

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Auditor's Reports and Financial Statements
June 30, 2013 and 2012



Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
June 30, 2013 and 2012

Contents

Independent Auditor's Report on Financial Statements and Supplementary Information	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>	22

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Lindsay Municipal Hospital Authority
Lindsay, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Lindsay Municipal Hospital Authority (the Authority), a component unit of the City of Lindsay, Oklahoma, which comprise the balance sheets as of June 30, 2013 and 2012, 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 respective financial position of Lindsay Municipal Hospital Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity 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 audits 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 20, 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* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
December 20, 2013

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's cash and short-term investments increased by \$303,815 or 41.2% in 2013 and decreased by \$348,270 or 32.1% in 2012.
- The Authority's patient accounts receivable decreased by \$462,029 or 43.1% in 2013 and increased by \$238,113 or 28.5% in 2012.
- The Authority's deferred revenue remained at \$0 in 2013 and decreased by \$152,778 or 100% in 2012.
- The Authority's net position decreased by \$240,546 or 7.9% in 2013 and increased by \$215,252 or 7.6% in 2012.
- The Authority reported an operating loss in 2013 of \$280,397 and operating income in 2012 of \$202,831. The operating results in 2013 worsened by \$483,228 or 238% from the operating results reported in 2012.

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 them. 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 decreased by \$240,546 or 7.9% in 2013 over 2012 and increased by \$215,252 or 7.6% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Cash and short-term investments	\$ 1,041,234	\$ 737,419	\$ 1,085,689
Patient accounts receivable, net	610,150	1,072,179	834,066
Other current and noncurrent assets	303,905	374,578	353,553
Capital assets, net	<u>1,350,551</u>	<u>1,405,364</u>	<u>1,263,613</u>
Total assets	<u>\$ 3,305,840</u>	<u>\$ 3,589,540</u>	<u>\$ 3,536,921</u>
Liabilities			
Long-term debt	\$ -	\$ -	\$ 40,185
Current liabilities	503,252	546,406	516,076
Deferred revenue	<u>-</u>	<u>-</u>	<u>152,778</u>
Total liabilities	<u>503,252</u>	<u>546,406</u>	<u>709,039</u>
Net Position			
Net investment in capital assets	1,350,551	1,405,364	1,263,613
Unrestricted	<u>1,452,037</u>	<u>1,637,770</u>	<u>1,564,269</u>
Total net position	<u>2,802,588</u>	<u>3,043,134</u>	<u>2,827,882</u>
Total liabilities and net position	<u>\$ 3,305,840</u>	<u>\$ 3,589,540</u>	<u>\$ 3,536,921</u>

The Authority's cash and short-term investments increased in 2013 due to increases in cash from operating activities and a decrease in cash expenditures for capital and related financing activities. Patient accounts receivable decreased by \$462,029 or 43.1% in 2013 compared to 2012 due primarily to a reduction of \$361,576 in the amount due from the Oklahoma Department of Corrections (ODOC) at June 30, 2013, compared to June 30, 2012.

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 28.5% in 2012 compared to 2011 due to a delay in payments from ODOC patients at June 30, 2012, and the increased reimbursable cost of hospitalists in 2012 under the ODOC contract. Deferred revenue decreased in 2012 compared to 2011 by \$152,778 or 100% due to the completion of the Occupancy Agreement with the ODOC's initial agreement period (see *Note 8*).

Operating Results and Changes in the Authority's Net Position

In 2013, the Authority's net position decreased by \$240,546 or 7.9% as shown in Table 2. This decrease is made up of several different components and represents a decrease of \$455,798 or 211% compared with the increase in net position for 2012 of \$215,252.

Table 2: Operating Results and Changes in Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 9,414,080	\$ 9,431,123	\$ 7,975,863
Other operating revenue	<u>24,723</u>	<u>173,060</u>	<u>169,629</u>
Total operating revenues	<u>9,438,803</u>	<u>9,604,183</u>	<u>8,145,492</u>
Operating Expenses			
Salaries, wages and employee benefits	5,306,486	4,881,121	4,362,595
Purchased services and professional fees	1,964,911	1,952,780	1,357,833
Supplies and other operating expenses	2,062,687	2,092,209	2,126,811
Depreciation	<u>385,116</u>	<u>475,242</u>	<u>375,104</u>
Total operating expenses	<u>9,719,200</u>	<u>9,401,352</u>	<u>8,222,343</u>
Operating Income (Loss)	<u>(280,397)</u>	<u>202,831</u>	<u>(76,851)</u>
Nonoperating Revenues (Expenses)			
Interest income	13,533	6,441	9,166
Interest expense	-	(1,524)	(9,027)
Noncapital grants and gifts	<u>26,318</u>	<u>7,504</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>39,851</u>	<u>12,421</u>	<u>139</u>
Capital Grants and Gifts	<u>-</u>	<u>-</u>	<u>25,302</u>
Increase (Decrease) in Net Position	<u><u>\$ (240,546)</u></u>	<u><u>\$ 215,252</u></u>	<u><u>\$ (51,410)</u></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 loss for 2013 decreased by \$483,228 or 238% as compared to 2012. The primary components of the reduced operating results are:

- A decrease in net patient service revenue of \$17,043 or 0.2%
- A decrease in other operating revenue of \$148,337 or 85.7%
- An increase in salaries, wages and employee benefits for the Authority's employees of \$425,365 or 8.7%
- A decrease in depreciation expense of \$90,126 or 19.0%

Net patient service revenue remained relatively flat because of an increase in inpatient days of 578 days or 10% to offset the decrease in surgery procedures and clinic visits. In addition, the provision for uncollectible accounts increased by approximately \$365,000 in 2013 compared to 2012.

Other operating revenue decreased in 2013 due primarily to the amortization of deferred revenue related to the initial ODOC contract being fully recognized in 2012.

Salaries, 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 decrease in depreciation expense relates to the building improvements made by the ODOC in 2002 becoming fully depreciated in late fiscal year 2012 or early fiscal year 2013.

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 18.2%
- An increase in salaries, wages and employee benefits for the Authority's employees of \$518,526 or 11.9%
- An increase in purchased services and professional fees of \$594,947 or 43.8%

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, 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 hospitalist and orthopedic services.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest income and noncapital grants and gifts. In 2013, the Authority received noncapital grants at a higher level than in the prior two years.

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 2013 and 2012, except for the changes in patient accounts receivable in 2013 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013 and 2012, the Authority had \$1,350,551 and \$1,405,364, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Authority purchased new building improvements, new equipment and construction in progress costing \$330,303. In 2012, the Authority purchased new equipment and construction in progress costing \$618,558.

Debt

By June 30, 2012, the Authority had retired all outstanding debt as detailed in *Note 7* to the financial statements. There was no new debt issued in 2013 or 2012.

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, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash	\$ 820,706	\$ 320,121
Short-term investments	220,528	417,298
Patient accounts receivable, net of allowance; 2013 – \$1,210,000, 2012 – \$1,086,000	610,150	1,072,179
Supplies, prepaid expenses and other receivables	303,905	294,112
Estimated amounts due from third-party payers	-	5,000
	<hr/>	<hr/>
Total current assets	1,955,289	2,108,710
	<hr/>	<hr/>
Capital Assets, Net	1,350,551	1,405,364
	<hr/>	<hr/>
Other Assets	-	75,466
	<hr/>	<hr/>
Total assets	<u>\$ 3,305,840</u>	<u>\$ 3,589,540</u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 162,565	\$ 235,237
Accrued expenses	327,740	311,169
Estimated amounts due to third-party payers	12,947	-
	<hr/>	<hr/>
Total current liabilities	503,252	546,406
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	1,350,551	1,405,364
Unrestricted	1,452,037	1,637,770
	<hr/>	<hr/>
Total net position	2,802,588	3,043,134
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 3,305,840</u>	<u>\$ 3,589,540</u>

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$572,715, 2012 – \$207,781	\$ 9,414,080	\$ 9,431,123
Other	24,723	173,060
	<u>9,438,803</u>	<u>9,604,183</u>
Operating Expenses		
Salaries and wages	4,412,512	4,024,694
Employee benefits	893,974	856,427
Purchased services and professional fees	1,964,911	1,952,780
Supplies and other	2,062,687	2,092,209
Depreciation	385,116	475,242
	<u>9,719,200</u>	<u>9,401,352</u>
	<u>(280,397)</u>	<u>202,831</u>
Operating Income (Loss)		
Nonoperating Revenues (Expenses)		
Interest income	13,533	6,441
Interest expense	-	(1,524)
Noncapital grants and gifts	26,318	7,504
	<u>39,851</u>	<u>12,421</u>
	<u>(240,546)</u>	<u>215,252</u>
Excess (Deficiency) of Revenues over Expenses and Increase (Decrease) in Net Position		
Net Position, Beginning of Year	<u>3,043,134</u>	<u>2,827,882</u>
Net Position, End of Year	<u><u>\$ 2,802,588</u></u>	<u><u>\$ 3,043,134</u></u>

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 9,894,056	\$ 9,171,383
Payments to suppliers and contractors	(4,093,923)	(4,064,177)
Payments to and on behalf of employees	(5,289,915)	(4,831,001)
Other receipts, net	<u>24,723</u>	<u>21,597</u>
Net cash provided by operating activities	<u>534,941</u>	<u>297,802</u>
Noncapital Financing Activities		
Principal paid on noncapital debt	-	(40,185)
Interest paid on noncapital debt	-	(1,524)
Noncapital grants and gifts	<u>26,318</u>	<u>7,504</u>
Net cash provided by (used in) noncapital financing activities	<u>26,318</u>	<u>(34,205)</u>
Capital and Related Financing Activities		
Purchase of capital assets	(346,443)	(618,558)
Proceeds from sale of capital assets	<u>-</u>	<u>250</u>
Net cash used in capital and related financing activities	<u>(346,443)</u>	<u>(618,308)</u>
Investing Activities		
Interest on investments	4,681	6,441
Purchases of investments	(220,528)	(6,206)
Distributions from equity investee	84,318	-
Proceeds from disposition of investments	<u>417,298</u>	<u>-</u>
Net cash provided by investing activities	<u>285,769</u>	<u>235</u>
Increase (Decrease) in Cash	500,585	(354,476)
Cash, Beginning of Year	<u>320,121</u>	<u>674,597</u>
Cash, End of Year	<u><u>\$ 820,706</u></u>	<u><u>\$ 320,121</u></u>

See Notes to Financial Statements

	2013	2012
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (280,397)	\$ 202,831
Depreciation	385,116	475,242
Provision for uncollectible accounts	572,715	207,781
Loss on sale of capital assets	-	1,315
Changes in operating assets and liabilities		
Patient accounts receivable, net	(110,686)	(445,894)
Estimated amounts due to third-party payers	17,947	(21,627)
Accounts payable and accrued expenses	(39,961)	46,957
Supplies and prepaid expenses	(9,793)	(16,025)
Deferred revenue	-	(152,778)
	<u>\$ 534,941</u>	<u>\$ 297,802</u>
Net cash provided by operating activities		
	<u>\$ 534,941</u>	<u>\$ 297,802</u>
Capital asset acquisitions included in accounts payable	\$ 16,140	\$ -

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

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 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.

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, 2013 and 2012

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, 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. 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, 2013 and 2012

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, 2013 and 2012, \$320,000 and \$0, respectively, 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 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.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

- **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 ODOC for the years ended June 30, 2013 and 2012, respectively. Less than 10% of net patient service revenues are from participation in the Medicare program for the years ended June 30, 2013 and 2012. 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 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, 2013 and 2012, \$11,582 and \$0 of the Authority’s bank balances of \$1,304,746 and \$909,206, respectively, were uninsured and uncollateralized.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	\$ 1,040,734	\$ 736,919
Cash on hand	500	500
	<u>\$ 1,041,234</u>	<u>\$ 737,419</u>
Included in the following balance sheet captions		
Cash	\$ 820,706	\$ 320,121
Short-term investments	220,528	417,298
	<u>\$ 1,041,234</u>	<u>\$ 737,419</u>

At June 30, 2013 and 2012, short-term investments consisted of certificates of deposit. Investment income of \$13,533 and \$6,441 for the years ended June 30, 2013 and 2012, respectively, consisted of interest income and 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:

	2013	2012
Medicare	\$ 297,020	\$ 208,999
Medicaid	38,464	28,625
Other third-party payers	541,580	538,767
Oklahoma Department of Corrections	415,570	777,147
Patients	527,516	604,641
	<u>1,820,150</u>	<u>2,158,179</u>
Less allowance for uncollectible accounts	<u>1,210,000</u>	<u>1,086,000</u>
	<u>\$ 610,150</u>	<u>\$ 1,072,179</u>

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 14,164	\$ -	\$ -	\$ -	\$ 14,164
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	1,868,704	51,080	-	564,925	2,484,709
Equipment	2,734,806	37,041	(13,498)	-	2,758,349
Construction in progress	338,884	242,182	-	(564,925)	16,141
	<u>4,990,824</u>	<u>330,303</u>	<u>(13,498)</u>	<u>-</u>	<u>5,307,629</u>
Less accumulated depreciation					
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	1,684,326	36,204	-	-	1,720,530
Equipment	1,866,868	348,912	(13,498)	-	2,202,282
	<u>3,585,460</u>	<u>385,116</u>	<u>(13,498)</u>	<u>-</u>	<u>3,957,078</u>
Capital assets, net	<u>\$ 1,405,364</u>	<u>\$ (54,813)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,350,551</u>

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
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
	<u>4,536,997</u>	<u>618,558</u>	<u>(164,731)</u>	<u>-</u>	<u>4,990,824</u>
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
	<u>3,273,384</u>	<u>475,242</u>	<u>(163,166)</u>	<u>-</u>	<u>3,585,460</u>
Capital assets, net	<u>\$ 1,263,613</u>	<u>\$ 143,316</u>	<u>\$ (1,565)</u>	<u>\$ -</u>	<u>\$ 1,405,364</u>

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

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) (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. See *Note 11* 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: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the year ended June 30, 2012. There was no activity in long-term obligations for the Authority as of and for the year ended June 30, 2013.

	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 (<i>Note 8</i>)	152,778	-	(152,778)	-	-
Total long-term obligations	<u>\$ 192,963</u>	<u>\$ -</u>	<u>\$ (192,963)</u>	<u>\$ -</u>	<u>\$ -</u>

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 Hospital. 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.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 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 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. As consideration for these exclusive rights, 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 ODOC over the initial term of 10 years and all equipment purchased by ODOC over a period of five years.

In the event of termination of the Occupancy Agreement signed in 2001, the Authority may either pay ODOC the unamortized balance of leasehold improvements made by ODOC and the unamortized balance of major moveable equipment or return such equipment to ODOC. Accordingly, the portion of ODOC's advance under the Occupancy Agreement related to the leasehold improvements and major moveable equipment was recorded as deferred revenue. 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 2013 and 2012 under the Occupancy Agreement was approximately \$0 and \$153,000, respectively, and included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position.

Under the Contract for Inpatient Medical Services, 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, 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 September 2012, ODOC and the Authority agreed to an 8% administration fee from September 1, 2012 through August 31, 2015. In November 2010, ODOC and the Authority agreed to temporarily reduce reimbursement by 5%. This reduction remained in effect until September 1, 2011. All reimbursements from 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 position.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Under the Outpatient Medical Services Contract, 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 September 2012, ODOC and the Authority agreed to reimburse the Authority at 108% of cost from September 1, 2012 through August 31, 2015. In November 2010, ODOC and the Authority agreed to temporarily reduce reimbursement by 5%. This reduction remained in effect until September 1, 2011. All reimbursement from 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 position.

Note 9: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount, if any, of the Authority'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. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 2.2% and 1.8% for 2013 and 2.3% and 1.9% for 2012, respectively. Contributions actually made by plan members and the Authority were approximately \$95,000 and \$78,000 during 2013 and \$82,000 and \$69,000 during 2012, respectively.

Note 10: 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 11: Investment in Cimarron Insurance Exchange, RRG

The Authority is a subscriber (member) of Cimarron and has 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. Cimarron has indicated it will cease operations on December 31, 2013. The Authority's investment in Cimarron amounted to approximately \$0 and \$75,000 at June 30, 2013 and 2012, respectively.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

The Authority purchases its professional liability and other liability insurance coverages from Cimarron (see *Note 6*). For the years ended June 30, 2013 and 2012, the Authority paid approximately \$133,000 and \$153,000, respectively, to Cimarron for the coverage.

Financial position and results of operations summarized from Cimarron's audited financial statements for the years ended December 31, 2012 and 2011, are shown below:

	2012	2011
Cash and invested assets	\$ 4,428,547	\$ 4,122,695
Other assets	<u>1,702,356</u>	<u>3,297,181</u>
Total assets	<u>6,130,903</u>	<u>7,419,876</u>
Losses and loss adjustment expenses	2,254,722	4,305,642
Other liabilities	<u>1,110,029</u>	<u>1,301,045</u>
Total liabilities	<u>3,364,751</u>	<u>5,606,687</u>
Capital and surplus	<u>\$ 2,766,152</u>	<u>\$ 1,813,189</u>
Revenues	<u>\$ 1,341,619</u>	<u>\$ 2,141,614</u>
Net income	<u>\$ 1,650,246</u>	<u>\$ 26,975</u>

Complete financial statements of Cimarron may be obtained by contacting the Authority's management at 405.756.1404.

Note 12: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Hospital's net patient service revenue. In addition, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

**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, which comprise the balance sheet as of June 30, 2013, 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 20, 2013.

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, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Trustees
Lindsay Municipal Hospital Authority

Compliance

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*.

Other Matters

We noted certain matters that we reported to the Authority's management in a separate letter dated December 20, 2013.

The purpose of this communication 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 compliance. This communication 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 20, 2013