

**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.**

Auditor's Reports and Financial Statements

December 31, 2013 and 2012





**Shattuck Hospital Authority**  
**d/b/a Newman Memorial Hospital, Inc.**  
**December 31, 2013 and 2012**

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## Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees  
Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.  
Shattuck, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of the Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (the Hospital), which comprise the balance sheets as of December 31, 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 Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc., as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 12* to the financial statements, in 2013, the Hospital adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 13*, the Hospital has suffered recurring losses from operations and a declining revenue base, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in *Note 13*. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2014, on our consideration of the Hospital'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 Hospital's internal control over financial reporting and compliance.

*BKD, LLP*

**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.  
Management's Discussion and Analysis  
December 31, 2013 and 2012**

***Introduction***

This management's discussion and analysis of the financial performance of Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (the Hospital) provides an overview of the Hospital's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

***Financial Highlights***

- Cash and investments increased in 2013 by \$121,533 or 5.8% and decreased in 2012 by \$1,099,421 or 34.6%.
- Capital assets, net increased in 2013 by \$376,172 or 3.7% and increased in 2012 by \$1,844,905 or 22.4%.
- The Hospital's net position decreased in 2013 by \$670,230 or 9.6% and decreased in 2012 by \$119,909 or 1.7%.
- The Hospital reported an operating loss in 2013 of \$2,014,527. The operating loss in 2013 worsened by \$295,187 from the operating loss reported in 2012. The operating loss in 2012 of \$1,719,340 worsened by \$1,178,079 from the operating loss reported in 2011.
- In 2013, the Hospital implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which required the Hospital to retroactively expense deferred financing costs (see *Note 12*).

***Using This Annual Report***

The Hospital'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 Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital 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 hospital's finances is, "Is the hospital as a whole in a better financial position 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 Hospital'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 Hospital's net position and changes in it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital'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 Hospital.

### ***The Statement of Cash Flows***

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of activities. They provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

### ***The Hospital's Net Position***

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheet. The Hospital's net position decreased by \$670,230 or 9.6% in 2013 over 2012 and decreased by \$119,909 or 1.7% in 2012 over 2011 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2013</b>	<b>2012 (Restated – Note 12)</b>	<b>2011 (Restated – Note 12)</b>
<b>Assets</b>			
Cash and short-term investments	\$ 1,695,520	\$ 1,564,674	\$ 1,632,160
Patient accounts receivable, net	1,144,385	1,316,383	1,449,754
Other current assets	457,118	641,552	897,907
Capital assets, net	10,439,048	10,062,876	8,217,971
Other noncurrent assets	508,524	517,837	2,010,882
Total assets	<u>\$ 14,244,595</u>	<u>\$ 14,103,322</u>	<u>\$ 14,208,674</u>
<b>Liabilities</b>			
Long-term debt (including current portion)	\$ 7,076,684	\$ 6,222,886	\$ 4,922,810
Other current liabilities	832,370	874,665	2,160,184
Total liabilities	<u>7,909,054</u>	<u>7,097,551</u>	<u>7,082,994</u>
<b>Net Position</b>			
Net investment in capital assets	3,338,764	3,699,555	2,772,615
Restricted – expendable for debt service	415,548	379,487	277,208
Restricted – expendable for operations	268,089	432,957	2,003,013
Unrestricted	2,313,140	2,493,772	2,072,844
Total net position	<u>6,335,541</u>	<u>7,005,771</u>	<u>7,125,680</u>
Total liabilities and net position	<u>\$ 14,244,595</u>	<u>\$ 14,103,322</u>	<u>\$ 14,208,674</u>

In 2013, total assets increased by \$141,273 or 1.0%. The most noteworthy change in the Hospital's assets in 2013 was the result of the implementation of an electronic health records (EHR) system. Capital assets, net of accumulated depreciation, increased by \$376,172 or 3.7% in 2013. The most significant changes in the Hospital's liabilities in 2013 were the increase in long-term debt of \$853,798 or 13.7% related to the financing for the EHR system.

In 2012, total assets decreased by \$105,352 or 0.7%. The most noteworthy change in the Hospital's assets in 2012 was the result of the ongoing construction and remodeling project. Capital assets, net of accumulated depreciation, increased by \$1,844,905 or 22.4% in 2012. The most significant changes in the Hospital's liabilities in 2012 were the increase in long-term debt of \$1,300,076 or 26.4% related to the financing for the construction and remodeling project and the reduction in the estimated amounts due to third-party payers of \$990,000 primarily due to the Hospital repaying the 2011 Medicare cost report liability.

### ***Operating Results and Changes in the Hospital's Net Position***

In 2013, the Hospital's net position decreased by \$670,230 or 9.6% as shown in Table 2. This decrease is made up of several different components and represents a decrease of 458.9% compared with the decrease in net position for 2012 of \$119,909. The Hospital's change in net position decreased from \$1,410,212 in 2011 to \$(119,909) in 2012, a decrease of 108.5%.

**Table 2: Operating Results and Changes in Net Position**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 6,030,117	\$ 7,676,957	\$ 8,456,781
Other operating revenue	1,119,316	175,484	544,410
Total operating revenues	7,149,433	7,852,441	9,001,191
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	4,083,621	4,679,731	4,732,572
Purchased services	1,978,545	1,865,527	2,107,494
Depreciation	810,812	623,611	518,142
Other operating expenses	2,290,982	2,402,912	2,184,244
Total operating expenses	9,163,960	9,571,781	9,542,452
<b>Operating Loss</b>	(2,014,527)	(1,719,340)	(541,261)
<b>Nonoperating Revenues (Expenses)</b>			
County appropriations – unrestricted	1,600,553	1,492,598	1,531,196
Investment income	1,600	12,640	12,619
Noncapital gifts	24,086	52,713	121,166
Interest expense	(281,942)	(133,877)	(86,995)
Total nonoperating revenues (expenses)	1,344,297	1,424,074	1,577,986
<b>Capital Grants and Gifts</b>	-	175,357	373,487
<b>Increase (Decrease) in Net Position</b>	<u>\$ (670,230)</u>	<u>\$ (119,909)</u>	<u>\$ 1,410,212</u>



## ***Operating Loss***

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

The operating loss for 2013 worsened by \$295,187 as compared to the operating loss for 2012. The primary components of the operating loss are:

- A decrease in net patient service revenue of \$1,646,840 or 21.4%
- An increase in other operating revenue of \$943,832 or 537.8%
- A decrease in salaries, wages and employee benefits of \$596,110 or 12.7%

Net patient service revenue decreased in 2013 by \$1,646,840 or 21.4% due to a decrease in inpatient days of 12%. The decreased revenue was primarily caused by the reduction in patient days as well as a general decrease in outpatient services. Other operating revenue increased in 2013 by \$943,832 or 537.8% due to the receipt of approximately \$975,000 of incentive payments under the Medicare EHR program (see *Note I*). Salaries, wages and employee benefits decreased in 2013 by approximately 12.7%, which was consistent with the reduction in patient volume in 2013.

The operating loss for 2012 worsened by \$1,178,079 as compared to the operating loss for 2011. The primary components of the operating loss are:

- A decrease in total operating revenue of \$1,148,750 or 12.8%
- A decrease in salaries, wages and employee benefits of \$52,841 or 1.1%
- A decrease in purchased services of \$241,967 or 11.5%

Net patient service revenue decreased in 2012 by \$779,824 or 9.2% due to a decrease in inpatient days of 33%. The decreased revenue was primarily caused by the reduction in patient days but was partially offset by increases in certain outpatient areas, such as clinic revenue. Other operating revenue decreased in 2012 by \$368,926 or 67.8% due to the receipt of \$375,000 of incentive payments under the Medicaid EHR program (see *Note I*) in 2011. Purchased services decreased in 2012 by \$241,967 or 11.5% due primarily to decreased use of contracted registered nurses and reduction in purchased services in labor and delivery. Other expenses increased by \$218,668 or 10.0% in 2012 primarily due to the recording of the assessment fees under the state of Oklahoma's Supplemental Hospital Offset Payment Program (see *Note I*).

## ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of county appropriations, investment income, noncapital gifts and interest expense, all of which were comparable between 2013, 2012 and 2011, except for unrestricted county appropriations which increased in 2013 by \$107,955 or 7.2% compared to 2012 and interest expense which increased in 2013 by \$148,065 or 110.6% compared to 2012.

## ***Capital Grants and Gifts***

The Hospital receives both capital and operating grants and gifts from various state and federal agencies and private donors for specific programs. Capital grants decreased in 2013 and 2012 by \$175,357 or 100% and \$198,130 or 53.0% due to the decrease in funds received under a Department of Energy grant.

## ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in operating loss, changes in patient accounts receivable and unrestricted county appropriations for 2013, 2012 and 2011, as discussed earlier, except for the significant change in estimated amounts due to/from third-party payers in 2012.

## ***Capital Assets and Debt Administration***

### **Capital Assets**

At the end of 2013, the Hospital had \$10,439,048 invested in capital assets, net, as detailed in *Note 5* to the financial statements. In 2013, the Hospital purchased new assets costing approximately \$1,236,000, of which approximately \$1,190,000 were financed by long-term debt.

At the end of 2012, the Hospital had \$10,062,876 invested in capital assets, net, as detailed in *Note 5* to the financial statements. In 2012, the Hospital purchased new assets costing approximately \$2,472,000, of which approximately \$1,730,000 were financed by long-term debt.

### **Debt**

At December 31, 2013 and 2012, the Hospital had \$7,076,684 and \$6,222,886, respectively, in mortgages payable, loans and capital lease obligations outstanding as detailed in *Note 7* to the financial statements. The Hospital issued \$1,189,627 and \$1,729,950 of new debt through capital leases, a U.S. Department of Agriculture (USDA) construction loan and notes payable to bank during 2013 and 2012, respectively. There have been no changes to the Hospital's debt ratings in the past three years.

## ***Contacting the Hospital's Financial Management***

This financial report is designed to provide the Hospital's patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital's administrative offices by telephoning 580.938.2551.

**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.**

**Balance Sheets  
December 31, 2013 and 2012**

**Assets**

	<b>2013</b>	<b>2012 (Restated – Note 12)</b>
<b>Current Assets</b>		
Cash	\$ 1,435,025	\$ 1,305,074
Short-term investments	260,495	259,600
Patient accounts receivable, net of allowance; 2013 – \$1,330,000, 2012 – \$1,309,000	1,144,385	1,316,383
County appropriations and other receivables	177,084	297,010
Estimated amounts due from third-party payers	-	20,000
Supplies and prepaid expenses	280,034	324,542
	<u>3,297,023</u>	<u>3,522,609</u>
<b>Total current assets</b>		
	<u>3,297,023</u>	<u>3,522,609</u>
<b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	147,418	147,087
Restricted for debt service	268,130	232,400
Held by county for operations	92,976	138,350
	<u>508,524</u>	<u>517,837</u>
<b>Total noncurrent cash and investments</b>		
	<u>508,524</u>	<u>517,837</u>
<b>Capital Assets, Net</b>	<u>10,439,048</u>	<u>10,062,876</u>
<b>Total assets</b>	<u><u>\$ 14,244,595</u></u>	<u><u>\$ 14,103,322</u></u>

## Liabilities and Net Position

	2013	2012 (Restated – Note 12)
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 749,123	\$ 646,160
Accounts payable	382,696	429,546
Accrued expenses	345,130	440,575
Estimated amounts due to third-party payers	100,000	-
Interest payable	4,544	4,544
Total current liabilities	1,581,493	1,520,825
<b>Long-Term Debt</b>	6,327,561	5,576,726
Total liabilities	7,909,054	7,097,551
<b>Net Position</b>		
Net investment in capital assets	3,338,764	3,699,555
Restricted – expendable for debt service	415,548	379,487
Restricted – expendable for operations	268,089	432,957
Unrestricted	2,313,140	2,493,772
Total net position	6,335,541	7,005,771
Total liabilities and net position	\$ 14,244,595	\$ 14,103,322

**Shattuck Hospital Authority**  
**d/b/a Newman Memorial Hospital, Inc.**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012 (Restated – Note 12)</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$1,767,560, 2012 – \$1,864,426	\$ 6,030,117	\$ 7,676,957
Other	1,119,316	175,484
Total operating revenues	<u>7,149,433</u>	<u>7,852,441</u>
<b>Operating Expenses</b>		
Salaries and wages	3,417,269	3,886,596
Employee benefits	666,352	793,135
Medical supplies and drugs	745,572	751,020
Purchased services	1,978,545	1,865,527
Other supplies	230,802	230,504
Plant maintenance and utilities	692,359	668,501
Insurance	124,185	134,152
Other expenses	498,064	618,735
Depreciation	810,812	623,611
Total operating expenses	<u>9,163,960</u>	<u>9,571,781</u>
<b>Operating Loss</b>	<u>(2,014,527)</u>	<u>(1,719,340)</u>
<b>Nonoperating Revenues (Expenses)</b>		
County appropriations – unrestricted	1,600,553	1,492,598
Investment income	1,600	12,640
Noncapital gifts	24,086	52,713
Interest expense	(281,942)	(133,877)
Total nonoperating revenues (expenses)	<u>1,344,297</u>	<u>1,424,074</u>
<b>Deficiency of Revenues over Expenses Before Capital Grants and Gifts</b>	(670,230)	(295,266)
<b>Capital Grants and Gifts</b>	<u>-</u>	<u>175,357</u>
<b>Decrease in Net Position</b>	<u>(670,230)</u>	<u>(119,909)</u>
<b>Net Position, Beginning of Year, as Previously Reported</b>	-	7,148,215
Change in accounting principle (Note 12)	<u>-</u>	<u>(22,535)</u>
<b>Net Position, Beginning of Year, as Restated</b>	<u>7,005,771</u>	<u>7,125,680</u>
<b>Net Position, End of Year</b>	<u><u>\$ 6,335,541</u></u>	<u><u>\$ 7,005,771</u></u>

**Shattuck Hospital Authority**  
**d/b/a Newman Memorial Hospital, Inc.**

**Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 6,322,115	\$ 6,800,328
Payments to suppliers and contractors	(4,155,034)	(4,248,700)
Payments to employees	(4,179,066)	(4,626,509)
Other receipts and payments, net	1,119,748	181,612
Net cash used in operating activities	<u>(892,237)</u>	<u>(1,893,269)</u>
<b>Noncapital Financing Activities</b>		
Noncapital gifts	24,086	52,713
County appropriations supporting operations	1,720,047	1,928,440
Net cash provided by noncapital financing activities	<u>1,744,133</u>	<u>1,981,153</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(335,829)	(429,874)
Interest paid on long-term debt	(281,942)	(133,631)
Proceeds from issuance of long-term debt	-	1,729,950
Purchase of capital assets	(114,192)	(2,850,873)
Capital grants and gifts	-	484,483
Net cash used in capital and related financing activities	<u>(731,963)</u>	<u>(1,199,945)</u>
<b>Investing Activities</b>		
Net change in short-term investments	(895)	607,211
Net change in noncurrent cash and investments	(331)	130,121
Income on investments	1,600	12,640
Net cash provided by investing activities	<u>374</u>	<u>749,972</u>
<b>Increase (Decrease) in Cash</b>	120,307	(362,089)
<b>Cash, Beginning of Year</b>	<u>1,675,824</u>	<u>2,037,913</u>
<b>Cash, End of Year</b>	<u><u>\$ 1,796,131</u></u>	<u><u>\$ 1,675,824</u></u>

	<b>2013</b>	<b>2012</b>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash in current assets	\$ 1,435,025	\$ 1,305,074
Cash in noncurrent cash and investments		
Restricted for debt service	268,130	232,400
Held by county for operations	92,976	138,350
	<u>          </u>	<u>          </u>
Total cash	<u><u>\$ 1,796,131</u></u>	<u><u>\$ 1,675,824</u></u>
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used in Operating Activities</b>		
Operating loss	\$ (2,014,527)	\$ (1,719,340)
Items not requiring cash		
Provision for uncollectible accounts	1,767,560	1,864,426
Depreciation	810,812	623,611
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,595,562)	(1,731,055)
Supplies, prepaid expenses and other receivables	28,916	(7,503)
Estimated amounts due to/from third-party payers	120,000	(1,010,000)
Accounts payable and accrued expenses	(9,436)	86,592
	<u>          </u>	<u>          </u>
Net cash used in operating activities	<u><u>\$ (892,237)</u></u>	<u><u>\$ (1,893,269)</u></u>
<b>Supplemental Cash Flows Information</b>		
Capital assets in accounts payable	\$ 19,056	\$ 135,891
Prepaid expenses in accounts payable	\$ 21,903	\$ 37,927
Capital lease obligation incurred for capital assets	\$ 1,189,627	\$ -

# **Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.**

## **Notes to Financial Statements December 31, 2013 and 2012**

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

#### ***Nature of Operations and Reporting Entity***

Shattuck Hospital Authority (the Authority) was created under a trust indenture dated August 6, 1964, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of Shattuck, Oklahoma.

The Authority operates Newman Memorial Hospital, Inc. (the Hospital), a not-for-profit corporation, under an operation and maintenance contract. The contract term is from June 1, 1973 to July 1, 2003, or until such date as all indebtedness incurred by the Authority has been paid.

The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services in Shattuck, Oklahoma. It also operates a home health agency in the same geographic area.

#### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. County appropriations, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital 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 deferred inflows and outflows of resources 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 Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, the Hospital had no cash equivalents.



**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.**

**Notes to Financial Statements  
December 31, 2013 and 2012**

***Investments and Investment Income***

Short-term investments and noncurrent cash and investments include certificates of deposit carried at amortized cost. Investment income includes interest income on investments.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts due from patients, third-party payers and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

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

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives.

The following estimated useful lives are being used by the Hospital:

Land improvements	5–40 years
Buildings, improvements and fixed equipment	5–40 years
Major moveable equipment	3–20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	<b>2013</b>	<b>2012</b>
Interest capitalized	\$ -	\$ 126,054
Interest charged to expense	<u>281,942</u>	<u>133,877</u>
Total interest incurred	<u><u>\$ 281,942</u></u>	<u><u>\$ 259,931</u></u>

# **Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.**

## **Notes to Financial Statements December 31, 2013 and 2012**

### ***Compensated Absences***

Hospital policies permit most employees to accumulate vacation 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. 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. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date, if any, is included in long-term liabilities.

### ***Net Position***

Net position of the Hospital is classified in three 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. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital 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 Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

### ***County Appropriations***

During 2010, the citizens of Ellis County, Oklahoma (the County), approved a ½-cent sales tax for a five-year period from October 1, 2010 to September 30, 2015. In 2013 and 2012, the Hospital received approximately 18% and 16%, respectively, of its financial support from county appropriations related to the sales tax. Unexpended funds related to county appropriations are reflected on the accompanying balance sheets as held by county for operations.

# **Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.**

## **Notes to Financial Statements**

**December 31, 2013 and 2012**

### ***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2013, the Hospital completed the first-year requirements under the Medicare program and has recorded revenue of approximately \$975,000, which is included in other operating revenues in the accompanying statement of revenues, expenses and changes in net position. No revenue related to the incentive program was recognized in 2012.

### ***Risk Management***

The Hospital 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 other than those related to employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

### ***Medical Malpractice Coverage and Claims***

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

# **Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.**

## **Notes to Financial Statements December 31, 2013 and 2012**

### ***Income Taxes***

As a governmental entity, the Hospital 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 Hospital is subject to federal income tax on any unrelated business taxable income.

### ***Supplemental Hospital Offset Payment Program***

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

During the years ended December 31, 2013 and 2012, the Hospital had the following activity related to the SHOPP program:

	<b>2013</b>	<b>2012</b>
SHOPP funds received	\$ 220,000	\$ 449,000
SHOPP assessment fees paid	<u>215,000</u>	<u>317,000</u>
Net benefit under SHOPP	<u>\$ 5,000</u>	<u>\$ 132,000</u>

The annual amounts to be received and paid by the Hospital over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Hospital over the term of the SHOPP program is not expected to be materially different than the net amounts received in 2013. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

### ***Reclassifications***

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

# **Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.**

## **Notes to Financial Statements**

**December 31, 2013 and 2012**

### **Note 2: Net Patient Service Revenue**

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

- **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. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patient's acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2011.
- **Medicaid** – Inpatient services and substantially all outpatient services rendered to the state's Medicaid 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 with no retroactive adjustment.

Approximately 36% and 47% of the Hospital's net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, respectively. Laws and regulations governing 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 Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

### **Note 3: Deposits and Investment Income**

#### ***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 Hospital's deposit policy for custodial credit requires compliance with the provisions of state law.

At December 31, 2013 and 2012, none of the Hospital's bank balances of \$2,031,183 and \$2,102,030, respectively, were uninsured or uncollateralized. No legal opinion has been obtained regarding the enforceability of the collateral arrangements. These amounts do not include funds held by the County on behalf of the Hospital.

**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.**

**Notes to Financial Statements  
December 31, 2013 and 2012**

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

	<b>2013</b>	<b>2012</b>
Cash	\$ 1,435,025	\$ 1,305,074
Short-term investments	260,495	259,600
Noncurrent cash and investments	<u>508,524</u>	<u>517,837</u>
	<u><u>\$ 2,204,044</u></u>	<u><u>\$ 2,082,511</u></u>

***Investment Income***

Investment income for the years ended December 31, 2013 and 2012, consisted primarily of interest income.

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2013 and 2012, consisted of:

	<b>2013</b>	<b>2012</b>
Patients	\$ 1,087,166	\$ 859,462
Insurance carriers	1,104,949	1,260,976
Medicare	257,315	425,085
Medicaid	<u>24,955</u>	<u>79,860</u>
	2,474,385	2,625,383
Less allowance for uncollectible accounts	<u>1,330,000</u>	<u>1,309,000</u>
Patient accounts receivable, net	<u><u>\$ 1,144,385</u></u>	<u><u>\$ 1,316,383</u></u>

**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.**

**Notes to Financial Statements  
December 31, 2013 and 2012**

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2013 and 2012, was:

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 41,025	\$ -	\$ -	\$ -	\$ 41,025
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	12,485,288	-	-	-	12,485,288
Major moveable equipment	9,126,493	1,127,192	-	194,125	10,447,810
Construction in progress	134,333	108,255	(48,463)	(194,125)	-
	<u>21,825,884</u>	<u>1,235,447</u>	<u>(48,463)</u>	<u>-</u>	<u>23,012,868</u>
Less accumulated depreciation					
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	3,516,515	348,755	-	-	3,865,270
Major moveable equipment	8,207,748	462,057	-	-	8,669,805
	<u>11,763,008</u>	<u>810,812</u>	<u>-</u>	<u>-</u>	<u>12,573,820</u>
Capital assets, net	<u>\$ 10,062,876</u>	<u>\$ 424,635</u>	<u>\$ (48,463)</u>	<u>\$ -</u>	<u>\$ 10,439,048</u>
	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 41,025	\$ -	\$ -	\$ -	\$ 41,025
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	3,944,151	-	(450)	8,541,587	12,485,288
Major moveable equipment	8,887,906	241,587	(3,000)	-	9,126,493
Construction in progress	6,445,541	2,230,379	-	(8,541,587)	134,333
	<u>19,357,368</u>	<u>2,471,966</u>	<u>(3,450)</u>	<u>-</u>	<u>21,825,884</u>
Less accumulated depreciation					
Land improvements	38,745	-	-	-	38,745
Buildings, improvements and fixed equipment	3,272,463	244,052	-	-	3,516,515
Major moveable equipment	7,828,189	379,559	-	-	8,207,748
	<u>11,139,397</u>	<u>623,611</u>	<u>-</u>	<u>-</u>	<u>11,763,008</u>
Capital assets, net	<u>\$ 8,217,971</u>	<u>\$ 1,848,355</u>	<u>\$ (3,450)</u>	<u>\$ -</u>	<u>\$ 10,062,876</u>

**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.**

**Notes to Financial Statements  
December 31, 2013 and 2012**

**Note 6: Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included in current liabilities at December 31, 2013 and 2012, consisted of:

	<b>2013</b>	<b>2012</b>
Payable to suppliers and contractors	\$ 382,696	\$ 429,546
Payable to employees (including payroll taxes and benefits)	323,814	405,160
Payable for self-insured health claims	21,316	35,415
	<u>\$ 727,826</u>	<u>\$ 870,121</u>

**Note 7: Long-Term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2013 and 2012:

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
USDA mortgage	\$ 1,057,837	\$ -	\$ (42,763)	\$ 1,015,074	\$ 44,840
USDA construction loans	4,628,234	-	(66,637)	4,561,597	69,294
Note payable to bank	536,815	-	(112,741)	424,074	424,074
Capital lease obligation	-	1,189,627	(113,688)	1,075,939	210,915
Total long-term debt	<u>\$ 6,222,886</u>	<u>\$ 1,189,627</u>	<u>\$ (335,829)</u>	<u>\$ 7,076,684</u>	<u>\$ 749,123</u>

  

	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
USDA mortgage	\$ 1,098,625	\$ -	\$ (40,788)	\$ 1,057,837	\$ 42,763
USDA construction loans	3,607,263	1,109,294	(88,323)	4,628,234	66,582
Note payable to bank	-	620,656	(83,841)	536,815	536,815
Capital lease obligation	216,922	-	(216,922)	-	-
Total long-term debt	<u>\$ 4,922,810</u>	<u>\$ 1,729,950</u>	<u>\$ (429,874)</u>	<u>\$ 6,222,886</u>	<u>\$ 646,160</u>



# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

## Notes to Financial Statements December 31, 2013 and 2012

### ***USDA Mortgage and Construction Loans***

The Authority entered into a mortgage obligation with the U.S. Department of Agriculture (USDA) which is secured by a first mortgage on the Hospital's property and a pledge of the Hospital's gross revenues; principal and interest of \$7,674 payable monthly through June 2030; with interest at 4.75%.

The Authority entered into three construction loan obligations with the USDA which are secured by a pledge of the Hospital's gross revenues; principal and interest of \$20,875 collectively payable monthly through 2046; with interest at 4.0%. The Hospital began construction during 2010.

The debt service requirements, based on the loan terms and the amount funded as of December 31, 2013, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2014	\$ 342,587	\$ 114,134	\$ 228,453
2015	342,587	119,134	223,453
2016	342,587	124,355	218,232
2017	342,587	129,806	212,781
2018	342,587	135,498	207,089
2019–2023	1,712,935	772,075	940,860
2024–2028	1,712,935	957,257	755,678
2029–2033	1,390,627	742,220	648,407
2034–2038	1,252,495	835,419	417,076
2039–2043	1,252,495	1,020,044	232,451
2044–2046	661,503	626,729	34,774
	<u>\$ 9,695,925</u>	<u>\$ 5,576,671</u>	<u>\$ 4,119,254</u>

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

## Notes to Financial Statements December 31, 2013 and 2012

### ***Note Payable to Bank***

The note payable to bank is due on demand, but if no demand is made the note is due in June 2017, with principal and interest payable monthly including interest at the Shattuck National Bank Base Adjustable Daily Rate minus 1.75% (4.25% at December 31, 2013 and 2012). The note payable is secured by substantially all assets of the Hospital and a guaranty by the Authority. The debt service requirements, assuming no demand is made, as of December 31, 2013, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2014	\$ 133,735	\$ 117,715	\$ 16,020
2015	133,735	122,906	10,829
2016	133,735	128,327	5,408
2017	55,763	55,126	637
	<u>\$ 456,968</u>	<u>\$ 424,074</u>	<u>\$ 32,894</u>

### ***Capital Lease Obligation***

At December 31, 2013, the Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2013, totaled \$1,189,627, net of accumulated depreciation of \$138,790. The capital lease included interest at a rate of 7.0%. During 2012, previous capital lease obligations were paid off.

### **Note 8: Charity Care and Other Community Benefits**

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs relating to these services are as follows:

	2013	2012
Charity allowances	\$ 140,000	\$ 89,000
Medicaid welfare	572,000	473,000
	<u>\$ 712,000</u>	<u>\$ 562,000</u>

# **Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.**

## **Notes to Financial Statements December 31, 2013 and 2012**

The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges based on the most recently filed Medicare cost report. In addition to uncompensated charges, the Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments and community educational services.

### **Note 9: Retirement Plan**

The Hospital contributes to a defined contribution pension plan covering all employees who meet the eligibility requirements. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan provides retirement and death benefits to plan members and their beneficiaries. The Hospital's funding policy is to contribute one-third of an employee's annual contribution up to a maximum match of 2% of the employee's annual salary. Participant interests are fully vested in their contributions and the Hospital's contributions immediately. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll are 5.5% and 0.9% for 2013 and 6.9% and 0.9% for 2012, respectively. Contributions actually made by plan members and the Hospital aggregated approximately \$185,000 and \$29,000 for 2013 and \$265,000 and \$36,000 for 2012, respectively.

### **Note 10: Employee Health Claims**

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. Through June 30, 2009, the Hospital was self-insured for health claims of participating employees and dependents up to \$30,000 per claim with an annual aggregate. Effective July 1, 2009, the Hospital switched to a plan under which they are self-insured for health claims of participating employees and dependents from \$750 up to \$5,000 per employee per year. Commercial stop-loss insurance coverage is purchased for claims in excess of the individual claim and aggregate annual amounts. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

# Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

## Notes to Financial Statements December 31, 2013 and 2012

Activity in the Hospital's accrued employee health claims liability during 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 35,415	\$ 25,000
Current year claims incurred and changes in estimates for claims incurred in prior years	46,959	52,560
Claims and plan expenses paid	<u>(61,058)</u>	<u>(42,145)</u>
Balance, end of year	<u>\$ 21,316</u>	<u>\$ 35,415</u>

### Note 11: Contingencies

#### *Litigation*

In the normal course of business, the Hospital 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 Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital 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 12: Change in Accounting Principle

In 2013, the Hospital adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which became effective for reporting periods beginning after December 15, 2012. The impact of the change in accounting principle was to retroactively expense previously capitalized deferred financing costs. These changes decreased net position of the Hospital as of January 1, 2012, by \$22,535 and had no impact on the previously reported change in net position for the year ended December 31, 2012.

**Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.**

**Notes to Financial Statements  
December 31, 2013 and 2012**

**Note 13: Management's Consideration of Going Concern Matters**

The Hospital has incurred losses for several years and has had negative cash flows from operating activities. The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is considering several alternatives for mitigating these conditions during the next year. These include recruiting new health care providers, evaluating critical access hospital status, adding new service lines to address community needs and reviewing expenses and staffing. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.

**Note 14: 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 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  
Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.  
Shattuck, 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 Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (the Hospital), which comprise the balance sheet as of December 31, 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 June 11, 2014, which contained "Emphasis of Matter" paragraphs regarding a change in accounting principles and substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

***Internal Control over Financial Reporting***

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 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. 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 Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-1 to be a material weakness.

Board of Trustees  
Shattuck Hospital Authority  
d/b/a Newman Memorial Hospital, Inc.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Hospital'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*.

### ***Hospital's Response to the Finding***

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Hospital's management in a separate letter dated June 11, 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 Hospital's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BKD, LLP**

Tulsa, Oklahoma  
June 11, 2014

**Shattuck Hospital Authority**  
**d/b/a Newman Memorial Hospital, Inc.**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2013**

<b>Reference Number</b>	<b>Finding</b>
2013-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Management’s procedures for recording significant estimates related to patient accounts receivable and sales tax receivable were not sufficient to identify necessary adjustments.</p> <p>Context – Material journal entries were required to correct misstatements related to the allowance for patient accounts receivable and sales tax receivable.</p> <p>Effect – Potentially material misstatements in the financial statements could occur.</p> <p>Cause – The processes of preparing estimates of allowances for contractual adjustments and bad debts and sales tax receivable were inadequate.</p> <p>Recommendation – Management should evaluate the procedures in place used to estimate significant allowances and estimates in the financial statements.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to periodically evaluate the methodologies used in accurately estimating allowances and estimates.</p>