Lindsay Municipal Hospital Authority

A Component Unit of the City of Lindsay, Oklahoma

Accountants' Reports and Financial Statements

June 30, 2012 and 2011

BKD LLP
CPAs & Advisors

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
June 30, 2012 and 2011

Contents

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Independent Accountants' Report on Financial Statements

Board of Trustees
Lindsay Municipal Hospital Authority
Lindsay, Oklahoma

We have audited the accompanying balance sheet of Lindsay Municipal Hospital Authority (the Authority), a component unit of the City of Lindsay, Oklahoma, as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lindsay Municipal Hospital Authority as of and for the year ended June 30, 2011, were audited by other accountants whose report dated November 25, 2011, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Lindsay Municipal Hospital Authority as of June 30, 2012, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2013, 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* and should be considered in assessing the results of our audit.

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 financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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.

BKD, LLP

February 14, 2013

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011

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, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's cash and investments decreased by $348,270 or 32% in 2012 and by $118,203 or 10% in 2011.
- The Authority's patient accounts receivable increased by $238,113 or 29% in 2012 and decreased by $215,876 or 21% in 2011.
- The Authority's deferred revenue decreased by $152,778 or 100% in 2012 and $139,555 or 48% in 2011.
- The Authority's net assets increased by $215,252 or 8% in 2012 and decreased by $51,410 or 2% in 2011.
- The Authority reported operating income in 2012 of $202,831 and an operating loss in 2011 of $76,851. The operating income in 2012 increased by $279,682 or 364% over the operating loss reported in 2011.

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 assets; 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 Assets

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 assets 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 assets and changes in them. The Authority's total net assets—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 assets 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 Assets

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheets. The Authority's net assets increased by $215,252 or 8% in 2012 over 2011 and decreased by $51,410 or 2% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Cash and short-term investments	$ 737,419	$ 1,085,689	$ 1,203,892
Patient accounts receivable, net	1,072,179	834,066	1,049,942
Other current and noncurrent assets	374,578	353,553	314,119
Capital assets, net	1,405,364	1,263,613	1,072,304
Total assets	$ 3,589,540	$ 3,536,921	$ 3,640,257
Liabilities			
Long-term debt	$ -	$ 40,185	$ 92,292
Other current liabilities	546,406	516,076	376,340
Deferred revenue	-	152,778	292,333
Total liabilities	546,406	709,039	760,965
Net Assets			
Invested in capital assets, net of related debt	1,405,364	1,263,613	779,971
Restricted expendable	-	-	60,369
Unrestricted	1,637,770	1,564,269	2,038,952
Total net assets	3,043,134	2,827,882	2,879,292
Total liabilities and net assets	$ 3,589,540	$ 3,536,921	$ 3,640,257

The Authority's cash and short-term investments decreased in 2012 due to cash expenditures for implementation of electronic health records and construction projects. Patient accounts receivable increased by $238,113 or 29% in 2012 compared to 2011 due to a delay in payments from Department of Corrections (DOC) patients at June 30, 2012, and the increased reimbursable cost of hospitalists in 2012 under the DOC contract. Deferred revenue decreased in 2012 compared to 2011 by $152,778 or 100% due to the completion of the Occupancy Agreement with the DOC's initial agreement period (see *Note 8*).

The Authority's cash and short-term investments decreased in 2011 by $118,203 or 10% primarily due to paying cash for capital asset additions. Patient accounts receivable decreased by $215,876 or 21% in 2011 compared to 2010, thus generating additional cash. The Authority's other current liabilities increased by $139,736 or 37% due to an increase in accounts payable at year-end. The Authority's deferred revenue decreased by $139,555 or 48% due to the continued amortization of deferred revenue under the Occupancy Agreement with the DOC.

Operating Results and Changes in the Authority's Net Assets

In 2012, the Authority's net assets increased by $215,252 or 8% as shown in Table 2. This increase is made up of several different components and represents an increase of $266,662 or 519% compared with the decrease in net assets for 2011 of $51,410.

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues			
Net patient service revenue	$ 9,431,123	$ 7,975,863	$ 7,534,777
Other operating revenue	173,060	169,629	161,221
Total operating revenues	9,604,183	8,145,492	7,695,998
Operating Expenses			
Salaries, wages and employee benefits	4,881,121	4,362,595	4,264,249
Purchased services and professional fees	1,952,780	1,357,833	1,095,901
Supplies and other operating expenses	2,092,209	2,126,811	1,782,009
Depreciation	475,242	375,104	-
Total operating expenses	9,401,352	8,222,343	7,142,159
Operating Income (Loss)	202,831	(76,851)	553,839
Nonoperating Revenues (Expenses)			
Interest income	6,441	9,166	6,603
Interest expense	(1,524)	(9,027)	(67,833)
Noncapital grants and gifts	7,504	-	-
Total nonoperating revenues (expenses)	12,421	139	(61,230)
Capital Grants and Gifts	-	25,302	9,101
Increase (Decrease) in Net Assets	$ 215,252	$ (51,410)	$ 501,710

Operating Income

The first component of the overall change in the Authority's net assets 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 2012 increased by $279,682 or 364% as compared to 2011. The primary components of the increased operating income are:

- An increase in net patient service revenue of $1,455,260 or 18%.
- An increase in salaries and wages and employee benefits for the Authority's employees of $518,526 or 12%.
- An increase in purchased services and professional fees of $594,947 or 44%.

Net patient service revenue increased because of an increase in patient admissions to offset the decrease in patient days and an increase in orthopedic and surgery volume.

Salaries and wages and employee benefits increased in connection with the Authority's retention and recruitment efforts and a slight increase in full-time equivalent personnel due to the increase in patient volumes. These retention and recruitment efforts resulted primarily from the shortage of nurses and other health care professionals in the United States.

The increase in purchased services and professional fees was largely attributable to the additional cost associated with the hospitalist and orthopedic services.

The operating loss for 2011 decreased by $363,420 or 127% as compared to 2010. The primary components of the operating loss are:

- An increase in net patient service revenue of $471,086 or 6%.
- An increase in purchased services and professional fees of $261,932 or 24%.
- An increase in supplies and other operating expenses of $344,802 or 19%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest income and interest expense. The decrease in the interest expense in 2012 and 2011 related to the amortization of the restructured note payable with the City of Lindsay.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses for 2012 and 2011, except for the changes in patient accounts receivable in 2012 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012 and 2011, the Authority had $1,405,364 and $1,263,613, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Authority purchased new equipment and construction in progress costing $618,558. In 2011, the Authority purchased new equipment and construction in progress costing $566,414.

Debt

At June 30, 2012 and 2011, the Authority had $0 and $40,185, respectively, in notes payable as detailed in *Note 7* to the financial statements. In 2012, the Authority paid off the note payable with the City of Lindsay. There was no new debt issued in 2012 or 2011.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. 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, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash	$ 320,121	$ 674,597
Short-term investments	417,298	411,092
Patient accounts receivable, net of allowance; 2012 – $1,086,000, 2011 – $1,334,000	1,072,179	834,066
Supplies, prepaid expenses and other receivables	294,112	278,087
Estimated amounts due from third-party payers	5,000	-
Total current assets	2,108,710	2,197,842
Capital Assets, Net	1,405,364	1,263,613
Other Assets	75,466	75,466
Total assets	$ 3,589,540	$ 3,536,921

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Current maturities of long-term debt	$ -	$ 19,054
Accounts payable	235,237	238,400
Accrued expenses	311,169	261,049
Estimated amounts due to third-party payers	-	16,627
Deferred revenue – current	-	100,705
Total current liabilities	546,406	635,835
Long-Term Debt	-	21,131
Deferred Revenue	-	52,073
Total liabilities	546,406	709,039
Net Assets		
Invested in capital assets, net of related debt	1,405,364	1,263,613
Unrestricted	1,637,770	1,564,269
Total net assets	3,043,134	2,827,882
Total liabilities and net assets	$ 3,589,540	$ 3,536,921

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – $207,781, 2011 – $307,151	$ 9,431,123	$ 7,975,863
Other	173,060	169,629
Total operating revenues	9,604,183	8,145,492
Operating Expenses		
Salaries and wages	4,024,694	3,570,209
Employee benefits	856,427	792,386
Purchased services and professional fees	1,952,780	1,357,833
Supplies and other	2,092,209	2,126,811
Depreciation	475,242	375,104
Total operating expenses	9,401,352	8,222,343
Operating Income (Loss)	202,831	(76,851)
Nonoperating Revenues (Expenses)		
Interest income	6,441	9,166
Interest expense	(1,524)	(9,027)
Noncapital grants and gifts	7,504	-
Total nonoperating revenues (expenses)	12,421	139
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	215,252	(76,712)
Capital Grants and Gifts	-	25,302
Increase (Decrease) in Net Assets	215,252	(51,410)
Net Assets, Beginning of Year	2,827,882	2,879,292
Net Assets, End of Year	$ 3,043,134	$ 2,827,882

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 9,171,383	$ 8,195,173
Payments to suppliers and contractors	(4,064,177)	(4,283,088)
Payments to and on behalf of employees	(4,831,001)	(3,467,283)
Other receipts, net	21,597	30,074
Net cash provided by operating activities	297,802	474,876
Noncapital Financing Activities		
Principal paid on noncapital debt	(40,185)	(52,107)
Interest paid on noncapital debt	(1,524)	(9,027)
Noncapital grants and gifts	7,504	-
Net cash used in noncapital financing activities	(34,205)	(61,134)
Capital and Related Financing Activities		
Capital grants and gifts	-	25,302
Purchase of capital assets	(618,558)	(566,414)
Proceeds from sale of capital assets	250	-
Net cash used in capital and related financing activities	(618,308)	(541,112)
Investing Activities		
Interest on investments	6,441	9,166
Purchases of investments, net	(6,206)	314,776
Net cash provided by investing activities	235	323,942
Increase (Decrease) in Cash	(354,476)	196,572
Cash, Beginning of Year	674,597	478,025
Cash, End of Year	$ 320,121	$ 674,597

See Notes to Financial Statements

		2012		2011
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities				
Operating income (loss)	$	202,831	$	(76,851)
Depreciation		475,242		375,104
Provision for uncollectible accounts		207,781		307,151
Loss on sale of capital assets		1,315		-
Changes in operating assets and liabilities				
Patient accounts receivable, net		(445,894)		(91,241)
Estimated amounts due to third-party payers		(21,627)		37
Accounts payable and accrued expenses		46,957		139,699
Supplies and prepaid expenses		(16,025)		(39,468)
Deferred revenue		(152,778)		(139,555)
Net cash provided by operating activities	$	297,802	$	474,876

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' 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 assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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.

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.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, there were no cash equivalents.

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. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. 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.

Net Assets

Net assets of the Authority are classified in three components. Net assets invested in capital assets, net of related debt, consist 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. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors, vendors or donors external to the Authority, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the increase in net assets.

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 the Oklahoma Department of Corrections (ODOC) patients are reimbursed under a cost-based reimbursement methodology. The Authority receives up to 105% of cost for inpatient services and up to 115% of cost for outpatient services (see *Note 8*). The Authority is reimbursed for certain services at tentative rates with settlements based on quarterly filings.

- **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.

Over 75% of net patient service revenues are from patients covered under agreements with the ODOC for the years ended June 30, 2012 and 2011, respectively. Less than 10% of net patient service revenues are from participation in the Medicare program for the years ended June 30, 2012 and 2011. During 2011, the state-sponsored Medicaid program began reimbursing the Authority for services provided to Medicaid-eligible patients covered by the contracts with the ODOC. This Medicaid reimbursement is deducted from the payments due to the Authority under the ODOC contracts discussed in *Note 8*. 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.

At June 30, 2012 and 2011, none of the Authority's bank balances of $909,206 and $1,198,766, respectively, were uninsured and uncollateralized.

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	$ 736,919	$ 1,085,189
Cash on hand	500	500
	$ 737,419	$ 1,085,689
Included in the following balance sheet captions		
Cash	$ 320,121	$ 674,597
Short-term investments	417,298	411,092
	$ 737,419	$ 1,085,689

Investment income of $6,441 and $9,166 for the years ended June 30, 2012 and 2011, respectively, consisted of interest income.

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 the ODOC for services rendered to patients covered under agreements with the Authority. Patient accounts receivable at June 30, consisted of:

	2012	2011
Medicare	$ 208,999	$ 206,669
Medicaid	28,625	53,384
Other third-party payers	538,767	642,305
Oklahoma Department of Corrections	777,147	621,694
Patients	604,641	644,014
	2,158,179	2,168,066
Less allowance for uncollectible accounts	1,086,000	1,334,000
	$ 1,072,179	$ 834,066

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

2012

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 14,164	$ -	$ -	$ -	$ 14,164
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	1,870,601	-	(1,897)	-	1,868,704
Equipment	2,373,459	331,851	(162,834)	192,330	2,734,806
Construction in progress	244,507	286,707	-	(192,330)	338,884
	4,536,997	618,558	(164,731)	-	4,990,824
Less accumulated depreciation					
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	1,574,416	110,241	(331)	-	1,684,326
Equipment	1,664,702	365,001	(162,835)	-	1,866,868
	3,273,384	475,242	(163,166)	-	3,585,460
Capital assets, net	$ 1,263,613	$ 143,316	$ (1,565)	$ -	$ 1,405,364

2011

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 14,164	$ -	$ -	$ -	$ 14,164
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	1,870,601	-	-	-	1,870,601
Equipment	1,949,050	321,907	-	102,502	2,373,459
Construction in progress	102,502	244,507	-	(102,502)	244,507
	3,970,583	566,414	-	-	4,536,997
Less accumulated depreciation					
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	1,464,175	110,241	-	-	1,574,416
Equipment	1,399,839	264,863	-	-	1,664,702
	2,898,280	375,104	-	-	3,273,384
Capital assets, net	$ 1,072,303	$ 191,310	$ -	$ -	$ 1,263,613

Note 6: Medical Malpractice Claims

Prior to September 2007, the Authority purchased medical malpractice insurance under a claims-made policy on a fixed premium basis. Beginning September 2007, the Authority became a member of Cimarron Insurance Exchange, RRG (Reciprocal Risk Retention Group) (the RRG) approved by the State of Vermont to provide hospital professional and general liability coverage to its subscribers. The RRG 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. The RRG members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis.

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: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Due to the City of Lindsay	$ 40,185	$ -	$ (40,185)	$ -	$ -
Other long-term liabilities					
Deferred revenue (*Note 8*)	152,778	-	(152,778)	-	-
Total long-term obligations	$ 192,963	$ -	$ (192,963)	$ -	$ -

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Due to the City of Lindsay	$ 92,292	$ -	$ (52,107)	$ 40,185	$ 19,054
Other long-term liabilities					
Deferred revenue (*Note 8*)	292,333	-	(139,555)	152,778	100,705
Total long-term obligations	$ 384,625	$ -	$ (191,662)	$ 192,963	$ 119,759

Due to the City of Lindsay

During 2002, the City transferred $500,000 from the capital improvement fund to the Authority to assist in the reopening of the facility. The amount received from the City is to be repaid interest free as funds become available. In October 2006, the Authority entered into a new promissory note with the City agreeing to repay the note in 180 monthly installments of $2,453, with a maturity date of December 2021. This note was paid off during the year ended June 30, 2012.

Note 8: Contracts with the Oklahoma Department of Corrections

During 2001, the Authority entered into three agreements with the Oklahoma Department of Corrections (ODOC) related to services to be provided by the Authority. Those agreements were the Occupancy Agreement, Contract for Inpatient Medical Services and 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 the 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 the ODOC exclusive rights to occupy 21 beds of the Authority and certain outpatient facilities for provision of medical services to prisoners of the ODOC. As consideration for these exclusive rights, the ODOC agreed to pay an amount not to initially exceed $950,000 for the building improvements and equipment necessary to equip the Authority for the ODOC's use. The Occupancy Agreement signed in 2011 was for 22 beds and did not include any additional consideration.

Under the Occupancy Agreement signed in 2001, the Authority amortized all leasehold improvements made by the ODOC over the initial term of 10 years and all equipment purchased by the ODOC over a period of five years.

In the event of termination of the Occupancy Agreement signed in 2001, the Authority may either pay the ODOC the unamortized balance of leasehold improvements made by the ODOC and the unamortized balance of major movable equipment or return such equipment to the ODOC. Accordingly, the portion of the ODOC's advance under the Occupancy Agreement related to the leasehold improvements and major movable equipment were reflected on the accompanying balance sheets as deferred revenue as of June 30, 2011, of approximately $153,000. There was no deferred revenue as of June 30, 2012, as the consideration received under the Occupancy Agreement signed in 2001 was fully earned by the Authority. Lease revenue recognized during 2012 and 2011 under the Occupancy Agreement was approximately $153,000 and $140,000, respectively.

Under the Contract for Inpatient Medical Services, the ODOC agreed to reimburse the Authority under a cost reimbursement methodology for care provided to prisoners under the contract. The cost reimbursement is based on inpatient utilization and will be no less than 84% and no more than 95%. In addition to the cost reimbursement, the ODOC agreed to pay a 10% administrative fee to the Authority for the period through September 2011 then 7% through August 31, 2012, with mutual negotiation of reimbursement rates annually thereafter. In November 2010, the ODOC and the Authority agreed to temporarily reduce reimbursement by 5%. This reduction remained in effect until September 1, 2011. All reimbursements from the ODOC under the Contract for Inpatient Medical Services are reflected as net patient service revenue on the accompanying statements of revenues, expenses and changes in net assets.

Under the Outpatient Medical Services Contract, the ODOC agreed to reimburse the Authority under a cost reimbursement methodology at 115% of the Authority's costs for outpatient services provided to prisoners under the contract for services rendered through September 2011 then 107% through August 31, 2012, with mutual negotiation of reimbursement rates annually thereafter. In November 2010, the ODOC and the Authority agreed to temporarily reduce reimbursement by 5%. This reduction remained in effect until September 1, 2011. All reimbursement from the ODOC under the Outpatient Medical Services Contract is reflected as net patient service revenue on the accompanying statements of revenues, expenses and changes in net assets.

Note 9: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount, if any, of the Hospital's required contributions, determined in accordance with the terms of the plan. 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. Contributions actually made by the Authority were $69,000 and $51,000 for the years ended June 30, 2012 and 2011, respectively.

Note 10: Risks and Uncertainties

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid and Department of Corrections programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Authority's ability to maintain sufficient liquidity.

Note 11: 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.

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Independent Accountants' 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 the financial statements of Lindsay Municipal Hospital Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 14, 2013. 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.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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*.

Board of Trustees
Lindsay Municipal Hospital Authority

We noted certain matters that we reported to the Authority's management in a separate letter dated February 14, 2013.

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 14, 2013