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

Weatherford Hospital Authority

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Independent Auditor's Report

Board of Trustees
Weatherford Hospital Authority
Weatherford, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Weatherford Hospital Authority (Authority) which comprise the balance sheets as of September 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 related notes to the financial statements, which collectively comprise the Authority's 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 preform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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.

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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 Weatherford Hospital Authority as of September 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Authority adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* As discussed in Note 13 to the financial statements, the Authority has retroactively restated the previously reported net position to account for bond issuance costs in accordance with this Statement. Our opinion is not modified with respect to this matter.

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 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 inquires, 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 January 30, 2015 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
January 30, 2015

Our discussion and analysis for Weatherford Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended September 30, 2014, 2013, and 2012. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position changed in each of the past 2 years with a $177,670 or 2% decrease in 2014 and a $353,544 or 4% increase in 2013.
- The Authority reported operating income in 2014 of $318,116 and $690,586 in 2013. The operating income in 2014 decreased by $372,470 or 54% over the income reported in 2013. Operating income in 2013 increased by $147,435 or 27% compared to 2012.
- Nonoperating expenses (interest expense) decreased by $28,955 or 4% in 2014 compared to 2013. Nonoperating expenses decreased in 2013 by $3,087or 1% compared to 2012.

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 the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheets and Statements 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 Sheets and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. 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 position 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.

Statements 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 Sheets on page 7. The Authority's net position decreased in 2014 by $177,670 or 2% and increased by $353,544 with a 2% increase in 2014 and 4% increase in 2013.

	2014	2013 (Restated)	2012 (Restated)
Assets			
Cash, cash equivalents, and short term certificates of deposit	$ 4,007,784	$ 3,916,124	$ 3,948,187
Restricted cash and investments	1,860,802	1,751,783	1,635,193
Patient accounts receivable, net	2,689,754	2,811,996	2,651,470
Other current assets	1,356,211	1,123,724	739,833
Capital assets, net	12,229,232	13,223,332	14,315,677
Other noncurrent assets	536,880	668,298	589,141
Total assets	$ 22,680,663	$ 23,495,257	$ 23,879,501
Liabilities			
Long-term debt	$ 10,763,808	$ 11,132,209	$ 11,709,769
Other current liabilities	2,332,927	2,601,450	2,761,678
Total liabilities	13,096,735	13,733,659	14,471,447
Net Position			
Net investment in capital assets	1,465,424	2,091,123	2,318,408
Restricted expendable	1,860,802	1,751,783	1,451,062
Unrestricted	6,257,702	5,918,692	5,638,584
Total net position	9,583,928	9,761,598	9,408,054
Total liabilities and net position	$ 22,680,663	$ 23,495,257	$ 23,879,501

Assets, Liabilities, and Net Position

Significant components of the change in the Authority's assets, liabilities, and net position are as follows:

- Notes receivable from physicians decreased $356,671 during 2014 compared to the decrease of $342,417 during 2013.
- Other receivables increased $799,388 for electronic health record reimbursement during 2014.

Operating Results and Changes in Net Position

	2014	2013 (Restated)	2012 (Restated)
Operating Revenue			
Net patient service revenue	$ 16,651,392	$ 18,560,822	$ 18,342,597
Other revenue	1,092,377	731,981	232,314
Total operating revenue	17,743,769	19,292,803	18,574,911
Operating Expenses			
Salaries, wages, and employee benefits	8,202,523	9,113,356	8,598,501
Purchased services and professional fees	3,607,774	3,688,975	3,561,964
Depreciation and amortization	1,533,371	1,468,888	1,655,191
Supplies and other	4,081,985	4,330,998	4,216,104
Total operating expenses	17,425,653	18,602,217	18,031,760
Operating Income	318,116	690,586	543,151
Nonoperating Revenues (Expenses)			
Investment income	22,999	59,591	40,597
Interest expense	(698,700)	(727,655)	(755,208)
Non capital grants and contributions	26,861	42,349	85,809
Nonoperating revenues(expenses), net	(648,840)	(625,715)	(628,802)
Revenues in excess of (less than) expenses	(330,724)	64,871	(85,651)
Capital appropriations and contributions			
Capital appropriations-City of Weatherford	114,605	109,075	105,947
Capital gifts	38,449	179,598	145,063
	153,054	288,673	251,010
Change in Net Position	(177,670)	353,544	165,359
Net Position, Beginning of the Year	9,761,598	9,408,054	9,242,695
Net Position, End of Year	$ 9,583,928	$ 9,761,598	$ 9,408,054

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 revenues and the expenses incurred to perform those services. The operating income for 2014 was $318,116. The operating income in 2014 decreased by $372,470 compared to the 2013 operating income of $690,586. The primary components of the change in the operating income during 2014 was the decrease in operating revenue of $1,549,034 compared to an increase of $717,892 in 2013 and the decrease in operating expenses of $1,176,564 in 2014 compared to an increase of $147,435 in 2013.

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Authority when it was established. There was $597,497 of charity care provided in 2014 and $542,485 in 2013 based on charges foregone. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of, interest expense, non-capital donations and investment income. The major change in nonoperating revenue is due to the decrease in interest expense which decreased in 2014 by $28,955 compared to a decrease of $27,553 in 2013 and the decrease in non-capital grants and contributions which decreased in 2014 by $15,488 compared to a decrease of $43,460 in 2013. As a result of these factors, nonoperating revenues (expenses) decreased by $23,125 in 2014 compared to the $3,087 decrease of nonoperating expenses in 2013.

The Authority's Cash Flows

The Authority’s overall liquidity increased during the year with a net increase to cash and cash equivalents, of $196,048 in 2014 and an increase of $605,049 in 2013. Cash flows provided by operating activities decreased by $300,918 during 2014. This was due primarily to the decrease in receipts from or on behalf of patients. Cash flows provided by operating activities decreased by $186,403 in 2013. Cash used for non-capital financing activities increased by $18,619 when compared with 2013 and increased by $64,689 when compared with 2012. Cash used for capital and capital related financing activities increased by $57,219 when compared with 2013 and increased $373,450 when compared to 2012. Cash from investing activities decreased by $23,245 in 2014 and increased $616,198 in 2013 due to renewing certificates of deposits.

Capital Assets and Debt Administration

At the end of 2014 and 2013, the Authority had $12,229,232 and $13,223,332 invested in net capital assets, as detailed in Note 4 to the financial statements.

Debt

At September 30, 2014, the Authority had $10,763,808 in outstanding long-term debt, which represents a decrease of $368,401 over 2013 compared to a decrease of $577,560 over 2012. For additional information regarding long-term debt, please see Note 7 to the financial statements.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Weatherford Hospital Authority, Administrator’s Office, 3701 E. Main St., Weatherford, Oklahoma 73096.

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	2014	2013 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	$ 3,006,716	$ 2,919,687
Short term certificates of deposits	1,001,068	996,437
Restricted cash and investments	430,371	429,203
Receivables		
Patient, net of estimated uncollectibles of approximately $1,766,000 in 2014 and $2,019,000 in 2013	2,689,754	2,811,996
Estimated third-party payor settlements	335,163	297,899
Other	454,338	-
Notes	131,418	358,291
Supplies	278,147	252,305
Prepaid expenses	157,145	215,229
Total current assets	8,484,120	8,281,047
Noncurrent Cash and Investments		
Noncurrent certificate of deposit	538,500	538,500
Restricted for future construction	408,853	293,721
Held by trustee for debt service	1,021,578	1,028,859
Total noncurrent cash and investments	1,968,931	1,861,080
Capital Assets		
Non-depreciable capital assets	1,151,916	1,151,916
Depreciable capital assets, net	11,077,316	12,071,416
Total capital assets, net	12,229,232	13,223,332
Notes Receivable	(1,620)	129,798
Total assets	$ 22,680,663	$ 23,495,257

See Notes to Financial Statements

	2014	2013 (Restated)
Liabilities and Net Position		
Current Liabilities		
Note payable to bank	$ 404,096	$ 409,750
Current maturities of long-term debt	394,616	368,721
Accounts payable	1,077,584	1,280,295
Accrued expenses		
Interest	264,417	279,000
Other	586,830	632,405
Total current liabilities	2,727,543	2,970,171
Long Term Debt, Less Current Maturities	10,369,192	10,763,488
Total liabilities	13,096,735	13,733,659
Net Position		
Net investment in capital assets	1,465,424	2,091,123
Restricted expendable for		
Debt service	1,451,949	1,458,062
Capital acquisitions	408,853	293,721
Unrestricted	6,257,702	5,918,692
Total net position	9,583,928	9,761,598
Total liabilities and net position	$ 22,680,663	$ 23,495,257

	2014	2013 (Restated)
Operating Revenue		
Net patient service revenue, net of provision for bad debts of $2,796,829 in 2014 and $2,539,129 in 2013	$ 16,651,392	$ 18,560,822
Other revenue	1,092,377	731,981
Total operating revenue	17,743,769	19,292,803
Operating Expenses		
Salaries and wages	6,782,512	7,687,108
Employee benefits	1,420,011	1,426,248
Purchased services and professional fees	3,607,774	3,688,975
Supplies and other	4,081,985	4,330,998
Depreciation and amortization	1,533,371	1,468,888
Total operating expenses	17,425,653	18,602,217
Operating Income	318,116	690,586
Nonoperating Revenues (Expenses)		
Investment income	22,999	59,591
Interest expense	(698,700)	(727,655)
Non capital grants and contributions	26,861	42,349
Nonoperating revenues (expenses), net	(648,840)	(625,715)
Revenues in Excess of (Less Than) Expenses Before Capital Appropriations and Capital Contributions	(330,724)	64,871
Capital Appropriations - City of Weatherford	114,605	109,075
Capital Contributions	38,449	179,598
(Decrease) Increase in Net Position	(177,670)	353,544
Net Position, Beginning of the Year	9,761,598	9,408,054
Net Position, End of Year	$ 9,583,928	$ 9,761,598

	2014	2013 (Restated)
Operating Activities		
Receipts from or on behalf of patients	$ 16,736,370	$ 17,771,442
Other receipts	638,039	731,981
Payments to suppliers	(7,858,608)	(7,465,514)
Payments to employees	(7,891,427)	(9,105,237)
Net Cash from by Operating Activities	1,624,374	1,932,672
Non Capital Related Financing Activities		
Net change in note payable to bank	(5,654)	(10,000)
Interest paid on short term bank note	(42,063)	(34,586)
Non capital contributions and donations	26,861	42,349
Net Cash used for Non Capital Financing Activities	(20,856)	(2,237)
Capital and Capital Related Financing Activities		
Capital contributions	38,449	179,598
Capital appropriations - City of Weatherford	114,605	109,075
Principal payments on debt obligations	(372,680)	(577,560)
Interest paid on debt obligations	(666,941)	(701,569)
Purchase of capital assets	(539,271)	(376,543)
Net Cash used for Capital and Capital Related Financing Activities	(1,425,838)	(1,366,999)
Investing Activities		
Investment income	22,999	59,591
Purchase of investments	(4,631)	(17,978)
Net Cash from Investing Activities	18,368	41,613
Net Increase in Cash and Cash Equivalents	196,048	605,049
Cash and Cash Equivalents, Beginning of Year	4,671,470	4,066,421
Cash and Cash Equivalents, End of Year	$ 4,867,518	$ 4,671,470
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	$ 3,006,716	$ 2,919,687
Restricted cash and investmetns	430,371	429,203
Noncurrent cash and investments	1,430,431	1,322,580
Total Cash and Cash Equivalents	$ 4,867,518	$ 4,671,470

	2014	2013 (Restated)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 318,116	$ 690,586
Adjustments to reconcile change in operating income to net cash provided by operating activities		
Depreciation and amortization	1,533,371	1,468,888
Provision for bad debts	2,796,829	2,539,129
Forgiveness of notes receivable included in salary expense	358,291	342,671
Changes in assets and liabilities		
Patient receivables	(2,674,587)	(2,699,655)
Other receivables	(454,338)	-
Supplies	(25,842)	48,641
Prepaid expenses	58,084	(17,707)
Estimated third-party payor settlements	(37,264)	(628,854)
Accounts payable and accrued expenses	(248,286)	188,973
Net Cash Provided by Operating Activities	$ 1,624,374	$ 1,932,672

Note 1 - Principal Activity and Significant Accounting Policies

Reporting Entity

The Weatherford Hospital Authority (Authority) was created by a Trust Indenture dated July 30, 1968 as a public trust for the benefit of the City of Weatherford, Oklahoma and the surrounding area. The Authority is an agency of the State of Oklahoma and is empowered to acquire land and to acquire, construct, finance and lease buildings, equipment and related facilities for health care purposes. The Authority operates Weatherford Regional Hospital, a critical access hospital operating 25 beds in its acute care facility.

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. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

Change in Accounting Principle

The Authority adopted the provisions of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities in 2014. Accordingly, the accounting change has been retrospectively applied to prior periods presented, as if the policy had always been used. The Authority restated beginning net position to write-off bond issuance costs as required by this Statement (see Note 12).

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

As an essential government function, the Authority is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

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, excluding internally designated or restricted cash and investments. At September 30, 2014 and 2013, cash equivalents consisted of money market mutual funds and certificates of deposit.

Short-Term Certificates of Deposit

Short-term certificates of deposit are those with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

Noncurrent Cash and Investments

Designated investments include 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. Restricted investments include assets restricted under debt agreements. Designated or restricted investments that are available for obligations classified as current liabilities are reported in current assets.

Patient Receivables

Patient receivables are uncollateralized customer 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.

The Authority's process for calculating patient allowances changed from September 30, 2013 to September 30, 2014. In 2014, the allowance for Medicare accounts was impacted by older accounts. Commercial accounts were impacted by decreasing cuts made by Blue Cross. Allowance for doubtful accounts was increased due to decreased payment history. As a result of changes in estimates related to the allowance for doubtful accounts, net patient service revenue for the year ended September 30, 2014 decreased approximately $440,000. The Authority has not significantly changed its charity care or uninsured discount policies during fiscal year 2014 compared to fiscal year 2013.

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. Contributed capital assets are reported at their estimated fair value at the time of their donation. 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	10 years
Buildings and improvements	5-40 years
Equipment	3-25 years

Notes Receivable

The Authority issues notes to physicians as part of its recruitment process. Notes are repayable over a minimum of a one-year period to a maximum of a ten-year period and are issued at current interest rates ranging from 5% to 5.25%. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven. Forgiveness of the notes receivable is included within salaries and wages expense.

At September 30, 2014 and 2013, notes receivable from physicians totaled $131,418 and $488,089.

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date. The liability for compensated absences in included with other accrued expenses in the accompanying financial statements.

Net Position

Net position is presented in the following three 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.

Restricted, Expendable– Restricted, expendable results when constraints placed on net position use are either internally imposed or imposed through enabling legislation. The Authority's restricted net position is expendable for capital acquisitions and debt service.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of net investment in capital assets or restricted, expendable. Unrestricted net positon often has constraints on resources imposed by management which can be removed or modified.

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

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 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. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

During the years ended September 30, 2014, the Authority recorded $339,339 and $561,872 related to the Medicare program and recorded $575,000 and $0 related to the Medicaid program in other operating revenue for meaningful use incentives. 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.

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 SHOPP payments totaling approximately $688,000 and $704,000 for the years ended September 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 $598,000 and $542,000 for the years ended September 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were approximately $294,000 and $254,000 at September 30, 2014 and 2013, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

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.

Capital Appropriations

Effective April 6, 2010, the citizens of the City of Weatherford, Oklahoma (City) approved a 1% sales tax for several major projects within the City. The Authority receives 5% of the 1% sales tax up to an aggregate amount of $1,022,722. The tax expires in 2020. The City appropriates these amounts monthly to the Authority. The Authority reports this as Capital Appropriations - City of Weatherford.

Grants and Contributions

From time to time, the Authority receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) 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 unrestricted or that are restricted to a specific operating purpose is 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.

Reclassifications

Reclassifications have been made to the September 30, 2013 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

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 under a cost reimbursed methodology with a final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended September 30, 2011. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to patients covered by the state Medicaid program are reimbursed on a prospectively determined per diem rate or established fee.

Other: The Authority has also entered into payment agreements with certain commercial insurance carriers and other 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, Medicaid and Blue Cross programs accounted for approximately 37%, 15% and 21% of the Authority's net patient service revenue for the year ended September 30, 2014 and 37%, 16% and 17% for the year ended September 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 decreased approximately $120,000 for the year ended September 30, 2014 and increased approximately $283,000 for the year ended September 30, 2013 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews and investigations.

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

	2014	2013
Total patient service revenue	$ 37,706,034	$ 40,793,140
Less contractual adjustments	(18,257,813)	(19,693,189)
Less provision for bad debts	(2,796,829)	(2,539,129)
Net patient service revenues, net of provision for bad debts	$ 16,651,392	$ 18,560,822

Note 3 - Deposits, Investments, and Investment Income

Deposits

State statutes authorize the Authority to invest its excess cash balances generally in time deposits, open accounts, certificates of deposit or certain repurchase agreements of commercial banks or trust companies, state or generally charted savings and loan associations or generally charted savings banks having offices in the state and in certain circumstances, specified United States Treasury obligations.

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 September 30, 2014 and 2013, the Authority’s deposits exposed to custodial credit risk were as follows:

	2014	2013
Insured (FDIC)	$ 2,543,663	$ 1,090,597
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	3,866,289	5,114,275
Total	$ 6,409,952	$ 6,204,872
Carrying Value	$ 6,407,086	$ 6,206,407

Interest Rate Risk

Weatherford Hospital 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.

Summary of Carrying Amounts

The carrying amounts of the Authority's deposits and investments as of September 30, 2014 and 2013 are as follows:

	2014	2013
Carrying amounts		
Deposits	$ 6,407,086	$ 6,206,407
Included in the following balance sheet captions		
Cash and cash equivalents	$ 3,006,716	$ 2,919,687
Short-term certificates of deposit	1,001,068	996,437
Current portion restricted under bond indenture agreements	430,371	429,203
Non current cash and investments		
Noncurrent certificate of deposit	538,500	538,500
Restricted for future construction	408,853	293,721
Held by trustee for debt service	1,021,578	1,028,859
	$ 6,407,086	$ 6,206,407

Investment Income

Investment income and gains and losses on cash equivalents, investments and notes receivable consist of the following for years ended September 30, 2014 and 2013:

	2014	2013
Interest income	$ 22,999	$ 59,591

Note 4 - Capital Assets

Capital assets additions, disposal or transfers, and balances for the year ended September 30, 2014 are as follows:

	Balance September 30, 2013	Additions and Transfers	Disposals	Balance September 30, 2014
Capital assets not being depreciated				
Land	$ 873,001	$ -	$ -	$ 873,001
Construction in progress	278,915	-	-	278,915
Total capital assets not being depreciated	$ 1,151,916	$ -	$ -	$ 1,151,916
Capital assets being depreciated				
Land improvements	130,685	$ -	$ -	130,685
Building and improvements	15,781,945	-	-	15,781,945
Equipment	9,688,048	539,271	-	10,227,319
	25,600,678	$ 539,271	$ -	26,139,949
Less accumulated depreciation for:				
Land improvements	(78,708)	$ (9,316)	$ -	(88,024)
Building and improvements	(6,091,714)	(750,287)	-	(6,842,001)
Equipment	(7,358,840)	(773,768)	-	(8,132,608)
Total accumulated depreciation	(13,529,262)	$ (1,533,371)	$ -	(15,062,633)
Total capital assets being depreciated, net	$ 12,071,416			$ 11,077,316
Total capital assets, net	$ 13,223,332			$ 12,229,232

Capital assets additions, disposal or transfers, and balances for the year ended September 30, 2013 are as follows:

	Balance September 30, 2012	Additions and Transfers	Disposals	Balance September 30, 2013
Capital assets not being depreciated				
Land	$ 873,001	$ -	$ -	$ 873,001
Construction in progress	278,915	-		278,915
Total capital assets not being depreciated	$ 1,151,916	$ -	$ -	$ 1,151,916
Capital assets being depreciated				
Land improvements	130,685	$ -	$ -	130,685
Building and improvements	15,781,945	-	-	15,781,945
Equipment	9,311,505	376,543	-	9,688,048
Total capital assets being depreciated	25,224,135	$ 376,543	$ -	25,600,678
Less accumulated depreciation for:				
Land improvements	(69,392)	$ (9,316)	$ -	(78,708)
Building and improvements	(5,240,981)	(850,733)	-	(6,091,714)
Equipment	(6,750,001)	(608,839)	-	(7,358,840)
Total accumulated depreciation	(12,060,374)	$ (1,468,888)	$ -	(13,529,262)
Total capital assets being depreciated, net	$ 13,163,761			$ 12,071,416
Total capital assets, net	$ 14,315,677			$ 13,223,332

Construction in progress at September 30, 2014, represents an addition of a surgery suite and rehab and professional building. The estimated cost to complete this project is $6,250,000, which will be financed with sales tax proceeds, the project is in the pre-construction phase.

Note 5 - Leases

The Authority is obligated under leases for equipment that are accounted for as capital leases. Capital lease obligations at September 30, 2014 are payable in 60 monthly installments of $1,326 including interest imputed at 6.7%. The lease is collateralized by equipment. The capitalized lease assets consist of:

	2014	2013
Major movable equipment	$ 67,500	$ 67,500
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(28,928)	(14,464)
	$ 38,572	$ 53,036

The Authority leases certain equipment under noncancelable long-term lease agreements. The rental expense for all operating leases was $484,343 and $513,055 for the years ended September 30, 2014 and 2013. Minimum future lease payments for capital and operating leases are as follows:

Years Ending September 30,	Capital Leases	Operating Leases
2015	$ 15,916	$ 311,550
2016	15,916	310,375
2017	7,959	222,762
2018	-	547
2019	-	296
Total minimum lease payments	39,791	$ 845,530
Less interest	(3,238)	
Present value of minimum lease payments (Note 7)	$ 36,553	

Note 6 - Note Payable to Bank

During 2011, the Authority obtained a $500,000 revolving line of credit. The line of credit has been renewed through February of 2015. The Authority made draws of $4,346 and $-0- during the years ended September 30, 2014 and 2013 and principal payments of $10,000 and $10,000 were made during 2014 and 2013, respectively. At September 30, 2014 and 2013, there was $404,096 and $409,750 outstanding related to this line of credit. The line is collateralized by the Authority's accounts receivable. Interest varies with the bank's prime rate plus 1.5% (5.5% at September 30, 2014) and is payable monthly.

Note 7 - Long-Term Debt

Long-term debt consists of:

	Balance 9/30/13	Additions	Reductions	Balance 9/30/14	Due Within One Year
Bonds payable:					
Revenue bonds, Series 2006	$ 11,160,000	$ -	$ (360,000)	$ 10,800,000	$ 385,000
Bond discount	(77,024)	-	4,279	(72,745)	(4,279)
Total bonds payable	11,082,976	-	(355,721)	10,727,255	380,721
Capitalized lease obligation (Note 5)	49,233	-	(12,680)	36,553	13,895
Total long-term debt	$ 11,132,209	$ -	$ (368,401)	$ 10,763,808	$ 394,616

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Bonds payable:					
Revenue bonds, Series 2006	$ 11,500,000	$ -	$ (340,000)	$ 11,160,000	$ 360,000
Bond discount	(81,303)	-	4,279	(77,024)	(4,279)
Total bonds payable	11,418,697	-	(335,721)	11,082,976	355,721
Capitalized lease obligation	291,072		(241,839)	49,233	13,000
Total long-term debt	$ 11,709,769	$ -	$ (577,560)	$ 11,132,209	$ 368,721

Revenue Bonds, Series 2006

The Weatherford Hospital Authority Revenue Bonds, Series 2006 (Bonds) in the original amount of $11,500,000 and sold at a discount of $105,793 are dated May 1, 2006, which bear interest at 6%. The Bonds are payable with principal payments due annually and interest payments due semiannually. The Authority is required to make monthly deposits to the debt service fund held by the trustee in the amount of 1/6 the next semiannual interest payment due and 1/12 the amount of the next annual principal payment due. All of the Bonds still outstanding may be redeemed at the Authority's option no earlier than May 1, 2016. The redemption price is 103%, decreasing to 102% on or after May 1, 2017, and decreasing to 101% on or after May 1, 2018. Proceeds from the issuance of these bonds were used to construct a new hospital facility. The Bonds are secured by substantially all the assets of the Authority as described in Section 2.01 of the Bond Indenture. The bond discount is being amortized over the life of the bonds.

The Bond Indenture Agreements require that certain funds be established with the trustee. Accordingly, these funds are included as asset held by trustee for debt service in the accompanying balance sheets. The Bond Indenture also requires the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio, restrictions on incurrence of additional debt, maintaining minimum days cash on hand, maintaining maximum aged receivables and payables of no more than a specified amount of days and maintaining a current ratio as defined by the Indenture.

Scheduled principal and interest repayments on bonds payable are as follows:

	Bonds Payable		
Year Ending September 30,	Principal	Interest	Total
2015	$ 385,000	$ 648,000	$ 1,033,000
2016	405,000	624,900	1,029,900
2017	430,000	600,600	1,030,600
2018	455,000	574,800	1,029,800
2019	485,000	547,500	1,032,500
2020-2024	2,890,000	2,264,700	5,154,700
2025-2029	3,860,000	1,288,800	5,148,800
2030-2031	1,890,000	171,600	2,061,600
Total	$ 10,800,000	$ 6,720,900	$ 17,520,900

Note 8 - Retirement Plan

Defined Contribution Plan

The Authority adopted a defined contribution 403(b) Savings Plan (Plan) covering substantially all employees who have over 1,000 hours of service and are at least 21 years of age.

The Plan allows for eligible employees to contribute a percentage of pre-tax annual compensation as defined in the Plan. The Authority makes a discretionary matching percentage on the participant's eligible contributions for the Plan year. The Authority may also make an optional profit sharing contribution subject to certain limitations imposed by the Internal Revenue Service.

Participants are immediately vested in their voluntary contribution plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100% vested after three years of service. The discretionary contributions to the Plan were approximately $107,000 and $120,000 and $110,000 for the years ended September 30, 2014 and 2013 and 2012.

Note 9 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2014 and 2013 was as follows:

	2014	2013
Medicare	37%	37%
Medicaid	14%	9%
Other third-party payors	19%	24%
Patients	30%	30%
	100%	100%

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.

Litigation, Claims and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of task under its various programs. In the opinion of management, the ultimate settlement of 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 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 - Related Parties

During the years ended September 30, 2014 and 2013, the Authority received contributions from the Weatherford Hospital Foundation in the amount of $38,449 and $179,598.

Note 12 - Change in Accounting Principle

In March 2012, the GASB issued Statement No. 65: Items Previously Reported as Assets and Liabilities. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard was implemented by the Authority during the year ended September 30, 2014 and was applied retroactively by restating the financial statements for all periods presented.

The provisions of GASB 65 require that bond costs (deferred financing costs) be recognized as an expense in the period incurred. The implementation resulted in the removal of previously recognized bond costs, originally totaling $269,727, and reduction in net position of $256,241 as of October 1, 2012 and reduction of depreciation and amortization expense and increase in operating income of $13,486 for the year ended September 30, 2013.

	Amounts as Previously Reported	Change in Accounting Principle	Amounts as Restated
Balance Sheet			
Assets			
Deferred financing costs, net	$ 242,755	$ (242,755)	$ -
Total assets	$ 23,738,012	$ (242,755)	$ 23,495,257
Liabilities and Net Position			
Net position unrestricted	$ 6,455,168	$ (242,755)	$ 6,212,413
Total net position	$ 10,004,353	$ (242,755)	$ 9,761,598
Total liabilities and net position	$ 23,738,012	$ (242,755)	$ 23,495,257
Statement of Revenues, Expenses, and Changes in Net Position			
Operating Expenses	$ 18,615,703	$ (13,486)	$ 18,602,217
Increase in Net Position	$ 340,058	$ 13,486	$ 353,544
Net position, beginning of year	$ 9,664,295	$ (256,241)	$ 9,408,054
Net position, end of year	$ 10,004,353	$ (242,755)	$ 9,761,598

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Weatherford Hospital Authority
Weatherford, 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 Weatherford Hospital Authority, which comprise the balance sheet as of September 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses. 2014A and 2014B.

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.

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.

Eide Bailly LLP

Oklahoma City, Oklahoma
January 30, 2015

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weaknesses:

2014-A Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with standards established by the U.S. generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB).

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP and GASB. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: This deficiency is partly due to limited resources in the financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by a party outside of management.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Authority. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

Auditor's Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Management Response: Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

2014-B Material Audit Entries

Criteria: Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with standards established by the U.S. generally accepted accounting principles (GAAP) and Governmental Accounting Standards Board (GASB).

Condition: The estimate for amounts receivable from or due to third-party payors, including Medicare, was not properly calculated throughout the year.

Cause: Material entries were identified for allowances and third party settlements. The Authority has developed a calculation for contractual allowances and bad debt allowances. However, the rates used to calculate commercial allowances were not adjusted to the current rates. We also noted the collections related to self pay balances decreased by 3 percent from the previous year. The Authority relied on an interim cost report for third party. settlements, however there were changes in volume and utilization at year end that were not factored into the estimate.

Effect: Material audit adjustments were made to the financial statements.

Auditor's Recommendation: We recommend the Authority review the methodology used for material estimates.

Management Response: Management agrees with the recommendation.