

PURCELL MUNICIPAL HOSPITAL

Financial Statements
June 30, 2014 and 2013

With Independent Auditors' Report Thereon

PURCELL MUNICIPAL HOSPITAL

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PURCELL MUNICIPAL HOSPITAL

June 30, 2014

Management's Discussion and Analysis

This discussion and analysis of the Purcell Municipal Hospital (Hospital) financial statements provides an overview of the Hospital's financial activities for the year ending June 30, 2014. Management has prepared the financial statements and related footnote disclosures along with the discussion and analysis.

Financial Highlights

The Hospital's financial position as a whole decreased during the fiscal year ending June 30, 2014. Net Position decreased by approximately \$1,794,700 or 14.7% over the previous year.

Overview of the Financial Statements and Financial Analysis

This report consists of Management's Discussion and Analysis, the Independent Auditor's Report, Balance Sheets, Statements of Revenues and Expenses, Statements of Changes in Net Position, Statements of Cash Flows, Notes to the Financial Statements, Supplementary Information, and the Independent Auditor's Report on the Compliance and on Internal Control over Financial Reporting, Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. These statements provide both long-term and short-term financial information on the Hospital as a whole.

Balance Sheets, Statements of Revenues and Expenses, and Statements of Changes in Net Position

The Balance Sheets, Statements of Revenues and Expenses, and Statements of Changes in Net Position report the Hospital's net position and how they have changed. Net position, the difference between assets and liabilities, are one way to measure the Hospital's financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial position is improving or declining. Non-financial factors are important to consider as well, including community trends, the number of admitting physicians, patient census, and trends in national and state health care reimbursement policies.

The enclosed statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private-sector entities. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

For the year ending June 30, 2014, total assets were approximately \$6,687,000 and Total Liabilities were approximately \$2,724,000. Operating Expenses of \$13,754,700 exceeded Operating Revenue of \$10,057,900 resulting in Operating Net loss of \$3,696,800.

PURCELL MUNICIPAL HOSPITAL

Management's Discussion and Analysis

Operating Revenues

Significant changes in operating revenues included the following:

Gross patient service revenue decreased by approximately \$3,995,972 or 11.5% over the past year.

The decrease resulted from a decrease in the Hospital's utilization.

Contractual adjustments decreased by approximately \$961,592 or 4.4%.

Operating Expenses

Significant changes in operating expenses included the following:

Nursing Services expense decreased \$63,578 or 1.7%.

Other Professional Services expense decreased \$1,188,044 or 21.0%.

General Services expenses decreased 1.3% or approximately \$20,962.

Administrative service expenses increased by 2.0% or approximately \$68,989.

Non-operating Revenues and Expenses

Significant changes in non-operating revenues and expenses were the result of the following:

The hospital received a \$1,616,502 incentive payment for their implementation of Electronic Medical Records.

The hospital also received a \$276,716 dividend from the professional Liability Insurance Carrier.

The Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity over a period of time. This statement also aids in the assessment of an entity's ability to generate future net cash flows, its ability to meet obligations as they come due, and needs for external financing. The financial information in this statement has been converted from an accrual basis of accounting to a summary of cash activity statement.

The Hospital's overall liquidity declined during the year with a net decrease in cash of (\$215,541). Cash provided by operating activities decreased by approximately \$3,477,475 over the prior year. This was due primarily to decreases in Accounts Payable. Cash used for capital financing purposes decreased by \$1,009,314 and cash used for investing activities decreased by \$752,590.

PURCELL MUNICIPAL HOSPITAL

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014, the Hospital had approximately \$13,955,000 invested in capital assets. The related accumulated depreciation was \$9,816,000. Depreciation charges for the year totaled \$555,000 compared to \$393,000 in the prior year.

For additional information related to capital assets, please see Note 4 in the financial statements.

Debt

At fiscal year-end 2014, the Hospital had approximately \$282,232 in outstanding debt, an increase of \$157,814 from the prior year. For additional information regarding long-term debt, please see Note 5 in the financial statements.

Economic Outlook

The Hospital expects a very challenging year in 2015, but anticipates that it will be better than 2014. We will continue to adapt to the decreasing reimbursement and many obstacles that all rural hospital face today. We will also continue to fine-tune our operations and search for additional revenue sources in order to improve our financial position.

JOHNSTON & BRYANT

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Oklahoma Society of Certified Public Accountants

Independent Auditors' Report

Board of Trustees
Purcell Municipal Hospital
Purcell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Purcell Municipal Hospital, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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

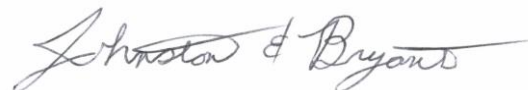
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Purcell Municipal Hospital as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the hospital will continue as a going concern. As discussed in Note 14 to the financial statements, the hospital has suffered a significant loss from operations which has reduced the hospital's working capital and raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2014 on our consideration of Purcell Municipal Hospital's internal control over financial reporting and on 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 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 Purcell Municipal Hospital's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "Johnston & Bryant".

Ada, Oklahoma
August 4, 2014

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PURCELL MUNICIPAL HOSPITAL

Balance Sheets
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents	\$ 271,051	\$ 486,592
Certificate of Deposit	95,000	95,000
Assets Whose Use Is Limited	-	-
Accounts Receivable		
Patients Net	1,420,467	3,128,401
Other	5,137	9,806
Amounts Due Under Cost Contracts	-	-
Inventories	63,211	56,405
Prepaid Expenses	88,197	93,427
Total Current Assets	<u>1,943,063</u>	<u>3,869,631</u>
Assets Whose Use Is Limited		
By Board for Capital Improvements	491,543	632,324
Total Assets Whose Use Is Limited	<u>491,543</u>	<u>632,324</u>
Capital Assets		
Property, Plant and Equipment	13,954,924	13,664,761
Less Accumulated Depreciation	(9,815,962)	(9,259,702)
Total Capital Assets, Net	<u>4,138,962</u>	<u>4,405,059</u>
Other Assets		
Notes Receivable - Net	113,554	185,273
Total Other Assets	<u>113,554</u>	<u>185,273</u>
Total Assets	<u>\$ 6,687,122</u>	<u>\$ 9,092,287</u>

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 92,142	\$ 53,118
Accounts Payable	1,694,737	2,406,554
Amounts Payable Under Cost Contracts	100,000	196,943
Accrued Expenses	646,359	607,930
Total Current Liabilities	<u>2,533,238</u>	<u>3,264,545</u>
Long-Term Debt, Net	<u>191,092</u>	<u>71,300</u>
Total Liabilities	<u>2,724,330</u>	<u>3,335,845</u>
Net Position		
Unrestricted	3,962,722	5,756,372
Restricted	70	70
Total Net Position	<u>3,962,792</u>	<u>5,756,442</u>
Total Liabilities and Net Position	<u>\$ 6,687,122</u>	<u>\$ 9,092,287</u>

PURCELL MUNICIPAL HOSPITAL

Statement of Revenues and Expenses

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Net Patient Service Revenue	\$ 9,835,602	\$ 12,869,982
Other Operating Revenue	<u>222,313</u>	<u>390,093</u>
Total Operating Revenue	<u>10,057,915</u>	<u>13,260,075</u>
Expenses		
Nursing Services	3,748,094	3,811,672
Other Professional Services	4,458,724	5,646,768
General Services	1,539,981	1,560,943
Administrative Services	3,445,174	3,376,185
Interest	7,691	50,035
Provision For Depreciation	<u>555,056</u>	<u>393,522</u>
Total Expenses	<u>13,754,720</u>	<u>14,839,125</u>
Net Income (Loss) From Operations	(3,696,805)	(1,579,050)
Non-Operating Revenue		
Interest Income	1,452	2,511
EMR Incentive Payments	1,616,502	-
Dividend from Insurance Company	276,716	-
Donations	<u>8,485</u>	<u>12,725</u>
Change in Net Position	<u>\$ (1,793,650)</u>	<u>\$ (1,563,814)</u>

PURCELL MUNICIPAL HOSPITAL
Statement of Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>Unrestricted</u>	<u>Restricted</u>
Net Position – June 30, 2012	\$ 7,320,186	\$ 70
Excess Revenue (Expenses)	(1,563,814)	-
Restricted Contributions	<u>-</u>	<u>-</u>
Net Position – June 30, 2013	5,756,372	70
Excess Revenue (Expenses)	(1,793,650)	-
Restricted Contributions	-	-
Other Adjustments	<u>-</u>	<u>-</u>
Net Position – June 30, 2014	<u>\$ 3,962,722</u>	<u>\$ 70</u>

PURCELL MUNICIPAL HOSPITAL
Statement of Cash Flows
Years Ended June 30, 2014 and 2013

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	2014	2013
Cash Flows from Operating Activity		
Patient Service Revenue	\$ 11,446,593	\$ 14,052,950
Other Revenue	226,982	389,929
Payments to Employees	(6,134,944)	(6,305,611)
Payments to Vendors and Suppliers	(7,731,993)	(6,853,155)
Net Cash Provided by Operating Activity	<u>(2,193,362)</u>	<u>1,284,113</u>
Noncapital Financing Activities		
EMR Incentive Payments	1,616,502	-
Noncapital Gifts and Grants	8,485	12,725
Net Cash Provided by Noncapital Financing Activities	<u>1,624,987</u>	<u>12,725</u>
Cash Flow from Capital Financing Activities		
Loan Advances	238,290	-
Principal Payments	(79,475)	(813,504)
Interest Payments	(7,691)	(44,686)
Net Cash Flows used by Capital Financing Activities	<u>151,124</u>	<u>(858,190)</u>
Cash Flow from Investing Activities		
Purchase of Capital Assets (Net)	(288,958)	(1,220,913)
Interest Income	1,452	2,511
Dividend from Insurance Company	276,716	-
Transfer (to) from Assets Whose Use is Limited	140,781	592,441
Reductions in Notes Receivable	71,719	75,081
Net Cash Flow used by Investing Activities	<u>201,710</u>	<u>(550,880)</u>
Increase (Decrease) in Cash	(215,541)	(112,232)
Cash – Beginning	<u>486,592</u>	<u>598,824</u>
Cash – Ending	<u>\$ 271,051</u>	<u>\$ 486,592</u>

See accompanying notes to the financial statements.

PURCELL MUNICIPAL HOSPITAL
Statement of Cash Flows
Years Ended June 30, 2014 and 2013

EXHIBIT D
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	<u>2014</u>	<u>2013</u>
Cash Flow from Operating Activities		
Net Income From Operations	\$ (3,696,805)	\$ (1,579,050)
Adjustments to Reconcile Net Income to Net		
Cash Provided by Operating Activities:		
Depreciation	555,056	393,522
Interest Expense	7,691	44,686
Changes in Operating Assets and Liabilities		
Accounts Payable	(770,331)	1,368,265
Accounts Receivable	1,712,603	1,093,099
Other Assets	-	5,349
Prepays	(6,806)	(33,881)
Inventory	<u>5,230</u>	<u>(7,877)</u>
Net Cash Provided by Operations	<u>\$ (2,193,362)</u>	<u>\$ 1,284,113</u>

See accompanying notes to the financial statements.

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 1. Summary of Significant Accounting Policies

Reporting Entity - Purcell Municipal Hospital is leased from the City of Purcell, Oklahoma to the Purcell Public Works Authority, which is a public trust created under Title 60, Oklahoma Statute 1961. The City of Purcell, Oklahoma, is the beneficiary. The bylaws of the Purcell Municipal Hospital, an enterprise fund of Purcell Public Works Authority, provides for a Board of Trustees to conduct the business of the Hospital and to provide short-term acute care services for the citizens of Purcell, Oklahoma.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting - The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income Taxes - The Hospital is exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described under Section 501(a)(3) of the Code.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Cash Equivalents - Investments that have an original maturity of three months or less are considered to be cash equivalents.

Allowance For Uncollectible Accounts - The allowance for uncollectible accounts is determined by an aged analysis of outstanding patient accounts.

Inventories - Inventories are value at the lower of cost (first-in, first-out method) or market.

Assets Whose Use Is Limited- Assets whose use is limited primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current obligations of the hospital have been reclassified in the balance sheets as June 30, 2014 and 2013.

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 1. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment - Property, plant and equipment are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or retirements are included in income in the period of disposition.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The ranges of such useful lives are as follows:

Land Improvements	8-30 Years
Building	10-40 Years
Building Improvements	5-20 Years
Fixed Equipment	5-25 Years
Major Moveable Equipment	3-20 Years

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

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; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The provision for estimated medical malpractice claims, if any, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Accounting Standards - Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 2. Cash and Deposit

State Statutes require public trust to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidence of deposit. It is the Hospital's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following is a summary of deposits and investments at June 30, 2014 and 2013:

At June 30, 2014 and 2013, bank balances were as follows:

	<u>2014</u>	<u>2013</u>
Insured (FDIC)	\$ 529,151	582,493
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	417,666	788,030
Uninsured, uncollateralized or collateralized by securities held its trust department or agent in other than the Hospital's name	<u>-</u>	<u>-</u>
Total	<u>\$ 946,817</u>	<u>\$ 1,370,523</u>
Carrying Value	<u>\$ 857,594</u>	<u>\$ 1,213,916</u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Hospital holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Hospital's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exist when the Hospital holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Hospital's name.

The Hospital secures cash deposits in excess of \$250,000 with U.S. Government or federal agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2014 and 2013 the carrying amount of the Hospital's deposits was \$857,594 and \$1,213,916 and the bank balance was \$946,817 and \$1,370,523 respectively. As of June 30, 2014 and 2013 the Hospital was not exposed to custodial credit risk.

Note 3. Accounts Receivable - Patients

Patient accounts receivable at June 30, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Patient Accounts	\$ 6,216,863	\$ 9,007,903
Less: Contractual Adjustments	1,517,868	2,253,432
Less: Allowance For Uncollectible Accounts	<u>3,278,528</u>	<u>3,626,070</u>
	<u>\$ 1,420,467</u>	<u>\$ 3,128,401</u>

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 4. Capital Assets

Capital asset activity for the years ended June 30, 2014 and 2013 was as follows:

	2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land	\$ 23,186	\$ -	-	\$ -	\$ 23,186
Land Improvements	218,368	-	-	-	218,368
Building	5,371,886	-	-	-	5,371,886
Building Improvements	1,464,156	8,255	-	-	1,472,411
Fixed Equipment	1,185,444	106,117	-	-	1,291,561
Major Movable Equipment	5,394,640	163,292	-	-	5,557,932
Construction in Progress	7,081	12,499	-	-	19,580
Total Capital Assets	<u>13,664,761</u>	<u>290,163</u>	<u>-</u>	<u>-</u>	<u>13,954,924</u>
Less Accumulated Depreciation	<u>9,259,702</u>	<u>556,260</u>	<u>-</u>	<u>-</u>	<u>9,815,962</u>
	<u>9,259,702</u>	<u>556,260</u>	<u>-</u>	<u>-</u>	<u>9,815,962</u>
Capital Assets - Net	<u>\$ 4,405,059</u>	<u>\$ (266,097)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,138,962</u>

	2013				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Land	\$ 23,186	\$ -	-	\$ -	\$ 23,186
Land Improvements	218,368	-	-	-	218,368
Building	5,371,886	-	-	-	5,371,886
Building Improvements	1,440,622	23,534	-	-	1,464,156
Fixed Equipment	1,153,450	31,994	-	-	1,185,444
Major Movable Equipment	4,003,157	1,036,108	355,375	-	5,394,640
Construction in Progress	233,921	128,535	(355,375)	-	7,081
Total Capital Assets	<u>12,444,590</u>	<u>1,220,171</u>	<u>-</u>	<u>-</u>	<u>13,664,761</u>
Less Accumulated Depreciation	<u>8,866,923</u>	<u>393,522</u>	<u>-</u>	<u>743</u>	<u>9,259,702</u>
	<u>8,866,923</u>	<u>393,522</u>	<u>-</u>	<u>743</u>	<u>9,259,702</u>
Capital Assets - Net	<u>\$ 3,577,667</u>	<u>\$ 826,649</u>	<u>\$ -</u>	<u>\$ (743)</u>	<u>\$ 4,405,059</u>

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 5.

Long-Term Debt

The following is a summary of long-term debt at June 30, 2014 and 2013:

		2014				
Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital Leases						
Drug Dispenser	3.75% 10/30/2013	6,322	-	6,322	-	-
Hematology Analyzer	3.75% 2/20/2014	6,412	-	6,412	-	-
C-Arm	3.75% 11/30/2015	60,587	-	24,395	36,192	25,336
CHS-ERP	3.75% 7/1/2016	51,096	-	15,930	35,166	16,589
Anesthesia Machine	3.75% 7/10/2016	-	37,250	10,940	26,310	12,372
Sterilization Equipment	3.75% 12/2/2018	-	103,619	9,517	94,102	19,565
Ultrasound Equipment	3.75% 2/10/2019	-	97,421	5,959	91,462	18,280
		<u>124,417</u>	<u>238,290</u>	<u>79,475</u>	<u>283,232</u>	<u>92,142</u>
		<u>\$ 124,417</u>	<u>\$ 238,290</u>	<u>\$ 79,475</u>	<u>\$ 283,232</u>	<u>\$ 92,142</u>
		2013				
Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Bonds						
Revenue Bonds 2000 B Series	Varies 1/20/2012	<u>\$ 745,000</u>	<u>\$ -</u>	<u>\$ 745,000</u>	<u>\$ -</u>	<u>\$ -</u>
		<u>745,000</u>	<u>-</u>	<u>745,000</u>	<u>-</u>	<u>-</u>
Unamortized Deferred Loss on Bond Refinancing						
		<u>(6,651)</u>	<u>-</u>	<u>6,651</u>	<u>-</u>	<u>-</u>
Capital Leases						
Drug Dispenser	3.75% 10/30/2013	24,841	-	18,519	6,322	6,322
Hematology Analyzer	3.75% 2/20/2014	15,691	-	9,279	6,412	6,412
C-Arm	3.75% 2/20/2014	-	-	-	-	-
CT-Buy-Out	3.75% 10/10/2012	8,506	-	8,506	-	-
C-Arm	3.75% 11/30/2015	84,096	-	23,509	60,587	24,405
CHS-ERP	3.75% 7/1/2016	66,441	-	15,345	51,096	15,979
		<u>199,575</u>	<u>-</u>	<u>75,158</u>	<u>124,417</u>	<u>53,118</u>
		<u>\$ 937,924</u>	<u>\$ -</u>	<u>\$ 826,809</u>	<u>\$ 124,417</u>	<u>\$ 53,118</u>

On April 1, 2000 the Purcell Public Works Authority issued \$3,385,000 of its Utility Revenue Bonds, Series 2000 B. The purpose of this bond issue was to fully retire the remaining balances of the 1969 and 1994 bonds and pay all associated issuance costs. These bonds are a liability of the Purcell Public Works Authority whose utility revenues are pledged as security for payment. However, the Purcell Municipal Hospital (a department of the Purcell Public Works Authority) is responsible for all of the debt service on these bonds and as such the bonds are shown as a liability of the Purcell Municipal Hospital. As a result of these transactions the Purcell Municipal Hospital incurred a loss of \$208,997. Pursuit to GASB No. 23 the loss will be deferred and amortized over the life of the 2000 B Series Utility Revenue Bonds as a component of interest expense. The unamortized balance of the deferred loss will be netted against the outstanding balance of the 2000 B bonds. These bonds were fully retired in May of 2013.

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 5. Long-Term Debt (continued).

Scheduled principal repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30:	Capital Leases	
	Principal	Interest
2015	\$ 92,142	\$ 9,001
2016	81,565	5,630
2017	41,881	3,374
2018	42,343	1,815
2019	25,301	322
	<u>\$ 283,232</u>	<u>\$ 20,142</u>

Note 6. Commitments and Contingencies

Operating Leases - The Hospital leases various equipment and has service agreements under operating leases expiring at various dates through June 30, 2014. Total rental expense in 2014 and 2013, for all operating leases was approximately \$166,450 and \$163,294, respectively.

Note 7. Restricted Net Position

Temporarily restricted Net Position is available for the following purposes.

	2014	2013
Purchase of Clinic Equipment	<u>\$ 70</u>	<u>\$ 70</u>

Note 8. Donor Restrictions Released

Net Assets was released from donor restrictions by incurring expenses satisfying the restriction purposes.

	2014	2013
Purchase of Equipment	<u>\$ -</u>	<u>\$ -</u>
Operating Cost	<u>\$ -</u>	<u>\$ -</u>

Note 9. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were approximately \$269,641 and \$153,757 for June 30, 2014 and 2013.

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 10. Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursement items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined per-diem rate or established fee.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment.

Other Carriers – 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.

	<u>2014</u>	<u>2013</u>
Gross Patient Service Revenue	\$ 30,641,504	\$ 34,637,476
Less:		
Contractual Adjustments- Medicare	6,716,939	8,660,847
Contractual Adjustments- Medicaid	784,889	1,357,719
Discounts and other Adjustments	10,629,737	8,058,411
Provision for Bad Debts	2,674,337	3,690,517
Total Adjustments	<u>20,805,902</u>	<u>21,767,494</u>
Net Patient Service Revenue	<u>\$ 9,835,602</u>	<u>\$ 12,869,982</u>

PURCELL MUNICIPAL HOSPITAL

Notes to the Financial Statements

June 30, 2014 and 2013

Note 11. Concentration of Credit Risk

The Hospital is located in Purcell, Oklahoma. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Medicare and Medicaid	79.6%	79.8 %
Other Third-Party Payors	16.2%	13.9 %
Patients (Private Pay)	4.2%	6.3 %
	<u>100%</u>	<u>100.0 %</u>

Note 12. Retirement Agreement

On January 31, 2007 the hospital ceased participation in the Oklahoma Municipal Retirement Fund and all funds were transferred to the Purcell Municipal Hospital Retirement Plan, no other contributions will be made to the plan by the hospital. However, the Purcell Municipal Hospital Savings Plan was also established February 1, 2007. Under this plan the hospital will match 1.5% of amounts contributed by employees up to the amount permitted by law. During 2014 and 2013 the hospital contributed \$47,347 and \$49,567 respectively in matching funds.

Note 13. Joint Venture- Purcell Nuclear Medicine, LLC

The Purcell Public Works Authority dba Purcell Municipal Hospital and SSM of Oklahoma formed a joint venture company to perform Nuclear Medicine Studies at PMH. This joint venture is a limited liability corporation receiving its official recognition on July 28, 2011. Further the company performs nuclear medicine studies weekly on Tuesday, Thursday, and Friday of each week.

The partnership was formed on a percentage of ownership: PMH 51% and SSMOK 49%. Both partners contributed capital in cash or equipment. Each partner has specified management duties as well as the reimbursement for cost to each partner, if any, for the duties that are outlined in the Management Agreements with the LLC. Finally, the LLC rents space to perform scans from PMH as defined by a Lease Agreement.

Note 14. Going Concern

The hospital incurred a \$3,696,805 loss from operations for FYE June 30, 2014 and working capital has decreased by \$1,195,261 over the same period of time. These reductions are due primarily to declining utilization of hospital services for both inpatient and outpatient as well as increases in contractual adjustments to the Medicare program. Management is currently reviewing all aspect of the hospital's operations for efficiency as well as other possible revenue producing opportunities.

SUPPLEMENTAL INFORMATION

PURCELL MUNICIPAL HOSPITAL
Schedule of Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	2014	2013
Daily Patient Services		
Medical and Surgical	\$ 1,397,855	\$ 1,250,742
Intensive Care	-	-
Newborn	3,990	11,970
Total Daily Patient Services	1,401,845	1,262,712
Other Nursing Services		
Operating and Recovery Rooms	2,438,572	2,082,247
Delivery Room	48	1,912
Central Services and Supply	-	41,312
Emergency Services	7,048,570	8,453,845
Intravenous Therapy	136,040	319,887
Observation Room	205,579	144,287
Total Other Nursing Services	9,828,809	11,043,490
Other Professional Services		
Pain Management	3,970,055	5,724,038
Laboratory	4,667,518	5,245,447
Electrocardiology	-	286,873
Radiology	5,517,618	6,013,399
Pharmacy	2,058,950	2,155,370
Anesthesiology	256,182	278,327
Respiratory Therapy	853,961	959,659
Physical Therapy	227,046	219,885
Speech Therapy	11,140	2,992
Clinics	1,848,380	1,445,284
Total Other Professional Services	19,410,850	22,331,274
Total Patient Service Revenue	30,641,504	34,637,476
Less Contractual Adjustments and Provision for Bad Debts		
Provision for Bad Debt	2,674,337	3,690,517
Medicare	6,716,939	8,660,847
Medicaid	784,889	1,357,719
Discounts and Other Allowances	10,629,737	8,058,411
Net Patient Service Revenue	\$ 9,835,602	\$ 12,869,982

PURCELL MUNICIPAL HOSPITAL
Other Operating Revenue
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cafeteria Sales	\$ 32,534	\$ 32,194
Purchase Discounts	4,453	14,770
Medical Records Fees	5,471	5,155
Sale of Scrap and Waste	271	43
Clinic Rental	106,024	107,744
Miscellaneous	<u>73,560</u>	<u>230,187</u>
Total Other Operating Revenue	<u>\$ 222,313</u>	<u>\$ 390,093</u>

PURCELL MUNICIPAL HOSPITAL

Patient Service Expenses

Years Ended June 30, 2014 and 2013

	2014		
	Salaries	Other	Total
Nursing Services			
Medical and Surgical	\$ 1,037,355	\$ 46,147	\$ 1,083,502
Intensive Care	-	-	-
Newborn Nursery	-	109	109
Operating and Recovery Rooms	270,060	162,843	432,903
Labor and Delivery Room	-	-	-
Central Services and Supply	-	9,267	9,267
Emergency Services	717,909	1,460,126	2,178,035
Intravenous Therapy	-	44,278	44,278
Total Nursing Services	<u>\$ 2,025,324</u>	<u>\$ 1,722,770</u>	<u>\$ 3,748,094</u>
Other Professional Services			
Pain Management	\$ 68,079	\$ 398,400	\$ 466,479
Laboratory	437,592	577,250	1,014,842
Electrocardiology	62,538	-	62,538
Radiology	446,647	441,084	887,731
Pharmacy	69,837	339,751	409,588
Anesthesiology	-	77,006	77,006
Respiratory Therapy	135,667	8,955	144,622
Physical Therapy	149,914	14,685	164,599
Speech Therapy	2,402	-	2,402
Clinic	884,382	344,535	1,228,917
Total Other Professional Services	<u>\$ 2,257,058</u>	<u>\$ 2,201,666</u>	<u>\$ 4,458,724</u>
General Services			
Dietary	\$ 156,550	\$ 119,966	\$ 276,516
Medical Records	327,019	133,178	460,197
Plant Engineering	139,058	358,756	497,814
Housekeeping	192,673	58,874	251,547
Laundry and Linen	-	53,907	53,907
Total General Services	<u>\$ 815,300</u>	<u>\$ 724,681</u>	<u>\$ 1,539,981</u>
Administrative Services			
Administrative and Business Offices	\$ 1,075,691	\$ 810,458	\$ 1,886,149
Employee Benefits	-	1,368,228	1,368,228
Insurance	-	190,797	190,797
Total Administrative Services	<u>\$ 1,075,691</u>	<u>\$ 2,369,483</u>	<u>\$ 3,445,174</u>

2013

Salaries	Other	Total
\$ 1,272,833	\$ 82,520	\$ 1,355,353
-	-	-
-	1,581	1,581
283,346	118,107	401,453
-	1,019	1,019
-	11,381	11,381
673,167	1,316,156	1,989,323
-	51,562	51,562
<u>\$ 2,229,346</u>	<u>\$ 1,582,326</u>	<u>\$ 3,811,672</u>

\$ 52,558	\$ 1,514,588	\$ 1,567,146
433,445	601,354	1,034,799
59,659	-	59,659
411,737	453,020	864,757
78,826	341,569	420,395
-	195,857	195,857
136,498	17,228	153,726
157,072	9,861	166,933
1,985	-	1,985
851,531	329,980	1,181,511
<u>\$ 2,183,311</u>	<u>\$ 3,463,457</u>	<u>\$ 5,646,768</u>

\$ 158,710	\$ 117,771	\$ 276,481
305,701	153,438	459,139
141,204	376,476	517,680
191,804	54,482	246,286
-	61,357	61,357
<u>\$ 797,419</u>	<u>\$ 763,524</u>	<u>\$ 1,560,943</u>

\$ 1,072,955	\$ 744,774	\$ 1,817,729
-	1,354,045	1,354,045
-	204,411	204,411
<u>\$ 1,072,955</u>	<u>\$ 2,303,230</u>	<u>\$ 3,376,185</u>

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Purcell Municipal Hospital
Purcell, Oklahoma

We have audited, in accordance with the 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 Purcell Municipal Hospital, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 4, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Purcell Municipal Hospital's internal control over financial reporting (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 Purcell Municipal Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Purcell Municipal Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

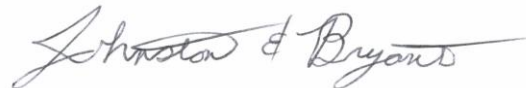
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Purcell Municipal Hospital's financial statements are free from 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*.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, appearing to read "Johnston & Bryant", is written in dark ink.

Ada, Oklahoma
August 4, 2014

