



Management's Discussion and Analysis
And Financial Statements
June 30, 2014 and 2013

Cordell Hospital Authority

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Independent Auditor's Report

Board of Trustees
Cordell Hospital Authority
Cordell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Cordell Hospital Authority (Authority) 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 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 of 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 Authority'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 Authority'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 Cordell Hospital Authority as of June 30, 2014 and 2013, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a 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 November 19, 2014 on our consideration of Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
November 19, 2014

Introduction

Our discussion and analysis for Cordell Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2014 and 2013, and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

Current assets decreased in 2014 by \$1,404,161 or 15% and increased in 2013 by \$1,487,179 or 19%.

Total liabilities decreased in 2014 by \$868,869 or 79% and decreased in 2013 by \$7,973 or 1%.

The Authority's net position increased in 2014 by \$240,528 or 2% and increased in 2013 by \$503,918 or 5%.

The Authority reported an operating loss in 2014 of \$878,287 and an operating loss in 2013 of \$309,111. During 2014, operating loss increased by \$569,176 or 184% and increased by \$132,559 or 75% in 2013.

Other operating revenue decreased by \$4,530 or 8% in 2014 and decreased by \$244,700 or 81% in 2013.

Operating expenses increased in 2014 by \$285,942 or 7% and \$167,955 or 4% in 2013.

Using This Annual Report

The Authority's financial statements consist of three statements – Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position increased by \$240,528 or 2% in 2014 and increased by \$503,918 or 5% in 2013 as shown below.

	2014	2013	2012
Assets			
Current assets	\$ 7,811,829	\$ 9,215,990	\$ 7,728,811
Capital assets, net	1,300,469	603,172	742,475
Other assets	1,846,132	1,767,609	2,619,540
Total assets	\$ 10,958,430	\$ 11,586,771	\$ 11,090,826
Liabilities			
Other current and noncurrent liabilities	\$ 226,006	\$ 1,094,875	\$ 1,102,848
Total liabilities	226,006	1,094,875	1,102,848
Net Position			
Net investment in capital assets	1,300,469	532,411	568,591
Unrestricted	9,431,955	9,959,485	9,419,387
Total net position	10,732,424	10,491,896	9,987,978
Total liabilities and net position	\$ 10,958,430	\$ 11,586,771	\$ 11,090,826

Assets, Liabilities, and Net Position

A significant component of the change in the Authority's assets, liabilities, and net position is the change in current assets, capital assets and other current liabilities. This was primarily due to the increase in capital assets of \$697,297 or 116%. Current liabilities decreased \$868,869 or 79% in 2013.

Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	\$ 3,381,956	\$ 3,660,660	\$ 3,380,564
Other operating revenue	52,506	57,036	301,736
Total operating revenues	<u>3,434,462</u>	<u>3,717,696</u>	<u>3,682,300</u>
Operating Expenses			
Nursing services	1,187,230	1,044,859	1,049,333
Other professional services	862,999	894,997	840,797
General services	466,776	464,772	421,889
Administrative services	1,599,435	1,431,940	1,342,626
Depreciation	196,309	190,239	204,207
Total operating expenses	<u>4,312,749</u>	<u>4,026,807</u>	<u>3,858,852</u>
Operating loss	<u>(878,287)</u>	<u>(309,111)</u>	<u>(176,552)</u>
Nonoperating Revenues (Expenses)			
Investment income (loss)	362,148	(197,815)	419,164
Interest	(929)	(4,413)	(7,948)
Loss on disposal of equipment	-	(1,682)	-
Noncapital grants and contributions	7,415	7,817	7,504
Intergovernmental transfers (sales tax from county)	750,181	1,009,122	1,543,663
Total nonoperating revenues	<u>1,118,815</u>	<u>813,029</u>	<u>1,962,383</u>
Increase in net position	<u>\$ 240,528</u>	<u>\$ 503,918</u>	<u>\$ 1,785,831</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past three years the Authority has had operating losses.

The operating loss for 2014 increased by \$569,146 or 184% as compared to the increase of \$132,559 or 75% in 2013. The primary components of the increase in operating loss are:

An decrease in net patient service revenue of \$278,704 or 8% in 2014 and an increase of \$280,096 or 8% in 2013 as well as an increase in operating expenses of \$285,942 or 7% in 2014 and \$167,955 or 4% in 2013. Other operating revenues decreased \$4,530 or 8% in 2014 and decreased \$244,700 or 81% in 2013.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county sales tax, investment income, noncapital grants and contributions and interest expense. Investment income increased \$559,963 or 283% in 2014 as compared to the decrease of \$616,979 or 147% in 2013. Intergovernmental transfers (county sales tax) decreased \$258,941 or 26% in 2014 and decreased \$534,541 or 35% in 2013.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents, of \$958,232 when compared with 2013. Cash flows provided by operating activities decreased by \$1,716,325 during 2014 when compared with 2013. This was due primarily to the decrease in receipts from or on the behalf of patients. Cash provided by non-capital financing activities decreased by \$304,863 when compared with 2013. Cash used for capital and capital related financing activities increased by \$805,142 when compared with 2013. Cash provided by investing activities was \$1,199,219 in 2014 compared to cash used of \$103,410 in 2013.

Capital Assets

The Authority had \$1,300,469 invested in capital assets at the end of 2014 and \$603,172 at the end of 2013, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets costing \$893,606 in 2014 and \$58,618 in 2013.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-832-3339.

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	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash	\$ 292,912	\$ 1,251,144
Short term investments	6,147,229	7,057,547
Receivables		
Patients, net of estimated uncollectibles of approximately \$248,000 in 2014 and \$119,000 in 2013	352,327	474,089
Estimated third-party settlements	608,019	-
Other	36,544	64,943
Due from County	141,781	150,610
Accrued interest receivable	49,175	54,451
Supplies	102,191	104,303
Prepays	<u>81,651</u>	<u>58,903</u>
Total current assets	<u>7,811,829</u>	<u>9,215,990</u>
Capital Assets		
Non-depreciable capital assets	139,707	139,707
Depreciable capital assets, net	<u>1,160,762</u>	<u>463,465</u>
Total capital assets, net	<u>1,300,469</u>	<u>603,172</u>
Other Assets		
Investment in government bonds	<u>1,846,132</u>	<u>1,767,609</u>
Total assets	<u><u>\$ 10,958,430</u></u>	<u><u>\$ 11,586,771</u></u>

Cordell Hospital Authority
Balance Sheets
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ -	\$ 70,761
Accounts payable	110,589	94,466
Accrued expenses	115,417	105,466
Estimated third-party settlements	<u>-</u>	<u>824,182</u>
Total current liabilities	226,006	1,094,875
 Total liabilities	 <u>226,006</u>	 <u>1,094,875</u>
 Net Position		
Net investment in capital assets	1,300,469	532,411
Unrestricted	<u>9,431,955</u>	<u>9,959,485</u>
Total net position	<u>10,732,424</u>	<u>10,491,896</u>
 Total liabilities and net position	 <u><u>\$ 10,958,430</u></u>	 <u><u>\$ 11,586,771</u></u>

Cordell Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of approximately \$256,000 in 2014 and \$257,000 in 2013	\$ 3,381,956	\$ 3,660,660
Other revenue	<u>52,506</u>	<u>57,036</u>
Total operating revenues	<u>3,434,462</u>	<u>3,717,696</u>
Operating Expenses		
Nursing services	1,187,230	1,044,859
Other professional services	862,999	894,997
General services	466,776	464,772
Administrative services	1,599,435	1,431,940
Depreciation	<u>196,309</u>	<u>190,239</u>
Total operating expenses	<u>4,312,749</u>	<u>4,026,807</u>
Operating Loss	<u>(878,287)</u>	<u>(309,111)</u>
Nonoperating Revenues (Expenses)		
Investment income (loss)	362,148	(197,815)
Interest expense	(929)	(4,413)
Loss on disposal of equipment	-	(1,682)
Noncapital grants and contributions	7,415	7,817
Intergovernmental transfers (sales tax from County)	<u>750,181</u>	<u>1,009,122</u>
Total nonoperating revenues	<u>1,118,815</u>	<u>813,029</u>
Increase in Net Position	240,528	503,918
Net Position, Beginning of Year	<u>10,491,896</u>	<u>9,987,978</u>
Net Position, End of Year	<u><u>\$ 10,732,424</u></u>	<u><u>\$ 10,491,896</u></u>

Cordell Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	\$ 2,071,517	\$ 3,619,008
Payments to suppliers and contractors	(2,279,168)	(2,063,874)
Payments to employees	(1,831,834)	(1,806,998)
Other receipts	80,905	9,609
Net Cash used for Operating Activities	<u>(1,958,580)</u>	<u>(242,255)</u>
Noncapital Related Financing Activities		
Sales tax revenue received	759,010	1,063,471
Noncapital grants and contributions	7,415	7,817
Net Cash provided by Noncapital Related Financing Activities	<u>766,425</u>	<u>1,071,288</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(70,761)	(103,123)
Interest paid on long-term debt	(929)	(4,413)
Purchase of property and equipment	(893,606)	(58,618)
Proceeds from the sale of equipment	<u>-</u>	<u>6,000</u>
Net Cash used for Capital and Related Financing Activities	<u>(965,296)</u>	<u>(160,154)</u>
Investing Activities		
Purchases of investments	(472,476)	(1,531,039)
Proceeds from sale of investments	1,386,506	1,150,565
Interest on investments received	285,189	277,064
Net Cash provided by (used for) Investing Activities	<u>1,199,219</u>	<u>(103,410)</u>
Net (Decrease) Increase in Cash	(958,232)	565,469
Cash, Beginning of Year	<u>1,251,144</u>	<u>685,675</u>
Cash, End of Year	<u><u>\$ 292,912</u></u>	<u><u>\$ 1,251,144</u></u>

Cordell Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	\$ (878,287)	\$ (309,111)
Adjustments to reconcile operating income to net cash used for operating activities		
Provision for depreciation	196,309	190,239
Provision for bad debts	255,915	256,568
Changes in assets and liabilities		
Patient receivables	(134,153)	(404,714)
Other receivables	28,399	(47,427)
Supplies	2,112	(199)
Prepays	(22,748)	(22,761)
Accounts payable	16,123	21,735
Other accruals	9,951	(33,079)
Estimated third-party payor settlements	<u>(1,432,201)</u>	<u>106,494</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities	<u>\$ (1,958,580)</u>	<u>\$ (242,255)</u>
Supplemental Disclosure of Non-cash Investing Activity		
Unrealized gain (loss) on investment	<u>\$ 82,235</u>	<u>\$ (472,555)</u>

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Cordell Hospital Authority (the Authority) is a public trust created under the laws of the State of Oklahoma. The Authority entered into a lease agreement with the City of New Cordell (the City), which expires January 17, 2019, for the hospital facilities and equipment. The governing body of the City appoints the Board of Trustee members of the Authority and the City is beneficiary of the trust.

The Authority is a critical access facility with 25 beds.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. Governmental Accounting Standards Board (GASB) No. 61 requires organizations that are "closely related to, or financial integrated" with the primary government be evaluated as potential component units by the primary government. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, sales taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Income Taxes

The Authority is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Short-term Investments

Short-term investments include certificates of deposit, U.S. Treasury securities and government backed mutual funds with an original maturity of three to twelve months.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	2 - 15 years
Buildings	15 - 40 years
Building improvements	5 - 20 years
Major moveable equipment	5 - 10 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from operations, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investments are measured at fair value on the balance sheet. Investment income or loss is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the balance sheet date plus an additional amount for compensation related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position is presented in the following two components:

Net investment in Capital Assets - Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of net investment in capital assets or restricted.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments are available for the next three years. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use

is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. The Authority did not receive EHR incentive payments during the years ended June 30, 2014 and 2013.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

The Authority received funds from the Oklahoma Hospital Association totaling \$77,210 and \$52,772 for the years ended June 30, 2014 and 2013 which is included in net patient service revenue.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately \$6,000 and \$23,000 for the years ended June 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were \$5,000 and \$19,000 at June 30, 2014 and 2013, based on an average ratio of cost to gross charges.

Advertising Costs

The Authority expenses advertising costs as incurred. The Authority incurred \$19,221 and \$22,432 for advertising costs for the years ended June 30, 2014 and 2013.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Authority's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Sales Tax Revenue

The voters of Washita County, Oklahoma approved to extend the .5 percent sale tax for the benefit of Cordell Hospital Authority. The sales tax extension is for a five year period beginning October 1, 2009 and expiring September 30, 2014. The Authority received approximately 16 percent and 22 percent of its financial support from a .5% county sales tax in 2014 and 2013. Revenue from sales tax is recognized in the year the tax is earned.

Grants and Contributions

From time to time, the Authority receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Note 2 - Net Patient Service Revenue

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

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services at reimbursable cost plus one percent with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2012. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge, or other established rates with no retrospective adjustments. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Authority's Medicare cost report, or rates as established by the Medicaid program.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 6% of the Authority's net patient service revenue for the year ended June 30, 2014 and 62% and 3% for the year ended June 30, 2013. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2014 and 2013 increased approximately \$0 and \$254,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2014 and 2013, is as follows:

	2014	2013
Total Patient Service Revenue	\$ 3,575,805	\$ 4,647,088
Less contractual adjustments	62,066	(729,860)
Provision for bad debts	(255,915)	(256,568)
Net Patient Service Revenue, net of provision for bad debts	<u>\$ 3,381,956</u>	<u>\$ 3,660,660</u>

Note 3 - Deposits and Investments

State statutes require public trusts to invest monies in direct obligations of the United States Government or in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has a general investment policy to minimize custodial credit risk. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. At June 30, 2014 and 2013, the Authority's deposits exposed to custodial credit risk were as follows:

	2014	2013
Total Bank Balance -		
Insured (FDIC)	\$ 853,215	\$ 1,201,696
Collateralized with securities held by the Authority's agent in the Authority's name	<u>435,743</u>	<u>2,148,906</u>
	<u><u>\$ 1,288,958</u></u>	<u><u>\$ 3,350,602</u></u>
Total Carrying Value -		
Cash and cash equivalents	\$ 292,912	\$ 1,251,144
Certificates of deposit	<u>603,215</u>	<u>1,994,417</u>
	<u><u>\$ 896,127</u></u>	<u><u>\$ 3,245,561</u></u>

At June 30, 2014, the Authority had no bank balances exposed to custodial credit risk.

Credit Risk

Statutes require that investments be made only in U.S. government obligations. The Authority's investment policy does not further limit its investment options.

Interest Rate Risk

The Authority's investment policy does not contain a provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Short-term Investments

Short-term investments include investments with an original maturity date between three and twelve months. Short-term investments are stated at fair value and include the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Certificates of deposit	\$ 603,215	\$ 1,994,417
Investment in government mutual funds	<u>5,544,014</u>	<u>5,063,130</u>
	<u>\$ 6,147,229</u>	<u>\$ 7,057,547</u>

Long-term Investments

Long-term investments include the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investment in government bonds	<u>\$ 1,846,132</u>	<u>\$ 1,767,609</u>

Investment Income (Loss)

Investment income (loss) consists of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Non operating revenue (expense)		
Interest income	\$ 279,913	\$ 274,740
Unrealized gains (losses) on investments	<u>82,235</u>	<u>(472,555)</u>
	<u>\$ 362,148</u>	<u>\$ (197,815)</u>

Note 4 - Capital Assets

A summary of capital assets at June 30, 2014 and 2013 follows:

	2014		
	Beginning Balance	Additions	Ending Balance
Capital assets not being depreciated			
Land	\$ 116,000	\$ -	\$ 116,000
Construction in progress	23,708	-	23,708
	<u>139,708</u>	<u>-</u>	<u>139,708</u>
Capital assets being depreciated			
Land improvements	95,342	41,713	137,055
Buildings	571,600	-	571,600
Building improvement	482,287	-	482,287
Major moveable equipment	<u>1,508,759</u>	<u>851,893</u>	<u>2,360,652</u>
Total assets being depreciated	<u>2,657,988</u>	<u>893,606</u>	<u>3,551,594</u>
Less accumulated depreciation for:			
Land improvements	93,733	1,583	95,316
Buildings	413,326	8,859	422,185
Buildings and improvements	286,372	39,487	325,859
Major moveable equipment	<u>1,401,093</u>	<u>146,380</u>	<u>1,547,473</u>
Total accumulated depreciation	<u>2,194,524</u>	<u>\$ 196,309</u>	<u>\$ 2,390,833</u>
Capital assets, net	<u>\$ 603,172</u>		<u>\$ 1,300,469</u>

	2013			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land	\$ 116,000	\$ -	\$ -	\$ 116,000
Construction in progress	10,302	13,406	-	23,708
Total assets not being depreciated	126,302	13,406	-	139,708
Capital assets being depreciated				
Land improvements	95,342	-	-	95,342
Buildings	526,388	45,212	-	571,600
Building improvement	482,287	-	-	482,287
Major moveable equipment	1,521,259	-	12,500	1,508,759
Total assets being depreciated	2,625,276	45,212	12,500	2,657,988
Less accumulated depreciation for:				
Land improvements	89,332	4,401	-	93,733
Buildings	392,133	21,193	-	413,326
Buildings and improvements	246,886	39,486	-	286,372
Major moveable equipment	1,280,752	125,159	4,818	1,401,093
Total accumulated depreciation	2,009,103	\$ 190,239	\$ 4,818	2,194,524
Capital assets, net	\$ 742,475			\$ 603,172

Construction in progress at June 30, 2014 relates to preliminary fees and design cost intended for a hospital remodel project. It was determined subsequent to year end that the hospital remodel project would not continue and rather plans were made to remodel a clinic building.

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. The rental expense for all operating leases was \$20,982 and \$22,541 for 2014 and 2013. The capitalized lease assets consist of:

	2014	2013
Major movable equipment	\$ -	\$ 492,995
Less accumulated amortization (included as depreciation on the accompanying financial statements)	-	425,662
	<u>\$ -</u>	<u>\$ 67,333</u>

Minimum future lease payments for operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Operating Leases</u>
2015	\$ 6,151
2016	6,151
2017	<u>2,708</u>
Total minimum lease payments	<u>\$ 15,010</u>

Note 6 - Long-Term Debt

A summary of long-term debt, including capital lease obligations as of June 30, 2014 and 2013, follows:

	Beginning Balance	June 30, 2014			
		Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	<u>\$ 70,761</u>	<u>\$ -</u>	<u>\$ 70,761</u>	<u>\$ -</u>	<u>\$ -</u>

	Beginning Balance	June 30, 2013			
		Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	<u>\$ 173,884</u>	<u>\$ -</u>	<u>\$ 103,123</u>	<u>\$ 70,761</u>	<u>\$ 70,761</u>

The terms and due dates of the Authority's long term debt, capital lease obligations at June 30, 2014 and 2013 are as follows:

- Capital lease obligations, with imputed interest ranging from 3.14% to 3.93% with maturity dates of March and April 2014.

Note 7 - Profit Sharing Plan

The Authority participates in a 403(b) Deferred Compensation Plan covering all employees who are at least 18 years of age, generally work twenty or more hours per week, and have completed six months of services with the Authority. The Authority, at its option, may contribute to the Plan. During 2014 and 2013 and 2012, the Authority paid or accrued contributions of \$334,156, \$254,697 and \$269,553, which is included in administrative services

Note 8 - Related Party Transactions

The Authority is a Public Trust with the City of New Cordell designated as the beneficiary of the trust. The Authority purchased utility services from the City of New Cordell in the amounts of \$46,264 and \$45,017 for the years ended June 30, 2014 and 2013.

The Cordell Memorial Hospital Foundation (the Foundation) was established to promote projects which advance the quality of medical care for the residents of Washita County (County). The Foundation created an endowment fund to which private citizens and businesses may make monetary or in-kind contributions. They manage funds, accept applications for, and dispense grants to fund high quality medical equipment, improve existing patient services or implement patient services that are not already provided for in the established hospital budget.

The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Authority in amounts and in periods determined by the Foundation's Board of Directors. No transfers were made between the Authority and the Foundation during the years ended June 30, 2014 and 2013.

The County collects and retains sales tax collected for the benefit of the Authority. Amounts are disbursed from the County upon receipt of approved purchase orders from the Authority. The remainder is retained by the County until the Authority forwards approved purchase orders. The Authority receives rent from the Washita County Health Department. During the years ended June 30, 2014 and 2013, the total rent received was \$16,800 annually.

Note 9 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients, many of who are residents and are insured under third-party payor agreements. The mix of patient accounts receivable at June 30, 2014 and 2013, was as follows:

	2014	2013
Medicare and Medicaid	34%	51%
Commercial Insurance	23%	25%
Patients (self pay)	43%	24%
	<u>100%</u>	<u>100%</u>

Note 10 - Contingencies

Malpractice Insurance

The Authority has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claim experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 11 - Subsequent Events

The five year extension for the sales tax revenue expired in September 2014 and was not renewed by the voters of Washita County.

The Authority has evaluated subsequent events through November 19, 2014, the date which the financial statements were available to be issued.



Supplementary Information
June 30, 2014 and 2013

Cordell Hospital Authority



Independent Auditor's Report on Supplementary Information

Board of Trustees
Cordell Hospital Authority
New Cordell, Oklahoma

We have audited the financial statements of Cordell Hospital Authority as of and for the years then ended June 30, 2014 and 2013 and our report thereon dated November 19, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient revenue and schedules of other operating revenue are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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Oklahoma City, Oklahoma
November 19, 2014

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	2014		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Daily Patient Services			
Medical and surgical	<u>\$ 524,865</u>	<u>\$ 7,252</u>	<u>\$ 532,117</u>
Other Nursing Services			
Central services and supply	145,670	27,090	172,760
Emergency services	<u>16,094</u>	<u>734,068</u>	<u>750,162</u>
	<u>161,764</u>	<u>761,158</u>	<u>922,922</u>
Other Professional Services			
Ambulance	2,124	165,534	167,658
Blood	14,142	5,897	20,039
CT scan	122,004	235,292	357,296
Electrocardiology	17,058	23,667	40,725
Laboratory	176,737	407,548	584,285
Pharmacy	474,835	189,045	663,880
Physical therapy	20,858	-	20,858
Radiology	40,456	101,096	141,552
Respiratory therapy	47,749	14,232	61,981
Ultrasound	<u>36,163</u>	<u>32,324</u>	<u>68,487</u>
	<u>952,126</u>	<u>1,174,635</u>	<u>2,126,761</u>
Gross Patient Service Revenue	<u>\$ 1,638,755</u>	<u>\$ 1,943,045</u>	3,581,800
Charity Care			<u>(5,995)</u>
Total patient service revenue			<u>3,575,805</u>
Less Contractual Adjustments			
Medicare			(417,815)
Medicaid			122,123
Other			<u>233,626</u>
Total contractual adjustments			<u>(62,066)</u>
Provision for Bad Debts			<u>255,915</u>
Net Patient Service Revenue, less provision for bad debts			<u>\$ 3,381,956</u>

Cordell Hospital Authority
Schedules of Net Patient Service Revenues
Years Ended June 30, 2014 and 2013

2013		
Inpatient	Outpatient	Total
<u>\$ 732,622</u>	<u>\$ 5,170</u>	<u>\$ 737,792</u>
284,017	31,626	315,643
<u>28,749</u>	<u>648,018</u>	<u>676,767</u>
<u>312,766</u>	<u>679,644</u>	<u>992,410</u>
-	184,978	184,978
27,058	5,769	32,827
113,942	228,359	342,301
40,475	45,232	85,707
441,816	618,002	1,059,818
691,384	135,884	827,268
17,029	-	17,029
55,978	115,783	171,761
74,957	14,711	89,668
<u>91,683</u>	<u>37,340</u>	<u>129,023</u>
<u>1,554,322</u>	<u>1,386,058</u>	<u>2,940,380</u>
<u>\$ 2,599,710</u>	<u>\$ 2,070,872</u>	4,670,582
		<u>(23,494)</u>
		<u>4,647,088</u>
		279,289
		153,663
		<u>296,908</u>
		<u>729,860</u>
		<u>256,568</u>
		<u>\$ 3,660,660</u>

Cordell Hospital Authority
Schedules of Other Operating Revenue
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Other Revenue		
Ambulance subsidy income	\$ 18,669	\$ 18,668
Cafeteria	5,751	6,975
Clinic rent - Physician's expense reimbursement	20,744	22,009
Lifeline services	910	730
Medical records fees	397	136
Miscellaneous	2,246	3,651
Purchase discounts	764	1,567
Rent	<u>3,025</u>	<u>3,300</u>
Total other revenue	<u><u>\$ 52,506</u></u>	<u><u>\$ 57,036</u></u>

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	2014		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 565,650	\$ 12,871	\$ 578,521
Central services and supply	890	23,032	23,922
Emergency services	143,988	440,799	584,787
	<u>710,528</u>	<u>476,702</u>	<u>1,187,230</u>
Other Professional Services			
Ambulance	131,359	4,964	136,323
Blood	-	6,224	6,224
CT scan	3,889	67,122	71,011
Electrocardiology	9,671	1,288	10,959
Laboratory	134,447	202,289	336,736
Pharmacy	64,355	76,067	140,422
Physical therapy	280	8,811	9,091
Radiology	97,850	17,498	115,348
Respiratory therapy	8,906	1,569	10,475
Ultrasound	-	26,410	26,410
	<u>450,757</u>	<u>412,242</u>	<u>862,999</u>
General Services			
Dietary	85,280	43,360	128,640
Housekeeping	119,793	9,248	129,041
Laundry and linen	12,850	1,637	14,487
Medical records	50,157	62,622	112,779
Plant engineering	6,954	74,875	81,829
	<u>275,034</u>	<u>191,742</u>	<u>466,776</u>
Administrative Services			
Administrative and general	405,466	291,115	696,581
Employee benefits	-	902,854	902,854
	<u>405,466</u>	<u>1,193,969</u>	<u>1,599,435</u>
Provision for Depreciation	-	196,309	196,309
Total Expenses	<u>\$ 1,841,785</u>	<u>\$ 2,470,964</u>	<u>\$ 4,312,749</u>

Cordell Hospital Authority
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2013	
Salaries	Other	Total
\$ 539,342	\$ 11,236	\$ 550,578
416	23,847	24,263
126,276	343,742	470,018
<u>666,034</u>	<u>378,825</u>	<u>1,044,859</u>
133,203	7,184	140,387
-	11,732	11,732
4,524	65,876	70,400
12,402	1,129	13,531
143,543	203,454	346,997
62,918	72,498	135,416
13	6,605	6,618
87,945	29,414	117,359
14,320	412	14,732
-	37,825	37,825
<u>458,868</u>	<u>436,129</u>	<u>894,997</u>
88,322	45,844	134,166
109,108	8,786	117,894
12,087	2,472	14,559
52,498	10,686	63,184
17,861	117,108	134,969
<u>279,876</u>	<u>184,896</u>	<u>464,772</u>
369,141	262,947	632,088
-	799,852	799,852
<u>369,141</u>	<u>1,062,799</u>	<u>1,431,940</u>
-	190,239	190,239
<u>\$ 1,773,919</u>	<u>\$ 2,252,888</u>	<u>\$ 4,026,807</u>



Independent Auditor's 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
Cordell Hospital Authority
Cordell, 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 Cordell Hospital Authority (Authority) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cordell Hospital Authority'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 Cordell Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cordell Hospital Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described 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 *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in described in the accompanying Schedule of Findings and Responses, to be a material weakness, 2014-A.

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. We consider the following deficiency in described in the accompanying Schedule of Findings and Responses, to be a significant deficiency, 2014-B.

Compliance and Other Matters

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

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink, reading "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
November 19, 2014

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weakness:

2014-A Material Journal Entry

Condition and criteria: The Authority does not have an internal control system over financial reporting designed to provide for a cost report estimate for the current year, which resulted in a material journal entry.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

Cause: No method was in place to estimate the current year cost report settlement.

Auditor's Recommendation: It is recommended the Authority implement a system that allows the estimate of the cost report settlement.

Management Response: Management has obtained a tool for estimating settlements and will have this in place during the next fiscal year.

Significant Deficiency:

2014-B Preparation of Financial Statements

Condition and criteria: The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

Cause: The board of trustees had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Auditor's Recommendation: It is recommended the Authority implement a system that allows the preparation of financial statements in accordance with GAAP.

Management Response: The board of trustees has taken into consideration the expense of hiring additional accounting personnel for the accurate reporting of the financial statements and feels that the cost does not justify the benefit.