

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2015 and 2014



Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
June 30, 2015 and 2014

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows.....	10
Notes to Financial Statements	11
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19

Independent Auditor's Report

Board of Trustees
Lindsay Municipal Hospital Authority
Lindsay, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of Lindsay Municipal Hospital Authority (the Authority), a component unit of the City of Lindsay, Oklahoma, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Lindsay Municipal Hospital Authority as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
December 11, 2015

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Lindsay Municipal Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's cash, short-term investments and noncurrent investments increased by \$805,307 or 89% in 2015 and decreased by \$134,167 or 13% in 2014.
- The Authority's patient accounts receivable increased by \$44,294 or 4% in 2015 and by \$406,102 or 67% in 2014.
- The Authority's net position increased by \$778,079 or 23% in 2015 and by \$662,484 or 24% in 2014.
- The Authority reported operating income in 2015 of \$741,643 and in 2014 of \$636,771.

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 statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, 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 any authority's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority’s net position and changes in it. The Authority’s total net position—the difference between assets and liabilities—is one measure of the Authority’s financial health or financial position. Over time, increases or decreases in the Authority’s net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority’s patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents 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 increased by \$778,079 or 23% in 2015 over 2014 and by \$662,484 or 24% in 2014 over 2013 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2015	2014	2013
Assets			
Cash, short-term investments and noncurrent investments	\$ 1,712,374	\$ 907,067	\$ 1,041,234
Patient accounts receivable, net	1,060,546	1,016,252	610,150
Other current and noncurrent assets	661,624	757,985	303,905
Capital assets, net	<u>1,468,291</u>	<u>1,537,511</u>	<u>1,350,551</u>
Total assets	<u>\$ 4,902,835</u>	<u>\$ 4,218,815</u>	<u>\$ 3,305,840</u>
Liabilities			
Current liabilities	<u>\$ 659,684</u>	<u>\$ 753,743</u>	<u>\$ 503,252</u>
Net Position			
Net investment in capital assets	1,468,291	1,537,511	1,350,551
Unrestricted	<u>2,774,860</u>	<u>1,927,561</u>	<u>1,452,037</u>
Total net position	<u>4,243,151</u>	<u>3,465,072</u>	<u>2,802,588</u>
Total liabilities and net position	<u>\$ 4,902,835</u>	<u>\$ 4,218,815</u>	<u>\$ 3,305,840</u>

The Authority’s cash, short-term investments and noncurrent investments increased by \$805,307 or 89% at June 30, 2015, as compared to June 30, 2014, primarily due to improved patient volumes and reimbursement, including an increase in Medicare reimbursement for uncompensated care of approximately \$227,000, as well as continued positive cash flows from operations.

The Authority's patient accounts receivable increased by \$406,102 or 67% in 2014 compared to 2013 due primarily to an increase of \$412,981 or 69% in the amount due from the Oklahoma Department of Corrections (ODOC) at June 30, 2014, as compared to June 30, 2013. The estimated amount due from third-party payers increased by \$462,947 in 2014 compared to 2013 due to changes in Medicare's uncompensated care payment method.

Operating Results and Changes in the Authority's Net Position

As shown in Table 2, the Authority's net position increased by \$778,079 or 23% in 2015 and by \$662,484 or 24% in 2014.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 11,477,012	\$ 10,873,532	\$ 9,414,080
Other operating revenue	24,686	22,751	24,723
Total operating revenues	<u>11,501,698</u>	<u>10,896,283</u>	<u>9,438,803</u>
Operating Expenses			
Salaries, wages and employee benefits	5,951,691	5,644,278	5,306,486
Purchased services and professional fees	2,230,037	2,162,816	1,964,911
Supplies and other operating expenses	2,368,745	2,154,832	2,062,687
Depreciation	209,582	297,586	385,116
Total operating expenses	<u>10,760,055</u>	<u>10,259,512</u>	<u>9,719,200</u>
Operating Income (Loss)	<u>741,643</u>	<u>636,771</u>	<u>(280,397)</u>
Nonoperating Revenues			
Interest income	3,480	18,298	13,533
Noncapital grants and gifts	7,956	7,415	26,318
Total nonoperating revenues	<u>11,436</u>	<u>25,713</u>	<u>39,851</u>
Capital Grants and Gifts	<u>25,000</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 778,079</u>	<u>\$ 662,484</u>	<u>\$ (240,546)</u>

Operating Income (Loss)

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

The operating income for 2015 improved by \$104,872 or 17% as compared to 2014. The primary components of the improved operating results are:

- An increase in net patient service revenue of \$603,480 or 6%

- An increase in salaries, wages and employee benefits for the Authority's employees of \$307,413 or 5%
- An increase in supplies and other operating expenses of \$213,913 or 10%

Net patient service revenue increased in 2015 due to an increase in inpatient days of 10% and the Authority receiving an increase in Medicare reimbursement for uncompensated care of approximately \$227,000 in 2015 compared to 2014.

Salaries, wages and employee benefits increased in connection with the Authority's retention and recruitment efforts, including the Authority's efforts to reduce contract nursing services.

Supplies and other operating expenses increased in 2015 consistent with increases in net patient service revenue as the hospital saw an increase in inpatient days of approximately 10%.

The operating income for 2014 improved by \$917,168 or 327% as compared to 2013. The primary components of the improved operating results are:

- An increase in net patient service revenue of \$1,459,452 or 16%
- An increase in salaries, wages and employee benefits for the Authority's employees of \$337,792 or 6%
- An increase in purchased services and professional fees of \$197,905 or 10%

Net patient service revenue increased in 2014 despite a decrease in inpatient days of 6% primarily due to an increase in inpatient admissions and discharges of 10%. In addition, the provision for uncollectible accounts decreased by approximately \$231,000 in 2014 compared to 2013, and the Authority received an increase in Medicare reimbursement for uncompensated care of approximately \$378,000 in 2014 compared to 2013.

Salaries, wages and employee benefits increased in connection with the Authority's retention and recruitment efforts, including employee incentive bonuses, and a slight increase in full-time equivalent personnel due to the increase in patient volumes.

The increase in purchased services and professional fees is primarily caused by an increase in professional fees to physicians in the clinic setting.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of interest income and noncapital grants and gifts. In 2013, the Authority received noncapital grants at a higher level than in 2014 or 2015.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses for 2015 and 2014.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2015 and 2014, the Authority had \$1,468,291 and \$1,537,511, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015, the Authority purchased new building improvements, new equipment and construction in progress costing \$140,362. In 2014, the Authority purchased building improvements, new equipment and construction in progress costing \$524,016.

Debt

There was no new debt outstanding or issued in 2015 or 2014.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by telephoning 405.756.1404.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Balance Sheets
June 30, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash	\$ 888,432	\$ 684,352
Short-term investments	223,942	222,715
Patient accounts receivable, net of allowance; 2015 – \$629,000, 2014 – \$912,000	1,060,546	1,016,252
Supplies, prepaid expenses and other receivables	346,624	307,985
Estimated amounts due from third-party payers	315,000	450,000
Total current assets	2,834,544	2,681,304
Noncurrent Investments	600,000	-
Capital Assets, Net	1,468,291	1,537,511
Total assets	\$ 4,902,835	\$ 4,218,815

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 296,972	\$ 437,713
Accrued expenses	362,712	316,030
Total current liabilities	659,684	753,743
Net Position		
Net investment in capital assets	1,468,291	1,537,511
Unrestricted	2,774,860	1,927,561
Total net position	4,243,151	3,465,072
Total liabilities and net position	\$ 4,902,835	\$ 4,218,815

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015 – \$190,439, 2014 – \$341,833	\$ 11,477,012	\$ 10,873,532
Other	24,686	22,751
	11,501,698	10,896,283
Operating Expenses		
Salaries and wages	4,923,986	4,688,797
Employee benefits	1,027,705	955,481
Purchased services and professional fees	2,230,037	2,162,816
Supplies and other	2,368,745	2,154,832
Depreciation	209,582	297,586
	10,760,055	10,259,512
	741,643	636,771
Operating Income		
Nonoperating Revenues		
Interest income	3,480	18,298
Noncapital grants and gifts	7,956	7,415
	11,436	25,713
Excess of Revenues over Expenses Before Capital Grants and Gifts	753,079	662,484
Capital Grants and Gifts	25,000	-
Increase in Net Position	778,079	662,484
Net Position, Beginning of Year	3,465,072	2,802,588
Net Position, End of Year	\$ 4,243,151	\$ 3,465,072

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 11,567,718	\$ 10,004,483
Payments to suppliers and contractors	(4,652,406)	(4,156,196)
Payments to and on behalf of employees	(5,905,009)	(5,655,988)
Other receipts, net	23,336	42,582
Net cash provided by operating activities	1,033,639	234,881
Noncapital Financing Activities		
Noncapital grants and gifts	7,956	7,415
Net cash provided by noncapital financing activities	7,956	7,415
Capital and Related Financing Activities		
Capital grants and gifts	25,000	-
Purchase of capital assets	(266,118)	(414,400)
Proceeds from sale of capital assets	1,350	19,639
Net cash used in capital and related financing activities	(239,768)	(394,761)
Investing Activities		
Interest on investments	3,480	3,627
Distributions from equity investee	-	14,671
Purchases of investments	(1,047,893)	(222,715)
Proceeds from disposition of investments	446,666	220,528
Net cash provided by (used in) investing activities	(597,747)	16,111
Increase (Decrease) in Cash	204,080	(136,354)
Cash, Beginning of Year	684,352	820,706
Cash, End of Year	\$ 888,432	\$ 684,352

See Notes to Financial Statements

	<u>2015</u>	<u>2014</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash		
Provided by Operating Activities		
Operating income	\$ 741,643	\$ 636,771
Depreciation	209,582	297,586
Provision for uncollectible accounts	190,439	341,833
(Gain) loss on sale of capital assets	(1,350)	19,831
Changes in operating assets and liabilities		
Patient accounts receivable, net	(234,733)	(747,935)
Estimated amounts due to/from third-party payers	135,000	(462,947)
Accounts payable and accrued expenses	31,697	153,822
Supplies, prepaid expenses and other receivables	(38,639)	(4,080)
	<u>\$ 1,033,639</u>	<u>\$ 234,881</u>
Net cash provided by operating activities		
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ -	\$ 125,756

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Lindsay Municipal Hospital Authority (the Authority) operates Lindsay Municipal Hospital (the Hospital) under a lease with the City of Lindsay, Oklahoma. The Authority is an acute care hospital located in Lindsay, Oklahoma. The Authority is a component unit of the City of Lindsay, Oklahoma (the City), and the city council appoints members to the Board of Trustees of the Authority. The Authority primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in central Oklahoma and to the Oklahoma Department of Corrections' (ODOC) patients.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2015 and 2014, there were no cash equivalents.

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; medical malpractice; 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 three preceding years.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. Investment income includes interest income.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are subsequently written off as uncollectible based on individual credit evaluation and specific circumstances of the account.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Authority:

Land improvements	8-15 years
Buildings and improvements	10-30 years
Equipment	3-20 years

Compensated Absences

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

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

Net Position

Net position of the Authority is classified in two components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

At June 30, 2015 and 2014, approximately \$5,000 of unrestricted net position has been designated by the board of trustees for future capital acquisitions under the control of the board of trustees which may, at its discretion, later use this net position for other purposes.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. The payment arrangements include:

- **Oklahoma Department of Corrections** – Inpatient and outpatient services rendered to ODOC's patients are reimbursed under a cost-based reimbursement methodology (see *Note 7*). The Authority is reimbursed for certain services at tentative rates with settlements based on quarterly filings.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor.
- **Medicaid** – Inpatient services provided to the state’s Medicaid beneficiaries are reimbursed on a prospective per discharge method with no retroactive adjustments. Outpatient services are reimbursed on a fee schedule basis with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 90% of net patient service revenue is from patients covered under agreements with ODOC for the years ended June 30, 2015 and 2014. Less than 10% of net patient service revenue is from participation in the Medicare program for the years ended June 30, 2015 and 2014. During 2011, the state-sponsored Medicaid program began reimbursing the Authority for services provided to Medicaid-eligible patients covered by the contracts with ODOC. This Medicaid reimbursement is deducted from the payments due to the Authority under the ODOC contracts discussed in *Note 7*. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 3: Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government’s deposits may not be returned to it. The Authority does not have a formal policy to address custodial credit risk. State law requires that all deposits of public trusts be insured with federal depository insurance or other acceptable collateral in specific amounts.

At June 30, 2015 and 2014, none of the Authority’s bank balances of \$1,761,621 and \$1,181,818, respectively, were uninsured and uncollateralized.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

Summary of Carrying Values

The carrying values of deposits mentioned above are included in the accompanying balance sheets as follows:

	2015	2014
Carrying value		
Deposits	\$ 1,711,874	\$ 906,567
Cash on hand	500	500
	\$ 1,712,374	\$ 907,067
Included in the following balance sheet captions		
Cash	\$ 888,432	\$ 684,352
Short-term investments	223,942	222,715
Noncurrent investments	600,000	-
	\$ 1,712,374	\$ 907,067

At June 30, 2015 and 2014, short-term and noncurrent investments consisted of certificates of deposit. Investment income of \$3,480 and \$18,298 for the years ended June 30, 2015 and 2014, respectively, consisted of interest income and a distribution from equity investee.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements, and to ODOC for services rendered to patients covered under agreements with the Authority. Patient accounts receivable at June 30 consisted of:

	2015	2014
Medicare	\$ 224,501	\$ 400,282
Medicaid	71,468	47,321
Other third-party payers	295,730	441,878
Oklahoma Department of Corrections	795,925	757,456
Patients	301,922	281,315
	1,689,546	1,928,252
Less allowance for uncollectible accounts	629,000	912,000
	\$ 1,060,546	\$ 1,016,252

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

Note 6: Medical Malpractice Claims

In September 2007, the Authority became a member of Cimarron Insurance Exchange, RRG (Reciprocal Risk Retention Group) (Cimarron) approved by the State of Vermont to provide hospital professional and general liability coverage to its subscribers. Cimarron was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Cimarron members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. Effective January 1, 2014, Cimarron was dissolved and the Authority began purchasing medical malpractice insurance under a claims-made policy on a fixed premium basis from a commercial carrier. See *Note 10* for additional information about Cimarron.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Contracts with the Oklahoma Department of Corrections

During 2001, the Authority entered into three agreements with ODOC related to services to be provided by the Authority. Those agreements included the Contract for Inpatient Medical Services and the Outpatient Medical Services Contract. Each agreement was for an initial period of 10 years, with two five-year renewal options. New agreements were signed by the Authority and ODOC effective September 1, 2011, for a period of 10 years, with two five-year renewal options.

Under the Occupancy Agreement signed in 2001, the Authority granted ODOC exclusive rights to occupy 21 beds of the Authority and certain outpatient facilities for provision of medical services to prisoners of ODOC. The Occupancy Agreement signed in 2011 was expanded to 22 beds.

Effective September 1, 2012, under both the Contract for Inpatient Medical Services and the Outpatient Medical Services Contract, ODOC agreed to reimburse the Authority at cost plus an 8% administrative fee from September 1, 2012 to August 31, 2015. All reimbursement from ODOC under these contracts is reflected as net patient service revenue on the accompanying statements of revenues, expenses and changes in net position.

Effective September 1, 2015, ODOC and the Authority agreed to extend the Contract for Inpatient Medical Services and the Outpatient Medical Services Contract through August 31, 2018, including a continuation of the 8% administration fee.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

Note 8: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the board of trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 4.1% and 3.4% for 2015 and 5.0% and 3.5% for 2014, respectively. Contributions actually made by plan members and the Authority were approximately \$92,000 and \$77,000 during 2015 and \$115,000 and \$81,000 during 2014, respectively.

Note 9: Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 10: Investment in Cimarron Insurance Exchange, RRG

Through December 31, 2013, the Authority was a subscriber (member) of Cimarron and had less than a 10% ownership (equity) interest in Cimarron. Cimarron was originally chartered as a risk retention group by the State of Vermont to provide hospital professional liability and general liability coverage to its subscribers. In 2012, Cimarron was redomiciled to Oklahoma and licensed by the Oklahoma Insurance Department to continue its operations as a risk retention group. Effective December 31, 2013, Cimarron was dissolved. The Authority's investment in Cimarron amounted to approximately \$0 at June 30, 2015 and 2014.

The Authority purchased its professional liability and other liability insurance coverages from Cimarron (see *Note 6*) through December 31, 2013. For the years ended June 30, 2015 and 2014, the Authority paid approximately \$0 and \$52,000, respectively, to Cimarron for the coverage.

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

Board of Trustees
Lindsay Municipal Hospital Authority
Lindsay, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lindsay Municipal Hospital Authority (the Authority), which comprise the balance sheet as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2015.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Authority's 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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority'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.

Board of Trustees
Lindsay Municipal Hospital Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

We noted certain matters that we reported to the Authority's management in a separate letter dated December 11, 2015.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
December 11, 2015