Due Within One Year
Series 2008 Revenue Bonds payable	\$ 14,420,000	\$ -	\$ (205,000)	\$ 14,215,000	\$ 220,000
Capital lease obligation	865,500	-	(359,631)	505,869	370,568
Total notes	\$ 15,285,500	\$ -	\$ (564,631)	\$ 14,720,869	\$ 590,568

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Amounts Due Within One Year
Series 2008 Revenue Bonds payable	\$ 14,610,000	\$ -	\$ (190,000)	\$ 14,420,000	\$ 205,000
Capital lease obligation	1,214,513	-	(349,013)	865,500	359,630
Total notes	\$ 15,824,513	\$ -	\$ (539,013)	\$ 15,285,500	\$ 564,630

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at December 31, 2013 and 2012 are as follows:

- (1) 7.00% to 7.25% bond payable, due January 1, 2038, collateralized by the net revenues, accounts receivables, and assets included under the Revenue Bond Indenture.
- (2) Capital lease obligations, at imputed interest rates of 3%, collateralized by leased equipment with a cost of \$1,766,546.

Under the terms of the Revenue Bond Indenture agreement, the Authority is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the balance sheets. The Revenue Bond Indenture 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, 2013 and 2012, the Authority was in compliance with the financial and affirmative covenants of the Revenue Bond.

At December 31, 2013 and 2012, scheduled principal and interest repayments on long-term debt and payments on capital lease obligations were as follows:

Year Ending December 31:	Bonds Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2014	\$ 220,000	\$ 1,027,425	\$ 370,568	\$ 10,102
2015	235,000	1,012,025	135,301	986
2016	250,000	995,575	-	-
2017	270,000	978,075	-	-
2018	290,000	959,175	-	-
2019-2023	1,775,000	4,455,125	-	-
2024-2028	2,520,000	3,710,913	-	-
2029-2033	3,580,000	2,654,588	-	-
2034-2038	5,075,000	1,154,925	-	-
Total	\$ 14,215,000	\$ 16,947,826	\$ 505,869	\$ 11,088

Note 7 - Employee Benefit Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Beginning in 1998, the Authority implemented an employer match which is determined by the Board annually. Beginning in 2012, the Authority changed to depositing 403b matching funds on a per pay period basis rather than an annual contribution. 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. The plan provides retirement benefits to plan members and their beneficiaries. 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. For the years ended December 31, 2013 and 2012 and 2011, the Authority provided a 4% contribution match totaling \$154,392 and \$105,181 and \$49,089.

Note 8 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2013 and 2012 was as follows:

	2013	2012
Medicare	27%	33%
Medicaid	7%	6%
Other third-party payors	23%	21%
Patients	43%	40%
Total	100%	100%

Note 9 - Contingencies

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 10 - Related Party Transactions

On June 1, 1998, the Authority entered into a management agreement with Preferred Management Corporation, and Mercy Memorial Health Center, whereby Mercy Memorial Health Center agreed to provide Hospital-physician liaison services and information systems while 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 \$311,633 and \$304,066 for the years ended December 31, 2013 and 2012.

Note 11 - Change in Accounting Principle

In March 2012, the GASB issued Statement No. 65: Items Previously Reported as Assets and Liabilities. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard was implemented by the Authority during the year ended December 31, 2013 and was applied retroactively by restating the financial statements for all periods presented.

The provisions of GASB 65 require that bond costs (deferred financing costs) be recognized as an expense in the period incurred. The implementation resulted in the removal of previously recognized bond costs, originally totaling \$441,607, and reduction in net position of \$394,739 as of January 1, 2012 and reduction of depreciation and amortization expense and increase in operating income of \$23,434 for the year ended December 31, 2012.

	<u>Amounts as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amounts as Restated</u>
Balance Sheet			
Assets			
Deferred financing costs, net	\$ 371,305	\$ (371,305)	\$ -
Total assets	<u>\$ 24,152,836</u>	<u>\$ (371,305)</u>	<u>\$ 23,781,531</u>
Liabilities and Net Position			
Net position unrestricted	\$ 6,885,021	\$ (371,305)	\$ 6,513,716
Total net position	<u>\$ 7,403,028</u>	<u>\$ (371,305)</u>	<u>\$ 7,031,723</u>
Total liabilities and net position	<u>\$ 24,152,836</u>	<u>\$ (371,305)</u>	<u>\$ 23,781,531</u>
Statement of Revenues, Expenses, and Changes in Net Position			
Operating Expenses	\$ 12,222,444	\$ (23,434)	\$ 12,199,010
Increase in Net Position	<u>\$ 820,825</u>	<u>\$ 23,434</u>	<u>\$ 844,259</u>
Net position, beginning of year	<u>\$ 6,582,203</u>	<u>\$ (394,739)</u>	<u>\$ 6,187,464</u>
Net position, end of year	<u>\$ 7,403,028</u>	<u>\$ (371,305)</u>	<u>\$ 7,031,723</u>

Note 12 - Condensed Combining Information

The following summarizes combining information for the Hospital, Authority, and Foundation which has been presented as a blended component unit, as of and for the year ended December 31, 2013.

Assets, Liabilities and Net Position

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Assets				
Current Assets	\$ 735,032	\$ 7,022,821	\$ 85,900	\$ 7,843,753
Capital Assets	11,608,104	1,172,502	-	12,780,606
Other non current assets	<u>1,249,175</u>	<u>545,959</u>	<u>14,368</u>	<u>1,809,502</u>
Total Assets	<u>\$ 13,592,311</u>	<u>\$ 8,741,282</u>	<u>\$ 100,268</u>	<u>\$ 22,433,861</u>
Liabilities				
Current liabilities	\$ 220,000	\$ 1,412,068	\$ -	\$ 1,632,068
Long term liabilities	<u>13,995,000</u>	<u>135,301</u>	<u>-</u>	<u>14,130,301</u>
Total liabilities	<u>\$ 14,215,000</u>	<u>\$ 1,547,369</u>	<u>\$ -</u>	<u>\$ 15,762,369</u>
Net Position				
Net investment in capital assets	\$ (1,357,682)	\$ 666,594	\$ -	\$ (691,088)
Expendable for debt service	1,984,207	-	-	1,984,207
Unrestricted	<u>(1,249,214)</u>	<u>6,527,319</u>	<u>100,268</u>	<u>5,378,373</u>
	<u>\$ (622,689)</u>	<u>\$ 7,193,913</u>	<u>\$ 100,268</u>	<u>\$ 6,671,492</u>
Total liabilities and net position	<u>\$ 13,592,311</u>	<u>\$ 8,741,282</u>	<u>\$ 100,268</u>	<u>\$ 22,433,861</u>

Operating Results and Changes in Net Position

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ -	\$ 11,353,712	\$ -	\$ 11,353,712
Other operating revenue				
Lease revenue and expense	-	-	-	-
Contribution revenue and expense	-	-	-	-
Other operating revenue	<u>1,247,512</u>	<u>(1,217,188)</u>	<u>3,236</u>	<u>33,560</u>
Total operating revenue	<u>1,247,512</u>	<u>10,136,524</u>	<u>3,236</u>	<u>11,387,272</u>
Operating expenses				
Depreciation and amortization	886,928	397,810	-	1,284,738
Other operating expenses	<u>-</u>	<u>11,102,641</u>	<u>3,225</u>	<u>11,105,866</u>
Total operating expense	<u>886,928</u>	<u>11,500,451</u>	<u>3,225</u>	<u>12,390,604</u>
Operating Income (loss)	<u>360,584</u>	<u>(1,363,927)</u>	<u>11</u>	<u>(1,003,332)</u>
Non operating revenue (expense)				
Tax appropriations	-	1,614,746	-	1,614,746
Investment income	-	5,219	105	5,324
Interest expense	(1,034,600)	(13,866)	-	(1,048,466)
Contributions	<u>-</u>	<u>161,378</u>	<u>(153,160)</u>	<u>8,218</u>
Total non operating revenue (expense)	<u>(1,034,600)</u>	<u>1,767,477</u>	<u>(153,055)</u>	<u>579,822</u>
Revenues in excess of (expenses) before capital contributions	(674,016)	403,550	(153,044)	(423,510)
Capital contributions	<u>-</u>	<u>-</u>	<u>63,279</u>	<u>63,279</u>
Increase (decrease) in Net position	(674,016)	403,550	(89,765)	(360,231)
Net position beginning of year	<u>51,327</u>	<u>6,790,363</u>	<u>190,033</u>	<u>7,031,723</u>
Net position end of year	<u>\$ (622,689)</u>	<u>\$ 7,193,913</u>	<u>\$ 100,268</u>	<u>\$ 6,671,492</u>

Arbuckle Memorial Hospital Authority
Notes to Financial statements
December 31, 2013 and 2012

Cash flows

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Net Cash from Operating Activities	\$ 1,247,512	\$ (1,548,459)	\$ 8,337	\$ (292,610)
Net Cash from Non capital Financing Activities		1,611,408		1,611,408
Net Cash from Capital and related Financing Activities	(1,239,600)	(465,644)	(89,881)	(1,795,125)
Net Cash from Investing Activities	<u>(7,912)</u>	<u>5,219</u>	<u>105</u>	<u>(2,588)</u>
Net increase in cash and cash equivalents	-	(397,476)	(81,439)	(478,915)
Cash and cash equivalents, beginning of year	<u>-</u>	<u>4,864,099</u>	<u>162,988</u>	<u>5,027,087</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 4,466,623</u>	<u>\$ 81,549</u>	<u>\$ 4,548,172</u>

Summarized combining information as of and for the year ended December 31, 2012 is below:

Assets, Liabilities and Net Position

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Assets				
Current Assets	\$ 727,120	\$ 7,242,758	\$ 175,028	\$ 8,144,906
Capital Assets	12,495,032	1,332,180	-	13,827,212
Other non current assets	<u>1,249,175</u>	<u>545,233</u>	<u>15,005</u>	<u>1,809,413</u>
Total Assets	<u>\$ 14,471,327</u>	<u>\$ 9,120,171</u>	<u>\$ 190,033</u>	<u>\$ 23,781,531</u>
Liabilities				
Current liabilities	\$ 205,000	\$ 1,823,938	\$ -	\$ 2,028,938
Long term liabilities	<u>14,215,000</u>	<u>505,870</u>	<u>-</u>	<u>14,720,870</u>
Total liabilities	<u>\$ 14,420,000</u>	<u>\$ 2,329,808</u>	<u>\$ -</u>	<u>\$ 16,749,808</u>
Net Position				
Net investment in capital assets	\$ (675,928)	\$ 466,815	\$ -	\$ (209,113)
Expendable for debt service	1,976,295	-	-	1,976,295
Unrestricted	<u>(1,249,040)</u>	<u>6,323,548</u>	<u>190,033</u>	<u>5,264,541</u>
	<u>\$ 51,327</u>	<u>\$ 6,790,363</u>	<u>\$ 190,033</u>	<u>\$ 7,031,723</u>
Total liabilities and net position	<u>\$ 14,471,327</u>	<u>\$ 9,120,171</u>	<u>\$ 190,033</u>	<u>\$ 23,781,531</u>

Operating Results and Changes in Net Position

	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ -	\$ 11,873,149	\$ -	\$ 11,873,149
Other operating revenue				
Lease revenue and expense	-	-	-	-
Contribution revenue and expense	-	-	-	-
Other operating revenue	<u>1,253,425</u>	<u>(688,786)</u>	<u>1,690</u>	<u>566,329</u>
Total operating revenue	<u>1,253,425</u>	<u>11,184,363</u>	<u>1,690</u>	<u>12,439,478</u>
Operating expenses				
Depreciation and amortization	886,928	524,253	-	1,411,181
Other operating expenses	<u>-</u>	<u>10,787,007</u>	<u>822</u>	<u>10,787,829</u>
Total operating expense	<u>886,928</u>	<u>11,311,260</u>	<u>822</u>	<u>12,199,010</u>
Operating Income (loss)	<u>366,497</u>	<u>(126,897)</u>	<u>868</u>	<u>240,468</u>
Non operating revenue (expense)				
Tax appropriations	-	1,640,863	-	1,640,863
Investment income	-	11,429	2,865	14,294
Interest expense	(1,055,075)	(18,337)	-	(1,073,412)
Contributions	<u>-</u>	<u>367,565</u>	<u>(366,575)</u>	<u>990</u>
Total non operating revenue (expense)	<u>(1,055,075)</u>	<u>2,001,520</u>	<u>(363,710)</u>	<u>582,735</u>
Revenues in excess of (expenses) before capital contributions	(688,578)	1,874,623	(362,842)	823,203
Capital contributions	<u>-</u>	<u>-</u>	<u>21,056</u>	<u>21,056</u>
Increase (decrease) in Net position	(688,578)	1,874,623	(341,786)	844,259
Net position beginning of year	<u>739,905</u>	<u>4,915,740</u>	<u>531,819</u>	<u>6,187,464</u>
Net position end of year	<u>\$ 51,327</u>	<u>\$ 6,790,363</u>	<u>\$ 190,033</u>	<u>\$ 7,031,723</u>

Arbuckle Memorial Hospital Authority
Notes to Financial statements
December 31, 2013 and 2012

Cash flows	<u>Authority</u>	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Net Cash from Operating Activities	\$ 1,253,425	\$ 154,916	\$ 44,283	\$ 1,452,624
Net Cash from Non capital Financing Activities	-	1,614,437	-	1,614,437
Net Cash from Capital and related Financing Activities	(1,245,075)	(162,672)	(345,519)	(1,753,266)
Net Cash from Investing Activities	<u>(8,350)</u>	<u>20,374</u>	<u>3,046</u>	<u>15,070</u>
Net increase in cash and cash equivalents	-	1,627,055	(298,190)	1,328,865
Cash and cash equivalents, beginning of year	<u>-</u>	<u>3,237,044</u>	<u>461,178</u>	<u>3,698,222</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 4,864,099</u>	<u>\$ 162,988</u>	<u>\$ 5,027,087</u>



Supplementary Information
December 31, 2013 and 2012

Arbuckle Memorial Hospital Authority



Independent Auditor's Report on Supplementary Information

The Board of Directors
Arbuckle Memorial Hospital Authority
Sulphur, Oklahoma

We have audited the financial statements of Arbuckle Memorial Hospital Authority as of and for the years ended December 31, 2013 and 2012, and our report thereon dated June 25, 2014, which expresses an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient service revenue – hospital only, schedules of other revenue – hospital only, and schedules of expenses – hospital only on pages 33-34, are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
June 25, 2014

Arbuckle Memorial Hospital Authority
Schedules of Net Patient Service Revenue – Hospital Only
Years Ended December 31, 2013 and 2012

	2013			2012		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Routine Services						
Adults and pediatrics	\$ 508,269	\$ 984,360	\$ 1,492,629	\$ 649,582	\$ 1,120,080	\$ 1,769,662
Ancillary Services						
Operating room	12,483	197,263	209,746	12,005	253,659	265,664
Radiology	199,453	3,109,387	3,308,840	236,251	3,465,287	3,701,538
Laboratory	412,511	2,784,284	3,196,795	468,523	2,740,964	3,209,487
Respiratory therapy	658,379	201,917	860,296	796,299	234,047	1,030,346
Physical therapy	482,175	624,883	1,107,058	466,303	623,193	1,089,496
Electrocardiology	70,973	362,389	433,362	164,426	505,524	669,950
Medical supplies	1,694,225	709,151	2,403,376	2,108,531	840,503	2,949,034
Pharmacy	901,794	795,962	1,697,756	1,100,005	939,584	2,039,589
Clinic	-	801,797	801,797	-	863,652	863,652
Emergency	13,347	3,390,047	3,403,394	17,675	2,831,733	2,849,408
Physician fees	291,189	2,175,727	2,466,916	311,061	2,245,081	2,556,142
Special care	2,700	353,447	356,147	9,778	531,302	541,080
Total ancillary services	4,739,229	15,506,254	20,245,483	5,690,857	16,074,529	21,765,386
Charity Care	(459,526)	-	(459,526)	(604,083)	-	(604,083)
Gross Patient Service Revenue	<u>\$ 4,787,972</u>	<u>\$ 16,490,614</u>	<u>21,278,586</u>	<u>\$ 5,736,356</u>	<u>\$ 17,194,609</u>	<u>22,930,965</u>
Contractual Adjustments and Provision for Bad Debts						
Medicare and Medicaid			(5,410,491)			(6,373,011)
Other			(2,374,965)			(2,482,776)
Provision for bad debts			(2,139,418)			(2,202,029)
Total contractual adjustments and provision for bad debts			<u>(9,924,874)</u>			<u>(11,057,816)</u>
Net patient service revenue			<u>\$ 11,353,712</u>			<u>\$ 11,873,149</u>

Arbuckle Memorial Hospital Authority
Schedules of Expenses – Hospital Only
Years Ended December 31, 2013 and 2012

	2013			2012		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Adults and pediatrics	\$ 1,530,638	\$ 84,841	\$ 1,615,479	\$ 1,523,603	\$ 74,344	\$ 1,597,947
Other Professional Services						
Operating room	38,079	43,955	82,034	7,674	66,827	74,501
Radiology	253,988	133,544	387,532	255,651	159,971	415,622
Laboratory	332,298	443,063	775,361	322,944	425,325	748,269
Respiratory therapy	157,476	40,257	197,733	132,339	57,918	190,257
Physical therapy	410,266	127,139	537,405	321,438	216,350	537,788
Medical supplies	-	189,873	189,873	-	157,803	157,803
Pharmacy	96,118	312,752	408,870	84,425	404,826	489,251
Clinic	544,194	93,611	637,805	527,780	129,357	657,137
Emergency	1,896,962	14,962	1,911,924	1,772,190	12,170	1,784,360
Total other professional services	3,729,381	1,399,156	5,128,537	3,424,441	1,630,547	5,054,988
General Services						
Dietary	138,323	79,248	217,571	127,229	77,919	205,148
Plant operations and maintenance	80,311	268,152	348,463	90,397	282,002	372,399
Housekeeping	160,843	33,415	194,258	141,258	30,552	171,810
Laundry	-	74,362	74,362	-	85,273	85,273
Medical records	114,013	27,672	141,685	101,894	60,149	162,043
Total general services	493,490	482,849	976,339	460,778	535,895	996,673
Administrative Services						
Administration and general	739,882	1,098,764	1,838,646	712,490	1,014,430	1,726,920
Nursing administration	322,329	13,838	336,167	314,923	7,998	322,921
Employee health and welfare	-	1,207,473	1,207,473	-	1,087,558	1,087,558
Total administrative services	1,062,211	2,320,075	3,382,286	1,027,413	2,109,986	3,137,399
Depreciation	-	1,284,738	1,284,738	-	1,411,181	1,411,181
Total expenses	<u>\$ 6,815,720</u>	<u>\$ 5,571,659</u>	<u>\$ 12,387,379</u>	<u>\$ 6,436,235</u>	<u>\$ 5,761,953</u>	<u>\$ 12,198,188</u>



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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 25 2014.

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 the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Oklahoma City, Oklahoma
June 25, 2014