Muskogee Medical Center Authority

Independent Auditor's Reports and Financial Statements

September 30, 2014

BKD LLP
CPAs & Advisors

Muskogee Medical Center Authority
September 30, 2014

Contents

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Board of Trustees
Muskogee Medical Center Authority
Muskogee, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheet of Muskogee Medical Center Authority (the Authority) as of September 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Muskogee Medical Center Authority as of September 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The 2013 financial statements, before they were restated for the matter discussed in *Note 8*, were audited by other auditors, and their report thereon, dated April 29, 2014, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2016, 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
January 8, 2016

Muskogee Medical Center Authority
Balance Sheet
September 30, 2014

Assets

Current Assets	
Cash and cash equivalents	$ 975,299
Short-term investments	1,872,531
Current portion of note receivable	665,000
Prepaid expenses and other	161,349
Total current assets	3,674,179
Noncurrent Cash and Investments	
Investments	9,707,471
Investment in equity investee	304,164
Note receivable, net of current portion	1,400,000
	11,411,635
Capital Assets, Net	40,432,291
Total assets	$ 55,518,105

Liabilities and Net Position

Current Liabilities	
Accounts payable	$ 6,492
Other liabilities	1,440
Deferred rent	1,875,000
Total current liabilities	1,882,932
Noncurrent Liabilities	
Deferred rent, net of current portion	59,062,500
Total liabilities	60,945,432
Net Position	
Net investment in capital assets	40,432,291
Unrestricted	(45,859,618)
Total net position	(5,427,327)
Total liabilities and net position	$ 55,518,105

Muskogee Medical Center Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2014

Operating Revenues	
Rental revenue	$ 1,875,000
Total operating revenues	1,875,000
Operating Expenses	
Purchased services and professional fees	186,877
General and administrative	279,136
Depreciation and amortization	1,745,244
Total operating expenses	2,211,257
Operating Loss	(336,257)
Nonoperating Revenues (Expenses)	
Investment income	410,812
Income on note receivable	81,829
Income on equity investee	116,226
Other	(36,077)
Total nonoperating revenues (expenses)	572,790
Increase in Net Position	236,533
Net Position, Beginning of Year, as Previously Reported	(6,731,923)
Adjustment applicable to prior years	1,068,063
Net Position, Beginning of Year, as Restated	(5,663,860)
Net Position, End of Year	$ (5,427,327)

Muskogee Medical Center Authority

Statement of Cash Flows

Year Ended September 30, 2014

Operating Activities	
Receipts from and on behalf of patients	$ 167,463
Payments to suppliers and contractors	(215,873)
Net cash used in operating activities	(48,410)
Noncapital Financing Activities	
Contribution to related party	(36,077)
Net cash used in noncapital financing activities	(36,077)
Capital and Related Financing Activities	
Purchase of capital assets	(2,856)
Net cash used in capital and related financing activities	(2,856)
Investing Activities	
Distribution from equity investee	100,000
Receipts from note receivable	731,829
Investment income received	185,931
Purchase of investments	(902,302)
Proceeds from sale of investments	580,000
Net cash provided by investing activities	695,458
Increase in Cash and Cash Equivalents	608,115
Cash and Cash Equivalents, Beginning of Year	367,184
Cash and Cash Equivalents, End of Year	$ 975,299
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating loss	$ (336,257)
Depreciation	1,745,244
Amortization of deferred rent	(1,875,000)
Changes in operating assets and liabilities	
Accounts payable and accrued expenses	(149,597)
Estimated amounts due from third-party payers	197,447
Other assets	369,753
Net cash used in operating activities	$ (48,410)

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

Nature of Operations

Muskogee Medical Center Authority (the Authority) is a tax-exempt public trust operating under a Trust Indenture with the City of Muskogee, Oklahoma. The Authority's Board of Trustees is approved by the Muskogee City Council; however, the Council has historically approved new board members nominated by the acting Board of Trustees of the Authority. The Authority, prior to the lease discussed in *Note 5*, operated a 329-bed acute-care facility which provided health care services to the Muskogee community and surrounding region through March 2007. In April 2007, the Authority entered into a lease and asset purchase transaction with a third party. The agreement provided for a long-term lease of the health care facility and for the purchase of the Authority's health care operations.

Reporting Entity

The accompanying financial statements present the Authority and its blended component units, entities for which the Authority is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations even though they are legally separate entities. These blended component units are appropriately included in the primary government.

Blended Component Units

Providence Healthcare, Inc. (Providence) is a not-for-profit corporation who is exempt from income taxes under Section 501 of the Internal Revenue Code (IRC). Providence is treated as a blended component unit because the Authority is the sole corporate member of Providence and is responsible for managing its day-to-day operations. Providence is the parent company of Providence Physicians Group, Inc. (PPG), a wholly owned, for-profit subsidiary. PPG has a 2.5% interest in Solara Hospital Muskogee, LLC.

Regional Health Systems, Inc. (RHS) is a for-profit corporation that is wholly owned by the Authority. RHS is treated as a blended component unit because the Authority is responsible for managing the day-to-day operations of RHS. RHS wholly owns three other for-profit entities that are also included in the Authority's financial statements. These entities are Muskogee Physical Therapy, Inc. (MPT), Assured Business Collectors, Inc. (ABC) and Muskogee Immediate Care, Inc. (MIC).

Separate financial statements for Providence and RHS can be obtained by contacting the Authority's administrative office.

Basis of Accounting and Presentation

The accompanying 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. Operating revenues and expenses include exchange transactions.

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2014, cash equivalents consisted of money market mutual funds with brokers.

Included in investments on the accompanying balance sheet are money market mutual funds with brokers the Authority does not consider as cash equivalents.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; and natural disasters. 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.

The Authority was self-insured for a portion of its exposure to risk of loss from medical malpractice and workers' compensation claims through March 2007. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and workers' compensation claims and include an estimate of the ultimate costs of both reported claims and claims incurred but not yet reported. No accrual has been recorded for the Authority's exposure to self-insured risks as of September 30, 2014.

At September 30, 2015, the Authority recorded a receivable, which is included in prepaid expenses and other on the accompanying balance sheet, for workers' compensation claims expense the Authority has incurred in excess of self-insured retention levels of $90,000. The impact of this recorded receivable and the change in the workers' compensation accrual estimate reduced expense by approximately $168,000 and is included in general and administrative expense on the accompanying statement of revenue, expenses and changes in net position.

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	15–20 years
Buildings and building improvements	20–40 years
Equipment	3–7 years

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. The investment in equity investee is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments.

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 remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Income Taxes

The Authority is generally exempt from federal and state income taxes under Section 115 of the IRC and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Providence has been recognized as exempt from income taxes under Section 501 of the IRC and a similar provision of state law. However, Providence is subject to federal income tax on any unrelated business taxable income.

PPG is wholly owned by Providence and is subject to federal income tax.

MPT, ABC and MIC are wholly owned subsidiaries of RHS and their operations are included in RHS' consolidated tax return. The Authority evaluated the deferred tax asset (DTA) recognized on RHS' financial statements and determined it was more likely than not that, as of September 30, 2014, the tax position would not be realized and the Authority recorded a valuation allowance for the full balance of the DTA. The impact of recording the valuation allowance was approximately $376,000 and is included in general administrative expenses in the accompanying statement of revenues, expenses and changes in net position.

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk a government's deposits may not be returned to it in the event of a bank failure. The Authority's deposit policy for custodial credit risk requires compliance with provisions of state law which requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At September 30, 2014, none of the Authority's bank balances of $5,197,719 were exposed to custodial credit risk.

At September 30, 2014, $1,700,000 of the Authority's bank balances in excess of FDIC limits were collateralized by irrevocable letters of credit from the Federal Home Loan Bank.

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At September 30, 2014, the Authority had the following investments and maturities:

		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
Money market mutual funds	$ 254,048	$ 254,048	$ -	$ -	$ -
Mortgage- and asset-backed securities of U.S. agencies	6,121,113	-	-	1,244,643	4,876,470
Mutual bond funds	846,360	239,262	236,121	370,977	-
	7,221,521	$ 493,310	$ 236,121	$ 1,615,620	$ 4,876,470
Other	100,000				
Accrued interest receivable	40,873				
	$ 7,362,394				

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from interest rates, the Authority's investment policy requires certain weighted-average maturity levels for each type of investment held. The U.S. Treasury portfolio, excluding mortgage securities, and the U.S. agencies portfolio shall not exceed four years. The weighted-average maturity of the corporate bonds portfolio shall not exceed five years and the aggregate weighted-average maturity of all other security types shall not exceed one year. The money market mutual funds are considered as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2014, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

Type	Moody's	S&P
Money market mutual funds	Not rated to Aaa	Not rated to AAA
Mortgage- and asset-backed securities of U.S. agencies	Not rated to Aaa	AA+
Mutual bond funds	Not rated	Not rated

Custodial Credit Risk – For an investment, custodial risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority's policy, as it relates to custodial credit risk, is to secure certificates of deposit in excess of $250,000 with securities rated A or better by Standard & Poor's. Repurchase agreements are to be secured by treasuries with a maturity of 10 years or less.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. The Authority's investment policy requires that securities issued by any individual federal agency may not exceed 50% of the total investment portfolio, and overall agency securities shall not exceed 70% of the investment portfolio. Corporate bond holdings may not exceed 20% and corporate bonds rated AA or below may not exceed 10% of the total investment portfolio. The money market mutual fund portfolio may not exceed 50% of the total investment portfolio.

At September 30, 2014, the following investments exceeded 5% of the total fair value of all investments:

Investment	Fair Value	Percentage of Total
Federal Home Loan Bank	$ 3,448,624	46.8%
Federal Farm Credit Bank	$ 1,244,643	16.9%
Federal Home Loan Mortgage Corporation	$ 943,695	12.8%
Federal National Mortgage Corporation	$ 484,156	6.6%

Muskogee Medical Center Authority
Notes to Financial Statements
September 30, 2014

Summary of Carrying Values

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

Carrying value	
Deposits	$ 5,192,907
Investments	7,362,394
	$ 12,555,301
Included in the following balance sheet captions	
Cash and cash equivaluents	$ 975,299
Short-term investments	1,872,531
Investments	9,707,471
	$ 12,555,301

Investment Income

Investment income for the year ended September 30, 2014, consisted of:

Interest income	$ 216,359
Net increase in fair value of investments	194,453
	$ 410,812

Note 3: Capital Assets

Capital assets activity for September 30, 2014, was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,256,763	$ -	$ -	$ -	$ 1,256,763
Land improvements	2,364,747	-	-	-	2,364,747
Buildings and improvements	71,529,692	-	-	-	71,529,692
Equipment	4,674	2,856	-	-	7,530
	75,155,876	2,856	-	-	75,158,732
Less accumulated depreciation					
Land improvements	1,675,556	57,592	-	-	1,733,148
Buildings and improvements	31,301,690	1,685,976	-	-	32,987,666
Equipment	3,951	1,676	-	-	5,627
	32,981,197	1,745,244	-	-	34,726,441
Capital assets, net	$ 42,174,679	$ (1,742,388)	$ -	$ -	$ 40,432,291

Note 4: Related-Party Transactions

The Authority and Muskogee Medical Foundation (the Foundation) are considered related parties because the Authority and the Foundation share common board membership.

The Authority provides the Foundation with office space, various administrative services and the use of computer, telephone and office equipment at no charge. The Authority also, at times, pays certain expenses of the Foundation and, as a result, the Authority has recorded a receivable of $15,676, which is included in prepaid expenses and other on the accompanying balance sheet.

During 2014, the Authority released the Foundation from its obligation to repay the Authority for amounts previously paid on behalf of the Foundation. As a result, the Authority recognized an expense of $36,077, which is included in other nonoperating revenues (expenses) on the accompanying statement of revenues, expenses and changes in net position.

On October 28, 2010, the Authority loaned the City of Muskogee $4,215,000 at 3.25%, due September 1, 2017, with semiannual payments due March 1 and September 1 through the term of the loan.

Scheduled receipts on the note receivable are as follows:

Year Ending September 30,	
2015	$ 665,000
2016	690,000
2017	710,000
	$ 2,065,000

Note 5: Deferred Rent

Effective April 2007, the Authority leased all of the Authority's buildings and improvements to an unrelated third party through March 30, 2047. The total rent of $75,000,000 due over the lease term was prepaid in full at the execution of the lease and, therefore, the Authority is amortizing the prepayment on a straight-line basis over the lease, which is included in rent revenue on the accompanying statement of revenues, expenses and changes in net position.

Scheduled amortization of deferred rent is as follows:

Year Ending September 30,	
2015	$ 1,875,000
2016	1,875,000
2017	1,875,000
2018	1,875,000
2019	1,875,000
Thereafter	51,562,500
	$ 60,937,500

Muskogee Medical Center Authority
Notes to Financial Statements
September 30, 2014

Note 6: Combining Component Unit Information

The following table includes combining balance sheet information for the Authority and its component units as of September 30, 2014.

	Muskogee Medical Center Authority	Regional Health Systems, Inc.	Providence Healthcare, Inc.	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 975,299	$ -	$ -	$ 975,299
Short-term investments	1,872,531	-	-	1,872,531
Current portion of note receivable	665,000	-	-	665,000
Prepaid expenses and other	120,076	-	41,273	161,349
Total current assets	3,632,906	-	41,273	3,674,179
Noncurrent Cash and Investments				
Investments	9,707,471	-	-	9,707,471
Investment in equity investee	-	-	304,164	304,164
Note receivable, net of current portion	1,400,000	-	-	1,400,000
	11,107,471	-	304,164	11,411,635
Capital Assets, Net	39,205,415	1,226,876	-	40,432,291
Total assets	$ 53,945,792	$ 1,226,876	$ 345,437	$ 55,518,105
Liabilities and Net Position				
Current Liabilities				
Accounts payable	$ 6,492	$ -	$ -	$ 6,492
Other liabilities	1,440	-	-	1,440
Deferred rent	1,823,148	51,852	-	1,875,000
Total current liabilities	1,831,080	51,852	-	1,882,932
Noncurrent Liabilities				
Deferred rent, net of current portion	57,429,303	1,633,197	-	59,062,500
Total liabilities	59,260,383	1,685,049	-	60,945,432
Net Position				
Net investment in capital assets	39,205,415	1,226,876	-	40,432,291
Unrestricted	(44,520,006)	(1,685,049)	345,437	(45,859,618)
Total net position	(5,314,591)	(458,173)	345,437	(5,427,327)
Total liabilities and net position	$ 53,945,792	$ 1,226,876	$ 345,437	$ 55,518,105

Muskogee Medical Center Authority
Notes to Financial Statements
September 30, 2014

The following table includes combining statement of revenues, expenses and changes in net position information for the Authority and its component units for the year ended September 30, 2014.

	Muskogee Medical Center Authority	Regional Health Systems, Inc.	Providence Healthcare, Inc.	Total
Operating Revenues				
Rental revenue	$ 1,823,148	$ 51,852	$ -	$ 1,875,000
Total operating revenues	1,823,148	51,852	-	1,875,000
Operating Expenses				
Purchased services and professional fees	185,677	1,200	-	186,877
General and administrative	(130,997)	375,993	34,140	279,136
Depreciation and amortization	1,722,210	23,034	-	1,745,244
Total operating expenses	1,776,890	400,227	34,140	2,211,257
Operating Income (Loss)	46,258	(348,375)	(34,140)	(336,257)
Nonoperating Revenues (Expenses)				
Investment income	410,812	-	-	410,812
Other	(36,077)	-	-	(36,077)
Income on note receivable	81,829	-	-	81,829
Income on equity investee	-	-	116,226	116,226
Total nonoperating revenues (expenses)	456,564	-	116,226	572,790
Excess (Deficiency) of Revenues over Expenses Before Transfers	502,822	(348,375)	82,086	236,533
Transfer to the Authority	100,000	-	(100,000)	-
Increase (Decrease) in Net Position	602,822	(348,375)	(17,914)	236,533
Net Position, Beginning of Year, as Previously Reported	(6,985,476)	(109,798)	363,351	(6,731,923)
Adjustments applicable to prior years (see *Note 8*)	1,068,063	-	-	1,068,063
Net Position, Beginning of Year, as Restated	(5,917,413)	(109,798)	363,351	(5,663,860)
Net Position, End of Year	$ (5,314,591)	$ (458,173)	$ 345,437	$ (5,427,327)

The following table includes condensed combining statement of cash flows information for the Authority and its component units for the year ended September 30, 2014.

	Muskogee Medical Center Authority	Regional Health Systems, Inc.	Providence Healthcare, Inc.	Combined Balance
Net Cash Used in Operating Activities	$ (48,410)	$ -	$ -	$ (48,410)
Net Cash Used in Noncapital Financing Activities	(36,077)	-	-	(36,077)
Net Cash Used in Capital and Related Financing Activities	(2,856)	-	-	(2,856)
Net Cash Provided by Investing Activities	695,458	-	-	695,458
Increase in Cash and Cash Equivalents	608,115	-	-	608,115
Cash and Cash Equivalents, Beginning of Year	367,184	-	-	367,184
Cash and Cash Equivalents, End of Year	$ 975,299	$ -	$ -	$ 975,299

Note 7: 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 self-insurance program (discussed elsewhere in these notes) or by 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 8: Adjustment Applicable to Prior Year's Financial Statements

The fiscal year 2013 financial statements, related to previously reported professional liability and medical malpractice claims liability, have been restated by $1,068,063. This restatement had no impact on the previously reported 2013 change in net position.

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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
Muskogee Medical Center Authority
Muskogee, 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 basic financial statements of Muskogee Medical Center Authority (the Authority), which comprise the balance sheet as of September 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 basic financial statements, and have issued our report thereon dated January 8, 2016, which contained an *Emphasis of Matter* paragraph regarding a restatement of previously issued financial statements.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-01 and 2014-02 to be material weaknesses.

Board of Trustees
Muskogee Medical Center Authority

Compliance and Other Matters

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

Authority’s Responses to the Findings

The Authority’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We also noted certain matters that we reported to the Authority’s management in a separate letter dated January 8, 2016.

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 Authority’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
January 8, 2016

Muskogee Medical Center Authority
Schedule of Findings and Responses
Year Ended September 30, 2014

Reference Number	Finding
2014-01	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal controls over significant estimates in the financial statements. Condition – Management's procedures for evaluating and recording significant estimates do not produce materially accurate results. Context – Management does not have a process that allows for a consistent methodology to estimate the Authority's professional liability and medical malpractice claims liability. Effect – Restatement of previously issued financial statements were made as a result of a material journal entry to adjust the professional liability and medical malpractice claims liability. Cause – Management is not applying effective or consistent methodologies over its estimation process for professional liability and medical malpractice claims. Recommendation – Management should ensure liabilities for professional liability and medical malpractice claims are only accrued for once a claim has become both probable and reasonably estimable. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to evaluate the current internal controls over the recording of professional liability and medical malpractice accruals.

Muskogee Medical Center Authority

Schedule of Findings and Responses, continued

Year Ended September 30, 2014

Reference Number	Finding
2014-02	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – The President's duties are not adequately segregated among access, accounting and monitoring in all the accounting transactions cycles. Context – The President has access rights allowing this individual to perform all user activities in the accounting system and also has the responsibility to perform such activities. The President also has access to assets and reconciling responsibilities. Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – Duties in all the accounting transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial.