

LEFLORE COUNTY HOSPITAL AUTHORITY

FINANCIAL STATEMENTS

June 30, 2015 and 2014

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, 2015. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments decreased in 2015 by \$3,017,905 or 82.5%.
- Capital assets increased in 2015 by \$1,569,757 or 3.7%.
- Long-term debt increased in 2015 by \$57,052 or 1.9%.
- The Authority's net position decreased in 2015 by \$2,119,990 or 16.7%.
- The Authority reported an operating loss in 2015 of \$(3,494,618).

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 \$2,119,990 or 16.7% for the year ended June 30, 2015 as shown in Table 1

Table 1: Assets, Liabilities and Net Position

	2015	2014
Assets		
Current Assets	\$ 3,831,334	\$ 6,023,685
Capital Assets, Net	11,581,565	11,215,485
Other Assets	167,062	167,062
Total Assets	\$ 15,579,961	\$ 17,406,232
Liabilities		
Long-term debt outstanding	\$ 2,765,939	\$ 2,846,892
Other current and noncurrent liabilities	2,270,757	1,896,085
Total Liabilities	\$ 5,036,696	\$ 4,742,977
Net Position		
Invested in capital assets, net of related debt	\$ 8,600,496	\$ 8,291,468
Unrestricted	1,942,769	4,371,787
Total Net Position	\$ 10,543,265	\$ 12,663,255
Total Liabilities and Net Position	\$ 15,579,961	\$ 17,406,232

Management's Discussion and Analysis
LeFlore County Hospital Authority

Operating Results and Changes in Net Position

For the year ended June 30, 2015, the Authority's net position decreased by \$2,119,990 or 16.7% as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Net patient service revenue	\$ 16,427,977	\$ 16,946,540
Other operating revenues	725,595	500,635
Total Operating Revenues	<u>17,153,572</u>	<u>17,447,175</u>
Operating Expenses		
Nursing services	5,286,032	6,263,783
Other professional services	6,543,801	7,171,973
General services	2,142,175	2,389,811
Administrative services	5,472,505	5,236,925
Depreciation	1,203,677	1,240,557
Total Operating Expenses	<u>20,648,190</u>	<u>22,303,049</u>
Operating Income	<u>(3,494,618)</u>	<u>(4,855,874)</u>
Nonoperating Revenues (Expenses)		
Investment income	14,739	17,296
Interest Expense	(131,009)	(124,680)
Electronic Medical Records Incentive Payments	11,050	849,997
Loan Payments made of Behalf of LCSTSHA	(263,400)	-
Transfers from LCSTSHA - Operating Expenses	850,311	-
Transfers from LCSTSHA - Capital Improvements	892,937	-
Total Nonoperating revenues (expenses)	<u>1,374,628</u>	<u>742,613</u>
Change in Net Position	<u>\$ (2,119,990)</u>	<u>\$ (4,113,261)</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, 2015 due to income from operations.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Authority had \$11,581,565 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At June 30, 2015, the Authority had \$2,981,069 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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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, 2015 and 2014, 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, 2015 and 2014, 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.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the authority will continue as a going concern. As discussed in Note 11 to the financial statements, the authority has suffered significant losses from operations which has reduced the authority's working capital and raises substantial doubt about its ability to continue as a going concern. Management's plan regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015 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.



Ada, Oklahoma
November 20, 2015

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LEFLORE COUNTY HOSPITAL AUTHORITY

Balance Sheet
June 30, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and Cash Equivalents	\$ 641,098	\$ 2,341,437
Certificate of Deposit	-	1,317,566
Accounts Receivable		
Patients Net	2,383,397	1,288,051
Other	-	9,137
Amounts Due Under Cost Contracts	-	117,504
Inventories	749,604	719,518
Prepaid Expenses	57,235	230,472
Total Current Assets	<u>3,831,334</u>	<u>6,023,685</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	43,725,548	42,155,791
Less Accumulated Depreciation	<u>(32,143,983)</u>	<u>(30,940,306)</u>
Total Capital Assets-Net	<u>11,581,565</u>	<u>11,215,485</u>
 Total Assets	 <u>\$ 15,579,961</u>	 <u>\$ 17,406,232</u>

See accompanying notes to the financial statements

<u>LIABILITIES AND NET POSITION</u>	<u>2015</u>	<u>2014</u>
Current Liabilities		
Current Portion of Long-Term Debt	\$ 215,130	\$ 77,125
Accounts Payable	902,781	610,882
Amounts Payable Under Cost Contracts	-	-
Accrued Expenses	<u>1,152,846</u>	<u>1,208,078</u>
Total Current Liabilities	<u>2,270,757</u>	<u>1,896,085</u>
Long-Term Debt, Net	<u>2,765,939</u>	<u>2,846,892</u>
Total Liabilities	<u>5,036,696</u>	<u>4,742,977</u>
Net Position		
Invested in Capital Assets - Net of Related Debt	8,600,496	8,291,468
Unrestricted	<u>1,942,769</u>	<u>4,371,787</u>
Total Net Position	<u>10,543,265</u>	<u>12,663,255</u>
Total Liabilities and Net Position	<u>\$ 15,579,961</u>	<u>\$ 17,406,232</u>

LEFLORE COUNTY HOSPITAL AUTHORITY
 Statement of Revenues, Expenses and Changes in Net Position
 Years Ended June 30, 2015 and 2014

	2015	2014
Revenues		
Net Patient Service Revenues	\$ 16,427,977	\$ 16,946,540
Other Operating Revenue	725,595	500,635
Total Operating Revenue	17,153,572	17,447,175
Expenses		
Nursing Services	5,286,032	6,263,783
Other Professional Services	6,543,801	7,171,973
General Services	2,142,175	2,389,811
Administrative Services	5,472,505	5,236,925
Provision for Depreciation	1,203,677	1,240,557
Total Expenses	20,648,190	22,303,049
Net Income (Loss) from Operations	(3,494,618)	(4,855,874)
Non-Operating Revenue		
Interest Income	14,739	17,296
Interest Expense	(131,009)	(124,680)
Loan Payments made on behalf of the LCSTSHA	(263,400)	-
Transfer from LCSTSHA for Operating Expenses	850,311	-
Transfer from LCSTSHA for Capital Improvements	892,937	-
Electronic Medical Records Incentive Payments	11,050	849,997
	1,374,628	742,613
Change in Net Position	(2,119,990)	(4,113,261)
Net Position - Beginning	12,663,255	16,776,516
Net Position - Ending	\$ 10,543,265	\$ 12,663,255

See accompanying notes to the financial statements

LEFLORE COUNTY HOSPITAL AUTHORITY
Statement of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activity		
Patient Service Revenue	\$ 15,459,272	\$ 18,537,772
Other Revenue	725,595	500,635
Payments to Employees	(8,889,642)	(10,528,602)
Payments to Vendors and Suppliers	(10,175,053)	(10,045,887)
Net Cash Used in Operating Activity	(2,879,828)	(1,536,082)
Non-Capital Related Financing Activity	1,479,848	-
EMR Incentive Payments	11,050	849,997
Net Cash Flow from Non-Capital Related Financing Activities	1,490,898	849,997
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(1,569,757)	(733,859)
Transfers (to) From assets whose use is limited	-	-
Proceeds fro Lease Payable	134,612	194,254
Principal Payments	(77,560)	(62,746)
Interest Payments	(131,009)	(124,680)
Net Cash Flows from Capital and Related Financing Activities	(1,643,714)	(727,031)
Investing Activities		
Income from Investments	14,739	17,296
Net Cash Flow from Investing Activities	14,739	17,296
Increase (Decrease) in Cash	(3,017,905)	(1,395,820)
Cash - Beginning	3,659,003	5,054,823
Cash - Ending	\$ 641,098	\$ 3,659,003

See accompanying notes to the financial statements.

LEFLORE COUNTY HOSPITAL AUTHORITY
Statement of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Net (Loss) Income from Operations	\$ (3,494,618)	\$ (4,855,874)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,203,677	1,240,557
Changes in Operating Assets and Liabilities		
Accounts Receivable	(968,705)	1,665,232
Other Assets	-	-
Prepays	173,237	(30,163)
Inventory	(30,086)	95,836
Accounts Payable	236,667	348,330
	<u>\$ (2,879,828)</u>	<u>\$ (1,536,082)</u>

See accompanying notes to the financial statements.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

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, 2015 and 2014

Note 3. Cash and Deposits

Custodial Credit Risk

Exposure to custodial risk related to deposits exist when the Authority holds deposits that are uninsured and uncollateralized; collateralized 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 exists 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's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct obligations of the state municipalities, counties, and school in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 2 U.S.C.A., Section 1823 (e), all financial institutions pledging collateral to the Authority must have a written collateral agreement approved by the board of directors or loan committee.

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exist when the Authority holds deposits that are uninsured and uncollateralized; collateralized 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 or unregistered, with securities held by the counterparty or by its trust department or agent 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; however the Authority does not have a formal policy for collateralizing cash deposits. At June 30, 2015 the carrying amount of the Authority's deposits was \$808,159 and the bank balance was \$809,171. As of June 30, 2015 none of the Authority's bank balance was exposed to custodial credit risk.

At June 30, 2015, the Authority held deposits of approximately \$809,171 at financial institutions. The Authority's cash deposits, including interest-bearing accounts, and investments are entirely covered by Federal Depository Insurance (FDIC) or direct obligations of the U.S. Government insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Therefore, the Authority was not exposed to custodial credit risk as defined above.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2015 and 2014

Note 3. Cash and Deposits (continued)

Custodial Credit Risk (continued)

Investment Credit Risk – The Authority has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies.
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States Government.
4. Repurchased agreements that have underlying collateral including obligations of the United States Government, its agencies and instrumentalities, or the State of Oklahoma.
5. County, municipal or school Town debt obligations for which an ad valorem tax may be levied.
6. Money market funds regulated by the SEC and in which investments consist of the investments of obligations of the United States, its agencies and instrumentalities.
7. Warrants, bonds or judgments of the school Town.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority has no formal policy limiting investments based on credit rating. Unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The Authority had no investment credit risk as of June 30, 2015, as defined above.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority had no investment interest rate risk as defined above.

LEFLORE COUNTY HOSPITAL AUTHORITY
Notes to Financial Statements
June 30, 2015 and 2014

Note 3. Cash and Deposits (continued)

Custodial Credit Risk (continued)

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the Authority. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The Authority places no limit on the amount it may invest in any one issuer.

At June 30, 2015, the Authority had 100% concentration of credit risk as defined above.

Note 4. Accounts Receivable – Patients

Patient accounts receivable at June 30, 2015 and 2014 consists of the following:

	2015	2014
Patients Account	\$ 10,666,564	\$ 7,496,212
Less: Contractual Adjustments	(3,141,883)	(2,222,490)
Less: Allowance For Uncollectible Accounts	(5,141,284)	(3,985,671)
	\$ 2,383,397	\$ 1,288,051

LEFLORE COUNTY HOSPITAL AUTHORITY
Notes to Financial Statements
June 30, 2015 and 2014

Note 5. Capital Assets

Capital asset activity for the years ended June 30, 2015 and June 30, 2014 was as follows:

	2015				
	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	3,373,043	3,114	-	-	3,376,157
Equipments	16,597,865	373,710	-	-	16,971,575
Work In Progress	494,225	1,192,933	-	-	1,687,158
Total Capital Assets	<u>42,155,791</u>	<u>1,569,757</u>	<u>-</u>	<u>-</u>	<u>43,725,548</u>
Less Accumulated Depreciation					
Land Improvements	101,697	-	-	-	101,697
Building	15,450,662	479,976	-	-	15,930,638
Building Improvements	729,108	148,618	-	-	877,726
Equipment	14,658,839	575,083	-	-	15,233,922
	<u>30,940,306</u>	<u>1,203,677</u>	<u>-</u>	<u>-</u>	<u>32,143,983</u>
Capital Assets - Net	<u>\$ 11,215,485</u>	<u>\$ 366,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,581,565</u>
	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>

LEFLORE COUNTY HOSPITAL AUTHORITY
Notes to Financial Statements
June 30, 2015 and 2014

Note 6. Long-Term Debt

A Summary of long-term debt, including capital lease obligations as of June 30, 2015 and 2014 are as follows:

	Interest Rate	Maturity Date	2015				
			Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
Everbank Comm. Fin.	4.25%	10/11/2018	\$ 170,669	\$ -	\$ 36,651	\$ 134,018	\$ 38,237
Arvest Bank	3.50%	3/2/2020	-	134,612	-	134,612	134,612
USDA	4.38%	06/01/46	2,753,348	-	40,909	2,712,439	42,281
			<u>\$ 2,924,017</u>	<u>\$ 134,612</u>	<u>\$ 77,560</u>	<u>\$ 2,981,069</u>	<u>\$ 215,130</u>
	Interest Rate	Maturity Date	2014				
			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>

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
2016	\$ 215,130	\$ 123,230
2017	84,060	119,688
2018	87,759	116,040
2019	62,469	112,437
2020	50,341	110,209
2021 and thereafter	2,481,310	1,685,337
Total	<u>\$ 2,981,069</u>	<u>\$ 2,266,941</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2015 and 2014

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 patents 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, 2015 and 2014, for all operating leases were approximately \$429,367 and \$376,665 respectively.

LEFLORE COUNTY HOSPITAL AUTHORITY
Notes to Financial Statements
June 30, 2015 and 2014

Note 10. Net Patient Service Revenue

Net Patient Service Revenue for the years ended June 30, 2015 and 2014 is computed as follows:

	2015	2014
Gross Patient Service Revenue	\$ 41,865,159	\$ 49,635,727
Less:		
Contractual Adjustment-Medicare	10,225,589	13,254,312
Contractual Adjustment-Medicaid	3,364,664	4,276,277
Provision for bad debts	7,613,405	9,046,431
Other Discounts and Allowances	4,233,524	6,112,167
	25,437,182	32,689,187
Net Patient Service Revenue	\$ 16,427,977	\$ 16,946,540

Note 11. Going Concern and Managements Plans Regarding Operating Loss

The authority has incurred losses from operations of \$3,494,618 and \$4,855,874 for FYE June 30, 2015 and 2014 respectively and working capital has decreased by \$2,567,023 and \$3,513,436 over the same period of time. These reductions are due primarily to declining utilization of hospital services for both inpatient and outpatient as well as increases in contractual adjustments to the Medicare program. Additionally the hospital was forced to close its surgical and obstetrics departments due to deficiencies found during a survey conducted on February 13, 2014 by the State of Oklahoma Department of Health which has contributed greatly to the decline in utilization. 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 passes 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 began January 1, 2015 and the hospital began receiving the proceeds in 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 LeFlore County Sales Tax Supported Hospital Authority has issued \$2,900,000 in Sales Tax Revenue Notes and the hospital has entered into various contracts for constriction and equipment for the complete remodel, redesigning and re-equipping of the hospital's surgical department. This was completed late in FYE 6-30-2015 but had not yet returned to pre-closure patient levels.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2014 and 2013

Note 11. Going Concern and Managements Plans Regarding Operating Loss (cont.)

C.) Management has converted the hospital's clinics to a Rural Health Clinic as well as began participation in the 340B Drug program. Management is also reviewing whether it would be beneficial for the hospital to convert to a Critical Access Hospital.

All of these measures it is hoped by management will combine to return the authority to a position of profitability once again.

Note 12. Subsequent Events

Management has evaluated subsequent events through November 20, 2015 which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

LEFLORE COUNTY HOSPITAL AUTHORITY

Patient Service Revenue

Years Ended June 30, 2015 and 2014

	2015	2014
Daily Patient Service		
Medical and Surgical	\$ 2,252,385	\$ 2,787,770
Intensive Care	796,247	954,732
Newborn Nursery	-	116,477
Total Daily Patient Service	<u>3,048,632</u>	<u>3,858,979</u>
Other Nursing Services		
Operating and Recovery Room	149,830	1,089,570
Delivery Room	112	232,050
Central Services and Supply	739,163	1,415,402
Emergency Services	6,180,815	5,800,188
Behavioral Health	2,025,000	1,961,100
Observation Room	-	-
Total Other Nursing Units	<u>9,094,920</u>	<u>10,498,310</u>
Other Professional Services		
Laboratory	10,775,954	11,929,928
Electrocardiology	332,816	415,860
Radiology	9,726,152	10,131,551
Pharmacy	2,879,862	5,250,965
Anesthesiology	41,359	448,438
Respiratory Therapy	1,756,583	1,700,983
Physical Therapy	411,760	478,777
Speech Therapy	4,588	4,171
Clinics	3,792,533	4,650,923
Home Health Agency	-	266,842
Total Other Professional Services	<u>29,721,607</u>	<u>35,278,438</u>
Total Patient Service Revenue	<u>41,865,159</u>	<u>49,635,727</u>
Less Contractual Adjustments		
Medicare	10,225,589	13,254,312
Medicaid	3,364,664	4,276,277
Provision for Bad Debt	7,613,405	9,046,431
Discounts and Other Allowances	4,233,524	6,112,167
Total Reductions from Revenue	<u>25,437,182</u>	<u>32,689,187</u>
Net Patient Service Revenue	<u>\$ 16,427,977</u>	<u>\$ 16,946,540</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Other Operating Revenue

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cafeteria	\$ 151,649	\$ 162,993
Purchase Discounts	19,873	20,274
Medical Records Fees	7,303	8,665
Clinic Rental	163,421	157,956
Miscellaneous	<u>383,349</u>	<u>150,747</u>
 Total Other Operating Revenue	 <u><u>\$ 725,595</u></u>	 <u><u>\$ 500,635</u></u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Patient Service Expense

Years Ended June 30, 2015 and 2014

	2015		
	Salaries	Other	Total
Nursing Services			
Medical and Surgical	\$ 1,379,538	\$ 114,319	\$ 1,493,857
Intensive Care	593,887	51,254	645,141
Newborn Nursery	2,613	723	3,336
Operating and Recovery Room	62,780	(50,306)	12,474
Labor and Delivery Room	13,396	39,797	53,193
Central Services and Supply	29,062	279,952	309,014
Emergency Services	654,421	1,097,026	1,751,447
Behavioral Services	559,393	422,762	982,155
Home Health	25,641	9,774	35,415
Total Nursing Services	\$ 3,320,731	\$ 1,965,301	\$ 5,286,032
Other Professional Services			
Laboratory	\$ 519,247	\$ 514,030	\$ 1,033,277
Radiology	475,629	444,010	919,639
Pharmacy	-	817,199	817,199
Anesthesiology	-	258,538	258,538
Respiratory Therapy	286,177	56,212	342,389
Physical Therapy	146,197	9,155	155,352
Clinics	1,855,624	1,161,783	3,017,407
Total Other Professional Services	\$ 3,282,874	\$ 3,260,927	\$ 6,543,801
General Services			
Dietary	209,946	344,214	554,160
Medical Records	211,806	61,353	273,159
Plant Engineering	305,970	656,782	962,752
Housekeeping	218,878	58,743	277,621
Laundry and Linen	50,644	23,839	74,483
Total General Services	\$ 997,244	\$ 1,144,931	\$ 2,142,175
Administrative Services			
Administration and Business Offices	1,233,561	2,030,623	3,264,184
Employee Benefits	-	2,208,321	2,208,321
Total Administrative Services	\$ 1,233,561	\$ 4,238,944	\$ 5,472,505

2014

Salaries	Other	Total
\$ 1,791,271	\$ 142,473	\$ 1,933,744
628,896	56,823	685,719
72,972	25,183	98,155
216,958	133,075	350,033
325,005	39,904	364,909
11,705	109,807	121,512
723,780	625,124	1,348,904
584,279	381,580	965,859
322,199	72,749	394,948
<u>\$ 4,677,065</u>	<u>\$ 1,586,718</u>	<u>\$ 6,263,783</u>
\$ 517,673	\$ 634,247	\$ 1,151,920
493,927	484,234	978,161
-	1,019,700	1,019,700
-	68,572	68,572
290,108	62,033	352,141
165,899	11,380	177,279
2,177,929	1,246,271	3,424,200
<u>\$ 3,645,536</u>	<u>\$ 3,526,437</u>	<u>\$ 7,171,973</u>
221,369	370,459	591,828
260,525	67,391	327,916
351,047	685,731	1,036,778
262,897	61,734	324,631
69,983	38,675	108,658
<u>\$ 1,165,821</u>	<u>\$ 1,223,990</u>	<u>\$ 2,389,811</u>
1,217,936	1,766,408	2,984,344
-	2,252,581	2,252,581
<u>\$ 1,217,936</u>	<u>\$ 4,018,989</u>	<u>\$ 5,236,925</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, 2015, 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, 2015.

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.



Ada, Oklahoma
November 20, 2015