

LEFLORE COUNTY HOSPITAL AUTHORITY

FINANCIAL STATEMENTS

June 30, 2014 and 2013

With Independent Auditors' Report Thereon

LEFLORE COUNTY HOSPITAL AUTHORITY

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Management's Discussion and Analysis LeFlore County Hospital Authority

Introduction

Our discussion and analysis of LeFlore County Hospital Authority's (the Authority) provides an overview of the Authority's financial activities for the year ended June 30, 2014. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments decreased in 2014 by \$1,395,820 or 27.6%.
- Capital assets increased in 2014 by \$596,618 or 1.4%.
- Long-term debt increased in 2014 by \$131,508 or 4.7%.
- The Authority's net position decreased in 2014 by \$4,113,261 or 24.5%.
- The Authority reported an operating loss in 2014 of \$(4,855,874).

Using this Annual Report

The Authority's financial statements consist of three statements a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position.

One of the most important questions asked about the Authority's finances "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 help answers this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net assets-the difference between assets and liabilities-as one way to measure the Authority's financial health, or financial position.

Management's Discussion and Analysis LeFlore County Hospital Authority

Over time, increases or decreases in the Authority's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides 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.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position decreased by \$4,113,261 or 24.5% for the year ended June 30, 2014 as shown in Table 1

Table 1: Assets, Liabilities and Net Position

	2014	2013
Assets		
Current Assets	\$ 6,023,685	\$ 9,150,410
Capital Assets, Net	11,215,485	11,722,183
Other Assets	167,062	167,062
Total Assets	<u>\$ 17,406,232</u>	<u>\$ 21,039,655</u>
Liabilities		
Long-term debt outstanding	\$ 2,846,892	\$ 2,753,765
Other current and noncurrent liabilities	1,896,085	1,509,374
Total Liabilities	<u>\$ 4,742,977</u>	<u>\$ 4,263,139</u>
Net Position		
Invested in capital assets, net of related debt	\$ 8,291,468	\$ 8,929,674
Unrestricted	4,371,787	7,846,842
Total Net Position	<u>\$ 12,663,255</u>	<u>\$ 16,776,516</u>
Total Liabilities and Net Position	<u>\$ 17,406,232</u>	<u>\$ 21,039,655</u>

Management's Discussion and Analysis
LeFlore County Hospital Authority

Operating Results and Changes in Net Position

For the year ended June 30, 2014, the Authority's net position decreased by \$4,113,261 or 24.5% as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Net patient service revenue	\$ 16,946,540	\$ 20,507,488
Other operating revenues	500,635	461,228
Total Operating Revenues	<u>17,447,175</u>	<u>20,968,716</u>
Operating Expenses		
Nursing services	6,263,783	6,188,688
Other professional services	7,171,973	7,342,409
General services	2,389,811	2,397,789
Administrative services	5,236,925	4,743,161
Depreciation	1,240,557	1,199,584
Total Operating Expenses	<u>22,303,049</u>	<u>21,871,631</u>
Operating Income	<u>(4,855,874)</u>	<u>(902,915)</u>
Nonoperating Revenues (Expenses)		
Investment income	17,296	19,358
Interest Expense	(124,680)	(125,495)
Electronic Medical Records Incentive Payments	849,997	1,626,816
Total Nonoperating revenues (expenses)	<u>742,613</u>	<u>1,520,679</u>
Change in Net Position	<u><u>\$ (4,113,261)</u></u>	<u><u>\$ 617,764</u></u>

Management's Discussion and Analysis LeFlore County Hospital Authority

Operating Income

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

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with the changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows used by operating activities increased during the year ended June 30, 2014 due to income from operations.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Authority had \$11,215,485 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At June 30, 2014, the Authority had \$2,974,017 in notes and leases payable outstanding.

Contacting the Authority's Financial Management

This financial report is designed to prove our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling (918) 635-3300.

JOHNSTON & BRYANT

Certified Public Accountants

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Allen Bryant, Jr., C.P.A.

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Ada, Oklahoma 74821-1564
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MEMBER
American Institute of Certified Public Accountants
Oklahoma Society of Certified Public Accountants

Independent Auditors' Report

Board of Trustees
LeFlore County Hospital Authority
Poteau, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of LeFlore County Hospital Authority, which comprise the balance sheets as of June 30, 2014 and 2013, and the related 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 audit. We conducted our audit 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 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.

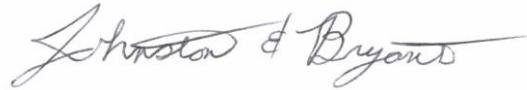
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LeFlore County Hospital Authority as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014 on our consideration of LeFlore County Hospital Authority's internal control over financial reporting and on 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 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 LeFlore County Hospital Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Johnston & Bryant", with a long horizontal flourish extending to the right.

Ada, Oklahoma
November 20, 2014

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LEFLORE COUNTY HOSPITAL AUTHORITY

Balance Sheet
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents	\$ 2,341,437	\$ 3,748,279
Certificate of Deposit	1,317,566	1,306,544
Accounts Receivable		
Patients Net	1,288,051	3,045,784
Other	9,137	34,140
Amounts Due Under Cost Contracts	117,504	-
Inventories	719,518	815,354
Prepaid Expenses	230,472	200,309
Total Current Assets	<u>6,023,685</u>	<u>9,150,410</u>
Assets Whose Use Is Limited by Board for Capital Improvements		
Under Indenture Agreement - Held By Trustee	<u>167,062</u>	<u>167,062</u>
Total Assets Whose Use Is Limited	<u>167,062</u>	<u>167,062</u>
Capital Assets		
Property, Plant and Equipment	42,155,791	41,586,173
Less Accumulated Depreciation	<u>(30,940,306)</u>	<u>(29,863,990)</u>
Total Capital Assets-Net	<u>11,215,485</u>	<u>11,722,183</u>
 Total Assets	 <u>\$ 17,406,232</u>	 <u>\$ 21,039,655</u>

See accompanying notes to the financial statements

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 77,125	\$ 38,744
Accounts Payable	610,882	366,308
Amounts Payable Under Cost Contracts	-	74,000
Accrued Expenses	<u>1,208,078</u>	<u>1,030,322</u>
Total Current Liabilities	<u>1,896,085</u>	<u>1,509,374</u>
 Long-Term Debt, Net	 <u>2,846,892</u>	 <u>2,753,765</u>
 Total Liabilities	 <u>4,742,977</u>	 <u>4,263,139</u>
 Net Position		
Invested in Capital Assets - Net of Related Debt	8,291,468	8,929,674
Unrestricted	<u>4,371,787</u>	<u>7,846,842</u>
Total Net Position	<u>12,663,255</u>	<u>16,776,516</u>
 Total Liabilities and Net Position	 <u><u>\$ 17,406,232</u></u>	 <u><u>\$ 21,039,655</u></u>

LEFLORE COUNTY HOSPITAL AUTHORITY
Statement of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Net Patient Service Revenues	\$ 16,946,540	\$ 20,507,488
Other Operating Revenue	<u>500,635</u>	<u>461,228</u>
Total Operating Revenue	<u>17,447,175</u>	<u>20,968,716</u>
Expenses		
Nursing Services	6,263,783	6,188,688
Other Professional Services	7,171,973	7,342,409
General Services	2,389,811	2,397,789
Administrative Services	5,236,925	4,743,161
Provision for Depreciation	<u>1,240,557</u>	<u>1,199,584</u>
Total Expenses	<u>22,303,049</u>	<u>21,871,631</u>
Net Income (Loss) from Operations	(4,855,874)	(902,915)
Non-Operating Revenue		
Interest Income	17,296	19,358
Interest Expense	(124,680)	(125,495)
Electronic Medical Records Incentive Payments	<u>849,997</u>	<u>1,626,816</u>
	<u>742,613</u>	<u>1,520,679</u>
Change in Net Position	(4,113,261)	617,764
Net Position - Beginning	<u>16,776,516</u>	<u>16,158,752</u>
Net Position - Ending	<u><u>\$ 12,663,255</u></u>	<u><u>\$ 16,776,516</u></u>

See accompanying notes to the financial statements

LEFLORE COUNTY HOSPITAL AUTHORITY

Statement of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activity		
Patient Service Revenue	\$ 18,537,772	\$ 19,853,031
Other Revenue	500,635	461,228
Payments to Employees	(10,528,602)	(10,429,971)
Payments to Vendors and Suppliers	(10,045,887)	(10,380,973)
Net Cash Used in Operating Activity	<u>(1,536,082)</u>	<u>(496,685)</u>
Non-Capital Related Financing Activity		
EMR Incentive Payments	<u>849,997</u>	<u>1,626,816</u>
Net Cash Flow from Non-Capital Related Financing Activities	<u>849,997</u>	<u>1,626,816</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(733,859)	(1,017,906)
Transfers (to) From assets whose use is limited	-	-
Proceeds fro Lease Payable	194,254	-
Principal Payments	(62,746)	(39,001)
Interest Payments	(124,680)	(125,495)
Net Cash Flows from Capital and Related Financing Activities	<u>(727,031)</u>	<u>(1,182,402)</u>
Investing Activities		
Income from Investments	<u>17,296</u>	<u>19,358</u>
Net Cash Flow from Investing Activities	<u>17,296</u>	<u>19,358</u>
Increase (Decrease) in Cash	(1,395,820)	(32,913)
Cash - Beginning	<u>5,054,823</u>	<u>5,087,736</u>
Cash - Ending	<u><u>\$ 3,659,003</u></u>	<u><u>\$ 5,054,823</u></u>

See accompanying notes to the financial statements.

LEFLORE COUNTY HOSPITAL AUTHORITY

Statement of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Net (Loss) Income from Operations \$	(4,855,874)	\$ (902,915)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,240,557	1,199,584
Changes in Operating Assets and Liabilities		
Accounts Receivable	1,665,232	(728,457)
Other Assets	-	-
Prepays	(30,163)	(37,340)
Inventory	95,836	(219,416)
Accounts Payable	<u>348,330</u>	<u>191,859</u>
Net Cash Provided by Operations \$	<u><u>(1,536,082)</u></u>	<u><u>\$ 496,685</u></u>

See accompanying notes to the financial statements.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 1. Organization

The LeFlore County Hospital Authority (the Authority) is a public trust created June 30, 1976 pursuant to Title 60 Oklahoma Statutes, Sections 176 to 180 as amended. The purpose of the trust is to provide the citizens of Leflore County and surrounding area with high quality public healthcare.

The Eastern Oklahoma Medical Center is owned by Leflore County, Oklahoma, however, under terms of a lease agreement dated June 30, 1976 operations of the facility were leased to the LeFlore County Hospital Authority for an initial term of fifty years. There is no consideration required under terms of this lease.

Note 2. Significant Accounting Policies

Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Report for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Authority's financial statements are presented in accordance with the requirements of GASB Statement No. 34 and 37, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and GASB Statement No. 38 Certain Financial Statement Note Disclosures. Under GASB Statement No. 34, the Authority is required to present a balance sheet classified between current and Noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows using the direct methods.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 2. Significant Accounting Policies (continued)

Cash equivalents – Investments that have an original maturity of three months or less are considered to be cash equivalents

Allowance for uncollectible accounts

Patient receivables are uncollateralized customer and third-party payor obligations.

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 allowances that reflects management's best estimate of amounts that will not be collected from patient 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.

Inventories

Inventories are valued at a lower cost (first-in, first-out method) or market.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or retirements are included in income in the period of disposition.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The ranges of such useful lives are as follows:

Land improvements	10 years
Building	20-40 years
Equipment	3-20 years

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 2. Significant Accounting Policies (continued)

Net Position

Net position in the Authority are classified in two components.

Net Assets Invested in Capital Assets Net of Related Debt – Invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted Net Position – Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Net Patient Service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operation 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.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 2. Significant Accounting Policies (continued)

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. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The provision, if any, for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Grants and Contributions

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

Compensated absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using regular pay 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.

Income Taxes

The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 3. Cash and Deposits

State statutes require public trusts to invest only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following summarizes the cash deposits as of June 30, 2014:

At June 30, 2014 and 2013, bank balances were as follows:

	2014	2013
Insured (FDIC)	\$ 750,000	\$ 750,000
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	3,023,192	4,630,795
Uninsured, uncollateralized or collateralized by securities held its trust department or agent or in other than the Authority's name	-	-
Total	<u>\$ 3,773,192</u>	<u>\$ 5,380,795</u>
Carrying Value	<u>\$ 3,826,065</u>	<u>\$ 5,221,885</u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and un collateralized; uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exist when the authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

The Authority secures cash deposits in excess of \$250,000 with U.S. Government or federal agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2014 and 2013 the carrying amount of the Authority's deposits was \$3,826,065 and \$5,221,885 and the bank balance was \$3,773,192 and \$5,380,795 respectively. As of June 30, 2014 and 2013 the Authority was exposed to custodial credit risk, in the amount of \$0 and \$0 respectively.

Note 4. Accounts Receivable – Patients

Patient accounts receivable at June 30, 2014 and 2013 consists of the following:

	2014	2013
Patient Accounts	\$ 7,496,212	\$ 8,749,507
Less: Contractual Adjustments	(2,222,490)	(2,828,897)
Less: Allowance For Uncollectible Accounts	<u>(3,985,671)</u>	<u>(2,874,826)</u>
	<u>\$ 1,288,051</u>	<u>\$ 3,045,784</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 5. Capital Assets

Capital asset activity for the years ended June 30, 2014 and June 30, 2013 was as follows:

2014					
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land	\$ 469,243	\$ -	\$ -	\$ -	\$ 469,243
Land Improvements	101,697	-	-	-	101,697
Building	21,119,718	-	-	-	21,119,718
Building Improvements	3,228,700	144,343	-	-	3,373,043
Equipments	16,322,465	440,441	-	(165,041)	16,597,865
Work In Progress	344,350	149,875	-	-	494,225
Total Capital Assets	<u>41,586,173</u>	<u>734,659</u>	<u>-</u>	<u>(165,041)</u>	<u>42,155,791</u>
Less Accumulated Depreciation					
Land Improvements	101,697	-	-	-	101,697
Building	14,957,945	492,717	-	-	15,450,662
Building Improvements	585,230	143,878	-	-	729,108
Equipment	14,219,118	604,762	-	(165,041)	14,658,839
	<u>29,863,990</u>	<u>1,241,357</u>	<u>-</u>	<u>(165,041)</u>	<u>30,940,306</u>
Capital Assets - Net	<u>\$ 11,722,183</u>	<u>\$ (506,698)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,215,485</u>
2013					
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land	\$ 466,203	\$ 3,040	\$ -	\$ -	\$ 469,243
Land Improvements	101,697	-	-	-	101,697
Building	21,119,718	-	-	-	21,119,718
Building Improvements	1,943,410	562,417	722,873	-	3,228,700
Equipments	15,909,674	447,688	-	(34,897)	16,322,465
Work In Progress	1,060,635	6,588	(722,873)	-	344,350
Total Capital Assets	<u>40,601,337</u>	<u>1,019,733</u>	<u>-</u>	<u>(34,897)</u>	<u>41,586,173</u>
Less Accumulated Depreciation					
Land Improvements	101,697	-	-	-	101,697
Building	14,469,916	488,029	-	-	14,957,945
Building Improvements	452,476	132,754	-	-	585,230
Equipment	13,673,387	578,435	-	(32,704)	14,219,118
	<u>28,697,476</u>	<u>1,199,218</u>	<u>-</u>	<u>(32,704)</u>	<u>29,863,990</u>
Capital Assets - Net	<u>\$ 11,903,861</u>	<u>\$ (179,485)</u>	<u>\$ -</u>	<u>\$ (2,193)</u>	<u>\$ 11,722,183</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 6. Long-Term Debt

A Summary of long-term debt, including capital lease obligations as of June 30, 2014 and 2013 are as follows:

			2014				
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
Everbank Comm. Fin.	4.25%	10/11/2018	\$ -	\$ 194,254	\$ 23,585	\$ 170,669	\$ 36,651
USDA	4.38%	06/01/46	2,792,509	-	39,161	2,753,348	40,474
			<u>\$ 2,792,509</u>	<u>\$ 194,254</u>	<u>\$ 62,746</u>	<u>\$ 2,924,017</u>	<u>\$ 77,125</u>
			2013				
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
USDA	4.380%	06/01/46	\$ 2,831,510	\$ -	\$ 39,001	\$ 2,792,509	\$ 38,744
			<u>\$ 2,831,510</u>	<u>\$ -</u>	<u>\$ 39,001</u>	<u>\$ 2,792,509</u>	<u>\$ 38,744</u>

Scheduled principal and interest payment on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30:	Bonds and Notes Payable	
	Principal	Interest
2015	\$ 77,125	\$ 126,623
2016	80,518	123,230
2017	84,060	119,688
2018	87,758	116,040
2019	62,469	112,436
2020 and thereafter	<u>2,532,087</u>	<u>1,795,546</u>
Total	<u>\$ 2,924,017</u>	<u>\$ 2,393,563</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 7. 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:

Under Prospective Payment System services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority is reimbursed for these services as a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary.

The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined per-diem rate or established fee.

Other carriers: The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider 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.

Note 8. Tax Sheltered Annuity

The Authority has established a tax sheltered annuity for all employees who wish to participate. Employees may set aside a portion of their salary exempt from taxes, until time of withdrawal. The Authority will match the employee's contributions to the TSA according to benefit schedules as listed in the Authority's Human Resource Manual.

Note 9. Future Lease Commitments

The Authority leases various equipment and facilities under operating leases expiring at various dates. Total rental expenses for the years ended June 30, 2014 and 2013, for all operating leases were approximately \$376,665 and \$418,416 respectively.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 10. Net Patient Service Revenue

Net Patient Service Revenue for the years ended June 30, 2014 and 2013 is computed as follows:

	2014	2013
Gross Patient Service Revenue	\$ 49,635,727	\$ 53,897,692
Less:		
Contractual Adjustment-Medicare	13,254,312	14,470,262
Contractual Adjustment-Medicaid	4,276,277	4,601,806
Provision for bad debts	9,046,431	8,833,854
Other Discounts and Allowances	6,112,167	5,484,282
	<u>32,689,187</u>	<u>33,390,204</u>
Net Patient Service Revenue	<u>\$ 16,946,540</u>	<u>\$ 20,507,488</u>

Note 11. Operating Results

During the fiscal year ended June 30, 2014 the hospital incurred a loss from operations of \$4,855,874. This was the results of several factors which are described below:

- A.) On February 13, 2014 the State of Oklahoma Department of Health's Protective Health and Medical Facilities Services Division conducted a State and CMS facility and licensure survey. As a result of this survey the hospital's surgical department was closed due to deficiencies in the hospital's building and equipment. The closure of the surgical department forced the hospital to also close its obstetrics department and resulted in significant reductions in patient visits throughout every other department in the hospital. Inpatient volume for the year was down approximately 40% and overall revenue was down by 23%.
- B.) During the course of the FYE June 30, 2014 audit an error was found in the calculation of the allowance for bad debts. All credit balance A/R had been classified as private pay and was reducing the amount of total private pay accounts receivable thus reducing the amount that was charged to the allowance. This error began in prior years, however, the adjustment of \$1,119,510 has all been posted in FYE 6-30-2014 as required by applicable account principles.
- C.) Over the last few years CMS has contracted with outside companies to perform RAC audits on Medicare certified hospitals including Eastern Oklahoma Medical Center. As a result of these audits the hospital has lost reimbursements from prior hospital admissions and this practice has also been a deterrent to physicians to admit patient to the hospital going forward which has resulted in the hospital's patient volume declining from that of prior years.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 12. Managements Plans Regarding Operating Loss

As discussed in Note 11 above the hospital incurred a \$4,855,874 loss from operations for FYE June 30, 2014 and working capital has decreased by \$3,513,436 over the same period of time. Management's plans to reduce these losses and return the hospital to a profitable concern are listed below:

- A.) On August 26, 2014 the citizens of LeFlore County, Oklahoma passed a ½ cent sales tax designated for operations and debt service of the LeFlore County Hospital Authority. The proceeds of the sales tax are estimated to generate \$1,700,000 in sales tax revenue annually and the tax is permanent. The sales tax is set to begin January 1, 2015 and the hospital should begin receiving the proceeds by March 2015.
- B.) In order to meet the requirements of the State of Oklahoma Department of Health's Protective Health and Medical Facilities Services Division the hospital has issued \$2,900,000 in Sales Tax Revenue Notes and entered into various contracts for construction and equipment for the complete remodel, redesigning, and re-equipping of the hospital's surgical department. The estimated completion date is March 16, 2015 and management expects surgery to be fully operational by April 1, 2015. Additionally the cost of the remodel and new equipment is estimated at \$1,600,000 leaving \$1,300,000 for the hospital operations (exclusive of payroll costs).
- C.) The hospital has hired a surgical physician and CRNA both of which will be in place when the surgical department reopens in March 2015.

Management expects once the surgery department is operational again this should allow the hospital's other departments to return to normal operations which in turn should result in patient volumes returning to normal levels. This coupled with the additional revenues from the ½ cent sales tax not require for the debt service should allow the hospital to become a viable entity once again.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 13. Subsequent Events

On August 26, 2014 the citizens of LeFlore County, Oklahoma passed a ½ cent sales tax designated for operations (exclusive of payroll) and debt service of the LeFlore County Hospital Authority.

On September 29, 2014 the LeFlore County Sales Tax Supported Hospital Authority was created to handle the collection and expenditures of the ½ cent sales tax.

On October 15, 2014 the LeFlore County Sales Tax Supported Hospital Authority issued \$2,900,000 in Sales Tax Revenues Notes to be used to remodel, redesign and re-equip the hospital's surgical department.

Subsequent events have been evaluated through November 20, 2014, which is the date the financial statement were available to be issued.

LEFLORE COUNTY HOSPITAL AUTHORITY

Patient Service Revenue
Years Ended June 30, 2014 and 2013

	2014	2013
Daily Patient Service		
Medical and Surgical	\$ 2,787,770	\$ 1,608,412
Intensive Care	954,732	900,396
Newborn Nursery	116,477	179,138
Total Daily Patient Service	<u>3,858,979</u>	<u>2,687,946</u>
Other Nursing Services		
Operating and Recovery Room	1,089,570	1,974,908
Delivery Room	232,050	347,704
Central Services and Supply	1,415,402	1,900,826
Behavioral Health	5,800,188	1,575,900
Emergency Services	1,961,100	7,014,187
Total Other Nursing Units	<u>10,498,310</u>	<u>12,813,525</u>
Other Professional Services		
Laboratory	11,929,928	12,051,910
Electrocardiology	415,860	424,875
Radiology	10,131,551	11,178,765
Pharmacy	5,250,965	5,684,311
Anesthesiology	448,438	821,317
Respiratory Therapy	1,700,983	2,120,944
Physical Therapy	478,777	529,901
Speech Therapy	4,171	3,754
Clinics	4,650,923	5,185,569
Home Health Agency	266,842	394,875
Total Other Professional Services	<u>35,278,438</u>	<u>38,396,221</u>
Total Patient Service Revenue	<u>49,635,727</u>	<u>53,897,692</u>
Less Contractual Adjustments		
Medicare	13,254,312	14,470,262
Medicaid	4,276,277	4,601,806
Provision for Bad Debt	9,046,431	8,833,854
Discounts and Other Allowances	6,112,167	5,484,282
Total Reductions from Revenue	<u>32,689,187</u>	<u>33,390,204</u>
Net Patient Service Revenue	<u>\$ 16,946,540</u>	<u>\$ 20,507,488</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Other Operating Revenue

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cafeteria	\$ 162,993	\$ 155,055
Purchase Discounts	20,274	7,039
Medical Records Fees	8,665	8,103
Clinic Rental	157,956	165,987
Miscellaneous	<u>150,747</u>	<u>125,044</u>
Total Other Operating Revenue	<u>\$ 500,635</u>	<u>\$ 461,228</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Patient Service Expense
Years Ended June 30, 2014 and 2013

	2014		
	Salaries	Other	Total
Nursing Services			
Medical and Surgical	\$ 1,791,271	\$ 142,473	\$ 1,933,744
Intensive Care	628,896	56,823	685,719
Newborn Nursery	72,972	25,183	98,155
Operating and Recovery Room	216,958	133,075	350,033
Labor and Delivery Room	325,005	39,904	364,909
Central Services and Supply	11,705	109,807	121,512
Emergency Services	723,780	625,124	1,348,904
Behavioral Services	584,279	381,580	965,859
Home Health	322,199	72,749	394,948
Total Nursing Services	<u>\$ 4,677,065</u>	<u>\$ 1,586,718</u>	<u>\$ 6,263,783</u>
Other Professional Services			
Laboratory	\$ 517,673	\$ 634,247	\$ 1,151,920
Radiology	493,927	484,234	978,161
Pharmacy	-	1,019,700	1,019,700
Anesthesiology	-	68,572	68,572
Respiratory Therapy	290,108	62,033	352,141
Physical Therapy	165,899	11,380	177,279
Clinics	2,177,929	1,246,271	3,424,200
Total Other Professional Services	<u>\$ 3,645,536</u>	<u>\$ 3,526,437</u>	<u>\$ 7,171,973</u>
General Services			
Dietary	221,369	370,459	591,828
Medical Records	260,525	67,391	327,916
Plant Engineering	351,047	685,731	1,036,778
Housekeeping	262,897	61,734	324,631
Laundry and Linen	69,983	38,675	108,658
Total General Services	<u>\$ 1,165,821</u>	<u>\$ 1,223,990</u>	<u>\$ 2,389,811</u>
Administrative Services			
Administration and Business Offices	1,217,936	1,766,408	2,984,344
Employee Benefits	-	2,252,581	2,252,581
Total Administrative Services	<u>\$ 1,217,936</u>	<u>\$ 4,018,989</u>	<u>\$ 5,236,925</u>

2013

Salaries	Other	Total
\$ 1,715,462	\$ 157,050	\$ 1,872,512
574,387	79,423	653,810
78,367	31,876	110,243
260,224	129,467	389,691
410,318	44,466	454,784
15,093	57,993	73,086
677,242	559,759	1,237,001
524,437	395,170	919,607
369,251	108,703	477,954
<u>\$ 4,624,781</u>	<u>\$ 1,563,907</u>	<u>\$ 6,188,688</u>
\$ 477,416	\$ 684,589	\$ 1,162,005
515,251	455,172	970,423
-	1,031,771	1,031,771
-	128,665	128,665
265,291	70,581	335,872
163,364	15,153	178,517
2,145,823	1,389,333	3,535,156
<u>\$ 3,567,145</u>	<u>\$ 3,775,264</u>	<u>\$ 7,342,409</u>
217,116	359,393	576,509
253,751	100,024	353,775
370,797	656,730	1,027,527
276,719	66,059	342,778
59,735	37,465	97,200
<u>\$ 1,178,118</u>	<u>\$ 1,219,671</u>	<u>\$ 2,397,789</u>
1,007,264	1,756,779	2,764,043
-	1,979,118	1,979,118
<u>\$ 1,007,264</u>	<u>\$ 3,735,897</u>	<u>\$ 4,743,161</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Leflore County Hospital Authority
Poteau, Oklahoma

We have audited, in accordance with the 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 Leflore County Hospital Authority, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Leflore County Hospital 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leflore County Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Leflore County Hospital 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.

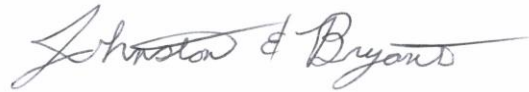
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, reading "Johnston & Bryant", with a long horizontal flourish extending to the right.

Ada, Oklahoma
November 20, 2014