Lindsay Municipal Hospital Authority

A Component Unit of the City of Lindsay, Oklahoma

Auditor's Reports and Financial Statements

June 30, 2014 and 2013

BKD LLP
CPAs & Advisors

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
June 30, 2014 and 2013

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Independent Auditor's Report

Board of Trustees
Lindsay Municipal Hospital Authority
Lindsay, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of Lindsay Municipal Hospital Authority (the Authority), a component unit of the City of Lindsay, Oklahoma, as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2014 and 2013, 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 November 18, 2014, 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
November 18, 2014

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's cash and short-term investments decreased by $134,167 or 13% in 2014 and increased by $303,815 or 41% in 2013.
- The Authority's patient accounts receivable increased by $406,102 or 67% in 2014 and decreased by $462,029 or 43% in 2013.
- The Authority's net position increased by $662,484 or 24% in 2014 and decreased by $240,546 or 8% in 2013.
- The Authority reported operating income in 2014 of $636,771 and an operating loss in 2013 of $280,397. The operating results in 2014 improved by $917,168 or 327% from the operating results reported in 2013.

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 increased by $662,484 or 24% in 2014 over 2013 and decreased by $240,546 or 8% in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2014	2013	2012
Assets			
Cash and short-term investments	$ 907,067	$ 1,041,234	$ 737,419
Patient accounts receivable, net	1,016,252	610,150	1,072,179
Other current and noncurrent assets	757,985	303,905	374,578
Capital assets, net	1,537,511	1,350,551	1,405,364
Total assets	$ 4,218,815	$ 3,305,840	$ 3,589,540
Liabilities			
Current liabilities	$ 753,743	$ 503,252	$ 546,406
Net Position			
Investment in capital assets	1,537,511	1,350,551	1,405,364
Unrestricted	1,927,561	1,452,037	1,637,770
Total net position	3,465,072	2,802,588	3,043,134
Total liabilities and net position	$ 4,218,815	$ 3,305,840	$ 3,589,540

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

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% in 2013 compared to 2012 due primarily to a reduction of $361,576 in the amount due from ODOC at June 30, 2013, compared to June 30, 2012.

Operating Results and Changes in the Authority's Net Position

In 2014, the Authority's net position increased by $662,484 or 24% as shown in Table 2. This increase is made up of several different components and represents an improvement of $903,030 or 375% compared with the decrease in net position for 2013 of $240,546.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	$ 10,873,532	$ 9,414,080	$ 9,431,123
Other operating revenue	22,751	24,723	173,060
Total operating revenues	10,896,283	9,438,803	9,604,183
Operating Expenses			
Salaries, wages and employee benefits	5,644,278	5,306,486	4,881,121
Purchased services and professional fees	2,162,816	1,964,911	1,952,780
Supplies and other operating expenses	2,154,832	2,062,687	2,092,209
Depreciation	297,586	385,116	475,242
Total operating expenses	10,259,512	9,719,200	9,401,352
Operating Income (Loss)	636,771	(280,397)	202,831
Nonoperating Revenues (Expenses)			
Interest income	18,298	13,533	6,441
Interest expense	-	-	(1,524)
Noncapital grants and gifts	7,415	26,318	7,504
Total nonoperating revenues (expenses)	25,713	39,851	12,421
Increase (Decrease) in Net Position	$ 662,484	$ (240,546)	$ 215,252

Operating Income (Loss)

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

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

- An increase in net patient service revenue of $1,459,452 or 16%
- An increase in salaries, wages and employee benefits for the Authority's employees of $337,792 or 6%

- An increase in purchased services and professional fees of $197,905 or 10%
- A decrease in depreciation expense of $87,530 or 23%

Net patient service revenue increased in 2014 despite a decrease in inpatient days of 6% primarily due to an increase in inpatient admissions and discharges of 10%. In addition, the provision for uncollectible accounts decreased by approximately $231,000 in 2014 compared to 2013 and the Authority received an increase in Medicare reimbursement for uncompensated care of approximately $400,000 in 2014 compared to 2013.

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

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

The decrease in depreciation expense relates to the building improvements made by ODOC in 2002 becoming fully depreciated in fiscal year 2013.

The operating loss for 2013 decreased by $483,228 or 238% as compared to 2012. The primary components of the increased operating income are:

- A decrease in net patient service revenue of $17,043 or 0%
- A decrease in other operating revenue of $148,337 or 86%
- An increase in salaries, wages and employee benefits for the Authority's employees of $425,365 or 9%
- A decrease in depreciation expense of $90,126 or 19%

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 ODOC in 2002 becoming fully depreciated in late fiscal year 2012 or early fiscal year 2013.

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 2014 or 2012.

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 2014 and 2013, except for the changes in patient accounts receivable discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014 and 2013, the Authority had $1,537,511 and $1,350,551, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014, the Authority purchased new building improvements, new equipment and construction in progress costing $524,016. In 2013, the Authority purchased building improvements, new equipment and construction in progress costing $330,303.

Debt

By June 30, 2012, the Authority had retired all outstanding debt. There was no new debt issued in 2014 or 2013.

Contacting the Authority's Financial Management

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

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Balance Sheets
June 30, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash	$ 684,352	$ 820,706
Short-term investments	222,715	220,528
Patient accounts receivable, net of allowance; 2014 – $912,000, 2013 – $1,210,000	1,016,252	610,150
Supplies, prepaid expenses and other receivables	307,985	303,905
Estimated amounts due from third-party payers	450,000	-
Total current assets	2,681,304	1,955,289
Capital Assets, Net	1,537,511	1,350,551
Total assets	$ 4,218,815	$ 3,305,840

Liabilities and Net Position

	2014	2013
Current Liabilities		
Accounts payable	$ 437,713	$ 162,565
Accrued expenses	316,030	327,740
Estimated amounts due to third-party payers	-	12,947
Total current liabilities	753,743	503,252
Net Position		
Investment in capital assets	1,537,511	1,350,551
Unrestricted	1,927,561	1,452,037
Total net position	3,465,072	2,802,588
Total liabilities and net position	$ 4,218,815	$ 3,305,840

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, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – $341,833, 2013 – $572,715	$ 10,873,532	$ 9,414,080
Other	22,751	24,723
Total operating revenues	10,896,283	9,438,803
Operating Expenses		
Salaries and wages	4,688,797	4,412,512
Employee benefits	955,481	893,974
Purchased services and professional fees	2,162,816	1,964,911
Supplies and other	2,154,832	2,062,687
Depreciation	297,586	385,116
Total operating expenses	10,259,512	9,719,200
Operating Income (Loss)	636,771	(280,397)
Nonoperating Revenues		
Interest income	18,298	13,533
Noncapital grants and gifts	7,415	26,318
Total nonoperating revenues	25,713	39,851
Excess (Deficiency) of Revenues over Expenses and Increase (Decrease) in Net Position	662,484	(240,546)
Net Position, Beginning of Year	2,802,588	3,043,134
Net Position, End of Year	$ 3,465,072	$ 2,802,588

Lindsay Municipal Hospital Authority
A Component Unit of the City of Lindsay, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	$ 10,004,483	$ 9,894,056
Payments to suppliers and contractors	(4,156,196)	(4,093,923)
Payments to and on behalf of employees	(5,655,988)	(5,289,915)
Other receipts, net	42,582	24,723
Net cash provided by operating activities	234,881	534,941
Noncapital Financing Activities		
Noncapital grants and gifts	7,415	26,318
Net cash provided by noncapital financing activities	7,415	26,318
Capital and Related Financing Activities		
Purchase of capital assets	(414,400)	(346,443)
Proceeds from sale of capital assets	19,639	-
Net cash used in capital and related financing activities	(394,761)	(346,443)
Investing Activities		
Interest on investments	3,627	4,681
Purchases of investments	(222,715)	(220,528)
Distributions from equity investee	14,671	84,318
Proceeds from disposition of investments	220,528	417,298
Net cash provided by investing activities	16,111	285,769
Increase (Decrease) in Cash	(136,354)	500,585
Cash, Beginning of Year	820,706	320,121
Cash, End of Year	$ 684,352	$ 820,706

	2014	2013
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ 636,771	$ (280,397)
Depreciation	297,586	385,116
Provision for uncollectible accounts	341,833	572,715
Loss on sale of capital assets	19,831	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(747,935)	(110,686)
Estimated amounts due to/from third-party payers	(462,947)	17,947
Accounts payable and accrued expenses	153,822	(39,961)
Supplies, prepaid expenses and other receivables	(4,080)	(9,793)
Net cash provided by operating activities	$ 234,881	$ 534,941
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ 125,756	$ 16,140

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

Nature of Operations and Reporting Entity

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

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2014 and 2013, 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.

Net Position

Net position of the Authority is classified in two components. 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 investment in capital assets.

At June 30, 2014 and 2013, approximately $5,000 and $320,000, 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 ODOC's 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 7*). 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 revenue is from patients covered under agreements with ODOC for the years ended June 30, 2014 and 2013. Less than 10% of net patient service revenue is from participation in the Medicare program for the years ended June 30, 2014 and 2013. During 2011, the state-sponsored Medicaid program began reimbursing the Authority for services provided to Medicaid-eligible patients covered by the contracts with ODOC. This Medicaid reimbursement is deducted from the payments due to the Authority under the ODOC contracts discussed in *Note 7*. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority does not have a formal policy to address custodial credit risk.

At June 30, 2014 and 2013, $0 and $11,582 of the Authority's bank balances of $1,181,818 and $1,304,746, respectively, were uninsured and uncollateralized.

Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	$ 906,567	$ 1,040,734
Cash on hand	500	500
	$ 907,067	$ 1,041,234
Included in the following balance sheet captions		
Cash	$ 684,352	$ 820,706
Short-term investments	222,715	220,528
	$ 907,067	$ 1,041,234

At June 30, 2014 and 2013, short-term investments consisted of certificates of deposit. Investment income of $18,298 and $13,533 for the years ended June 30, 2014 and 2013, 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:

	2014	2013
Medicare	$ 400,282	$ 297,020
Medicaid	47,321	38,464
Other third-party payers	441,878	541,580
Oklahoma Department of Corrections	757,456	415,570
Patients	281,315	527,516
	1,928,252	1,820,150
Less allowance for uncollectible accounts	912,000	1,210,000
	$ 1,016,252	$ 610,150

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 14,164	$ -	$ -	$ -	$ 14,164
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	2,484,709	243,737	-	-	2,728,446
Equipment	2,758,349	65,490	(174,415)	-	2,649,424
Construction in progress	16,141	214,789	(16,140)	-	214,790
	5,307,629	524,016	(190,555)	-	5,641,090
Less accumulated depreciation					
Land improvements	34,266	-	-	-	34,266
Buildings and improvements	1,720,530	50,676	-	-	1,771,206
Equipment	2,202,282	246,910	(151,085)	-	2,298,107
	3,957,078	297,586	(151,085)	-	4,103,579
Capital assets, net	$ 1,350,551	$ 226,430	$ (39,470)	$ -	$ 1,537,511

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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
	4,990,824	330,303	(13,498)	-	5,307,629
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
	3,585,460	385,116	(13,498)	-	3,957,078
Capital assets, net	$ 1,405,364	$ (54,813)	$ -	$ -	$ 1,350,551

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. Effective January 1, 2014, Cimarron was dissolved and the Authority purchased medical malpractice insurance under a claims-made policy on a fixed premium basis from a commercial carrier. See *Note 10* for additional information about Cimarron.

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

Note 7: Contracts with the Oklahoma Department of Corrections

During 2001, the Authority entered into three agreements with ODOC related to services to be provided by the Authority. Those agreements 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.

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. 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.

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. 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 8: 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 5.0% and 3.5% for 2014 and 4.2% and 3.4% for 2013, respectively. Contributions actually made by plan members and the Authority were approximately $115,000 and $81,000 during 2014 and $95,000 and $74,000 during 2013, respectively.

Note 9: Litigation

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

Note 10: Investment in Cimarron Insurance Exchange, RRG

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

The Authority purchased its professional liability and other liability insurance coverages from Cimarron (see *Note 6*) through December 31, 2013. For the years ended June 30, 2014 and 2013, the Authority paid approximately $52,000 and $133,000, respectively, to Cimarron for the coverage.

Note 11: 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.

The state of Oklahoma is currently not expanding 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.

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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, 2014, 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 November 18, 2014.

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.

Compliance and Other Matters

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

We noted certain matters that we reported to the Authority's management in a separate letter dated November 18, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
November 18, 2014