



Management's Discussion and Analysis
And Financial Statements
June 30, 2015 and 2014

**Cordell Hospital Authority, d/b/a
Cordell Memorial Hospital**

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Independent Auditor's Report

Board of Trustees
Cordell Hospital Authority, d/b/a Cordell Memorial Hospital
New Cordell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Cordell Hospital Authority, d/b/a Cordell Memorial Hospital (Hospital) which comprise the statements of net position as of June 30, 2015 and 2014, 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 Hospital'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 Hospital'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, d/b/a Cordell Memorial Hospital as of June 30, 2015 and 2014, 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 December 8, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Oklahoma City, Oklahoma
December 8, 2015

Introduction

Our discussion and analysis for Cordell Hospital Authority d/b/a Cordell Memorial Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2015 and 2014, and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

Current assets decreased in 2015 by \$323,560 or 4% and decreased in 2014 by \$1,404,161 or 15%.

Total liabilities increased in 2015 by \$60,929 or 27% and decreased in 2014 by \$868,869 or 79%.

The Hospital's net position decreased in 2015 by \$354,714 or 3% and increased in 2014 by \$240,528 or 2%.

The Hospital reported an operating loss in 2015 of \$773,283 and an operating loss in 2014 of \$878,287. During 2015, the operating loss decreased by \$105,004 or 12%, and the operating loss increased by \$569,176 or 184% during 2014.

Other operating revenue increased by \$684,266 in 2015, primarily as a result of Electronic Health Record incentive totaling \$662,211, and increased by \$9,526 or 17% in 2014.

Operating expenses increased in 2015 by \$266,226 or 6% and \$299,998 or 7% in 2014.

Using This Annual Report

The Hospital's financial statements consist of three statements – Statement of Net Position, 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 Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about the Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and 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 Hospital's net position and changes in it. You can think of the Hospital's net position - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital'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 Hospital.

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 Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Hospital's net position decreased by \$354,714 or 3% in 2015 and increased by \$240,528 or 2% in 2014 as shown below.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Current assets	\$ 7,488,269	\$ 7,811,829	\$ 9,215,990
Capital assets, net	1,541,980	1,300,469	603,172
Other assets	<u>1,634,396</u>	<u>1,846,132</u>	<u>1,767,609</u>
Total assets	<u>\$ 10,664,645</u>	<u>\$ 10,958,430</u>	<u>\$ 11,586,771</u>
Liabilities			
Current liabilities	<u>\$ 286,935</u>	<u>\$ 226,006</u>	<u>\$ 1,094,875</u>
Total liabilities	<u>286,935</u>	<u>226,006</u>	<u>1,094,875</u>
Net Position			
Net investment in capital assets	1,541,980	1,300,469	532,411
Unrestricted	<u>8,835,730</u>	<u>9,431,955</u>	<u>9,959,485</u>
Total net position	<u>10,377,710</u>	<u>10,732,424</u>	<u>10,491,896</u>
Total liabilities and net position	<u>\$ 10,664,645</u>	<u>\$ 10,958,430</u>	<u>\$ 11,586,771</u>

Assets, Liabilities, and Net Position

A significant component of the change in the Hospital's assets, liabilities, and net position is the change in current assets, capital assets and current liabilities. Capital assets increased \$241,511 or 19% in 2015 and increased \$697,297 or 116% in 2014. Liabilities increased \$60,929 or 27% in 2015 and decreased \$868,869 or 79% in 2014.

Operating Results and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenues			
Net patient service revenue, net of provision for bad debts	\$ 3,068,920	\$ 3,381,956	\$ 3,660,660
Other operating revenue	750,828	66,562	57,036
Total operating revenues	<u>3,819,748</u>	<u>3,448,518</u>	<u>3,717,696</u>
Operating Expenses			
Nursing services	1,512,175	1,201,286	1,044,859
Other professional services	845,919	862,999	894,997
General services	577,531	466,776	464,772
Administrative services	1,359,906	1,599,435	1,431,940
Depreciation	297,500	196,309	190,239
Total operating expenses	<u>4,593,031</u>	<u>4,326,805</u>	<u>4,026,807</u>
Operating loss	<u>(773,283)</u>	<u>(878,287)</u>	<u>(309,111)</u>
Nonoperating Revenues (Expenses)			
Investment income (loss)	153,172	362,148	(197,815)
Interest expense	-	(929)	(4,413)
Loss on disposal of equipment	(23,707)	-	(1,682)
Noncapital grants and contributions	16,456	7,415	7,817
Intergovernmental transfers (sales tax from county)	252,648	750,181	1,009,122
Total nonoperating revenues	<u>398,569</u>	<u>1,118,815</u>	<u>813,029</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	(374,714)	240,528	503,918
Capital Contributions	20,000	-	-
(Decrease) increase in net position	<u>\$ (354,714)</u>	<u>\$ 240,528</u>	<u>\$ 503,918</u>

Operating Results

The first component of the overall change in the Hospital'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 Hospital has had operating losses.

The operating loss for 2015 decreased by \$105,004 or 12% as compared to the increase of \$569,146 or 184% in 2014. The primary components of the increase in operating loss are:

A decrease in net patient service revenue of \$313,036 or 9% in 2015 and a decrease of \$278,704 or 8% in 2014 as well as an increases in operating expenses of \$266,226 or 6% in 2015 and \$299,998 or 7% in 2014. Other operating revenues increased \$684,260 in 2015 and increased \$9,526 or 17% in 2014. The other operating revenues increased during 2015 as a result of Electronic Health Record incentive revenue totaling \$662,211.

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 decreased \$208,976 or 58% in 2015 as compared to the increase of \$559,963 in 2014. Intergovernmental transfers (county sales tax) decreased \$497,533 or 66% in 2015 and decreased \$258,941 or 26% in 2014. The county sales tax was discontinued as of October 1, 2014.

The Hospital's Cash Flows

The Hospital's overall liquidity increased during the year with a net increase to cash and cash equivalents, of \$333,342 when compared with 2014. Cash flows used for operating activities decreased by \$1,428,851 during 2015 when compared with 2014. This was due primarily to the increase in receipts from or on the behalf of patients and the Electronic Health Record incentive. Cash provided by non-capital financing activities decreased by \$355,540 when compared with 2014. Cash used for capital and capital related financing activities decreased by \$422,578 when compared with 2014. Cash provided by investing activities was \$994,904 in 2015 compared to \$1,199,219 in 2014.

Capital Assets

The Hospital had \$1,541,980 invested in capital assets at the end of 2015 and \$1,300,469 at the end of 2014, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Hospital purchased new capital assets costing \$562,718 in 2015 and 893,606 in 2014.

Contacting the Hospital's Financial Management

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

Cordell Memorial Hospital
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 626,254	\$ 292,912
Short term investments	5,522,079	6,147,229
Receivables		
Patients, net of estimated uncollectibles of approximately \$337,000 in 2015 and \$248,000 in 2014	859,265	352,327
Estimated third-party payor settlements	245,000	608,019
Due from County	-	141,781
Accrued interest	44,329	49,175
Other	76,676	36,544
Supplies	103,631	102,191
Prepaid expenses	11,035	81,651
Total current assets	7,488,269	7,811,829
Capital Assets		
Capital assets not being depreciated	116,000	139,707
Capital assets being depreciated, net	1,425,980	1,160,762
Total capital assets, net	1,541,980	1,300,469
Other Assets		
Investment in government bonds	1,634,396	1,846,132
Total assets	\$ 10,664,645	\$ 10,958,430
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 129,728	\$ 110,589
Accrued expenses	157,207	115,417
Total current liabilities	286,935	226,006
Net Position		
Net investment in capital assets	1,541,980	1,300,469
Unrestricted	8,835,730	9,431,955
Total net position	10,377,710	10,732,424
Total liabilities and net position	\$ 10,664,645	\$ 10,958,430

Cordell Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for bad debts of approximately \$337,000 in 2015 and \$256,000 in 2014	\$ 3,068,920	\$ 3,381,956
Electronic health records incentive	662,211	-
Other revenue	88,617	66,562
Total operating revenues	3,819,748	3,448,518
Operating Expenses		
Nursing services	1,512,175	1,201,286
Other professional services	845,919	862,999
General services	577,531	466,776
Administrative services	1,359,906	1,599,435
Depreciation	297,500	196,309
Total operating expenses	4,593,031	4,326,805
Operating Loss	(773,283)	(878,287)
Nonoperating Revenues (Expenses)		
Investment income	153,172	362,148
Interest expense	-	(929)
Loss on disposal of equipment	(23,707)	-
Noncapital grants and contributions	16,456	7,415
Sales tax revenue	252,648	750,181
Total nonoperating revenues	398,569	1,118,815
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	(374,714)	240,528
Capital Contributions	20,000	-
Change in Net Position	(354,714)	240,528
Net Position, Beginning of Year	10,732,424	10,491,896
Net Position, End of Year	\$ 10,377,710	\$ 10,732,424

Cordell Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 2,925,001	\$ 2,071,517
Payments to suppliers and contractors	(1,535,560)	(1,376,314)
Payments to and on behalf of employees	(2,629,866)	(2,734,688)
Other receipts and disbursements, net	710,696	80,905
	(529,729)	(1,958,580)
Net Cash used for Operating Activities		
Noncapital Related Financing Activities		
Sales tax revenue received	394,429	759,010
Noncapital grants and contributions	16,456	7,415
	410,885	766,425
Net Cash from Noncapital Related Financing Activities		
Capital and Capital Related Financing Activities		
Purchase of capital assets	(542,718)	(893,606)
Principal payments on long-term debt	-	(70,761)
Interest paid on long-term debt	-	(929)
	(542,718)	(965,296)
Net Cash used for Capital and Related Financing Activities		
Investing Activities		
Purchases of investments	(353,953)	(472,476)
Proceeds from sale of investments	1,092,512	1,386,506
Interest on investments received	256,345	285,189
	994,904	1,199,219
Net Cash from Investing Activities		
Net Change in Cash and Cash Equivalents	333,342	(958,232)
Cash and Cash Equivalents, Beginning of Year	292,912	1,251,144
Cash and Cash Equivalents, End of Year	\$ 626,254	\$ 292,912

Cordell Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss	\$ (773,283)	\$ (878,287)
Adjustments to reconcile operating loss to net cash used for operating activities		
Provision for bad debts	336,774	255,915
Depreciation	297,500	196,309
Changes in assets and liabilities		
Patient receivables	(843,712)	(134,153)
Other receivables	(40,132)	28,399
Supplies	(1,440)	2,112
Prepaid expenses	70,616	(22,748)
Accounts payable	19,139	16,123
Accrued exepenses	41,790	9,951
Estimated third-party payor settlements	363,019	(1,432,201)
Reconciliation of Operating Loss to Net Cash used for Operating Activities	\$ (529,729)	\$ (1,958,580)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment donated by related party	\$ 20,000	\$ -

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Cordell Hospital Authority, d/b/a Cordell Memorial Hospital (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital is a 25-bed critical access hospital located in the City of New Cordell, Oklahoma (City). The Hospital is a public trust created under the laws of the State of Oklahoma, and is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma. The Hospital entered into a lease agreement with 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 Hospital and the City is beneficiary of the trust.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital 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 Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The 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 Hospital 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 Hospital. The Hospital has no component units which meet the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets, reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of *restricted, expendable net position*, which results when constraints placed on net position use are either externally imposed or imposed through enabling legislation, and *restricted, nonexpendable net position*, which is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. The Hospital had no restricted net position at June 30, 2015 and 2014.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Short-term Investments

Short-term investments include certificates of deposit and U.S. Treasury securities with an original maturity of three to twelve months and government backed mutual funds which are held for short-term purposes, but not considered cash equivalents.

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 Hospital's collections procedures. The Hospital 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 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 and are expensed when used.

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 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 revenues in excess of (less than) expenses. 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.

Investments and Investment Income

Investments consist of government bonds, which are measured at fair value. Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Compensated Absences

The Hospital'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 statement of net position 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 is included with accrued expenses in the accompanying financial statements.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services – the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. 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.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The total estimated direct and indirect costs related to these foregone charges were \$1,000 and \$6,000 for the years ended June 30, 2015 and 2014, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Electronic Health Record Incentives

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 demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

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 Hospital recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital 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. The Hospital recognized revenue of \$662,211 and \$0 for the years ended June 30, 2015 and 2014 related to EHR incentive payments.

Grants and Contributions

The Hospital may receive grants as well as 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 are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

Sales Tax Revenue

During 2015, the voters of Washita County, Oklahoma did not approve an extension of a sales tax for the benefit of the Hospital. Prior to September 30, 2014, the Hospital received a 0.5% county sales tax. Revenue from sales tax was recognized in the year the tax was earned and accounted for approximately 9% and 16% of the Hospital's financial support for the years ended June 30, 2015 and 2014. The Hospital is not eligible for sales tax revenue until October 1, 2019, pending approval by the voters of Washita County, Oklahoma at that time.

Reclassifications

Reclassifications have been made to the June 30, 2014 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 position.

Note 2 - Net Patient Service Revenue

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

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2013. 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 Hospital's Medicare cost report, or rates as established by the Medicaid program.

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

Concentration of gross revenue by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended June 30, 2015 and 2014:

	2015	2014
Medicare	52%	61%
Medicaid	8%	6%
Commercial insurance and other	30%	23%
Patients (self pay)	10%	10%
	100%	100%

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.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2015 and 2014, is as follows:

	2015	2014
Total patient service revenue	\$ 3,633,099	\$ 3,575,805
Less contractual adjustments	(227,405)	62,066
Net patient service revenue	3,405,694	3,637,871
Less provision for bad debts	(336,774)	(255,915)
Net patient service revenue, net of provision for bad debts	\$ 3,068,920	\$ 3,381,956

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Note 3 - Deposits and Investments

The carrying amount of deposits and investments as of June 30, 2015 and 2014 are included in the Hospital's statement of net position as follows:

	2015	2014
Carrying amount		
Deposits	\$ 626,254	\$ 896,126
Investments	7,156,475	7,390,147
	\$ 7,782,729	\$ 8,286,273

Deposits and investments are reported in the following statement of net position captions:

	2015	2014
Cash and cash equivalents	\$ 626,254	\$ 292,912
Short term investments	5,522,079	6,147,229
Investment in government bonds	1,634,396	1,846,132
	\$ 7,782,729	\$ 8,286,273

Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. 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. The Hospital has a general investment policy to minimize custodial credit risk, but does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at June 30, 2015 and 2014 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Investments

The Hospital's investments are reported at fair value. Under state law, investments are limited to full faith and credit obligations of the federal government, obligations of certain federal agencies or instrumentalities, repurchase agreements collateralized by those securities, collateralized or insured certificates of deposit and other evidences of deposit, negotiable certificates of deposit, Bankers' acceptances, limited top-rated commercial paper, certain money market mutual funds, obligations of state and local governments, including obligations of Oklahoma state public trusts and bond notes, debentures or other similar obligations of a foreign government that meet specific requirements.

The Hospital had the following investments and maturities at June 30, 2015 and 2014:

June 30, 2015:			Investment Maturities in Years			
Investment Type	Carrying Amount	Rating	Less than 1	1-5	6-10	More than 10
Taxable municipal bonds	\$ 836,439	AA+/Aa1/AAA	\$ -	\$ -	\$ -	\$ 836,439
U.S. Government and agency securities	797,957	AA+/Aaa/AAA	-	-	554,163	243,794
Mutual funds - U.S. Government mortgage backed securities	<u>5,522,079</u>	n/a	<u>5,522,079</u>	-	-	-
Total	<u>\$ 7,156,475</u>		<u>\$ 5,522,079</u>	<u>\$ -</u>	<u>\$ 554,163</u>	<u>\$ 1,080,233</u>
June 30, 2014:			Investment Maturities in Years			
Investment Type	Carrying Amount	Rating	Less than 1	1-5	6-10	More than 10
Taxable municipal bonds	\$ 822,435	AA+/Aa1/AAA	\$ -	\$ -	\$ -	\$ 822,435
U.S. Government and agency securities	1,023,697	AA+/Aaa/AAA	-	214,512	220,000	589,185
Mutual funds - U.S. Government mortgage backed securities	<u>5,544,015</u>	n/a	<u>5,544,015</u>	-	-	-
Total	<u>\$ 7,390,147</u>		<u>\$ 5,544,015</u>	<u>\$ 214,512</u>	<u>\$ 220,000</u>	<u>\$ 1,411,620</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital'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.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes require that investments be made in compliance with state law. The Hospital's investment policy does not further limit its investment options.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Hospital limits concentration of credit risk by diversifying its investment portfolio so that potential losses on individual securities will be minimized. The Hospital does not have a formally adopted investment policy for managing concentration of credit risk. However, more than 5% of the Hospital's investments are invested in the following securities at June 30, 2015 and 2014:

	2015	2014
Bexar County, Texas Hospital District General Obligation Bonds	10%	10%
Federal Home Loan Bank securities	5%	-
Federal Farm Credit Bank securities	-	6%

Investment Income

Investment income consists of the following for the years ended June 30, 2015 and 2014:

	2015	2014
Investment income		
Interest and dividend income and net realized gains and losses	\$ 251,499	\$ 279,913
Change in unrealized gains and losses	(98,327)	82,235
	\$ 153,172	\$ 362,148

Note 4 - Capital Assets

Capital asset additions, retirements, transfers and balances for the year ended June 30, 2015 are as follows:

	2015			
	Beginning Balance	Additions	Retirements / Transfers	Ending Balance
Capital assets not being depreciated				
Land	\$ 116,000	\$ -	\$ -	\$ 116,000
Construction in progress	23,707	142,865	(166,572)	-
Total capital assets not being depreciated	<u>139,707</u>	<u>\$ 142,865</u>	<u>\$ (166,572)</u>	<u>116,000</u>
Capital assets being depreciated				
Land improvements	137,055	\$ -	\$ -	137,055
Buildings	571,600	-	-	571,600
Building improvement	482,287	279,826	142,865	904,978
Major moveable equipment	<u>2,360,653</u>	<u>140,027</u>		<u>2,500,680</u>
Total capital assets being depreciated	<u>3,551,595</u>	<u>\$ 419,853</u>	<u>\$ 142,865</u>	<u>4,114,313</u>
Less accumulated depreciation for:				
Land improvements	(95,316)	\$ (4,419)	\$ -	(99,735)
Buildings	(422,185)	(8,379)	-	(430,564)
Buildings and improvements	(325,859)	(39,427)	-	(365,286)
Major moveable equipment	<u>(1,547,473)</u>	<u>(245,275)</u>	-	<u>(1,792,748)</u>
Total accumulated depreciation	<u>(2,390,833)</u>	<u>\$ (297,500)</u>	<u>\$ -</u>	<u>(2,688,333)</u>
Capital assets, net	<u>\$ 1,300,469</u>			<u>\$ 1,541,980</u>

Capital asset additions, retirements, transfers and balances for the year ended June 30, 2014 are as follows:

	2014			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land	\$ 116,000	\$ -	\$ -	\$ 116,000
Construction in progress	23,707	-	-	23,707
Total capital assets not being depreciated	139,707	\$ -	\$ -	139,707
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	1,508,760	851,893	-	2,360,653
Total capital assets being depreciated	2,657,989	\$ 893,606	\$ -	3,551,595
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	(1,401,093)	(146,380)	-	(1,547,473)
Total accumulated depreciation	(2,194,524)	\$ (196,309)	\$ -	(2,390,833)
Capital assets, net	\$ 603,172			\$ 1,300,469

Note 5 - Leases

The Hospital leases certain equipment under noncancelable long-term lease agreements. These leases have been recorded as operating leases. The rental expense for all operating leases was \$20,798 and \$20,982 for the years ended June 30, 2015 and 2014.

Minimum future lease payments for operating leases are as follows:

<u>Years Ending June 30,</u>	<u>Operating Leases</u>
2016	\$ 6,151
2017	2,708
Total minimum lease payments	\$ 8,859

Note 6 - Long-Term Debt

Changes in the Hospital's long-term debt, including capital lease obligations, for the year ended June 30, 2014 are included in the schedule below. The Hospital had no long-term debt outstanding during 2015.

	Beginning Balance	June 30, 2014			Current Portion
		Additions	Deductions	Ending Balance	
Capital lease obligations	\$ 70,761	\$ -	\$ (70,761)	\$ -	\$ -

Note 7 - Profit Sharing Plan

The Hospital participates in a 403(b) Deferred Compensation Plan which covers 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 Hospital. The Hospital, at its option, may contribute to the Plan. The Hospital elected not to contribute to the plan during the year ended June 30, 2015. Total pension plan expense for the years ended June 30, 2015, 2014, and 2013 was \$0, \$334,156 and \$254,697, which is included in administrative services expenses.

Note 8 - Related Party Transactions

The Hospital is a Public Trust with the City of New Cordell designated as the beneficiary of the trust. The Hospital purchased utility services from the City of New Cordell in the amounts of \$48,542 and \$46,264 for the years ended June 30, 2015 and 2014.

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 Hospital in amounts and in periods determined by the Foundation's Board of Directors. The Foundation purchased equipment for the Hospital in the amount of \$20,000 during the year ended June 30, 2015. No transfers were made between the Hospital and the Foundation during the year ended June 30, 2014.

The County collects and retains sales tax collected for the benefit of the Hospital. Amounts are disbursed from the County upon receipt of approved purchase orders from the Hospital. The remainder is retained by the County until the Hospital forwards approved purchase orders. The Hospital receives rent from the Washita County Health Department. During the years ended June 30, 2015 and 2014, the total rent received was \$16,800 annually.

Note 9 - Concentration of Credit Risk

The Hospital 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, 2015 and 2014 was as follows:

	2015	2014
Medicare and Medicaid	49%	34%
Commercial insurance and other	21%	23%
Patients (self pay)	30%	43%
	100%	100%

Note 10 - Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), requires 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 Hospital 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 Hospital received SHOPP funds totaling \$80,969 and \$77,210 for the years ended June 30, 2015 and 2014, which are included in net patient service revenue.

Note 11 - Contingencies

Risk Management

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

Malpractice Insurance

The Hospital 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.

Litigations, Claims, and Disputes

The Hospital 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 Hospital.

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 with respect to investigations and allegations concerning possible violations by health care providers of regulations 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 12 - Subsequent Events

Subsequent to year end, the Hospital entered into a contract to remodel the emergency room and other areas of the hospital building. The construction is expected to be completed by February 2016, at a total estimated cost of \$2,300,000, which will be financed through long-term borrowing and Hospital funds. In addition, the Hospital obtained a line of credit with a limit of approximately \$3,800,000 at an interest rate of 3.50%. Any borrowings are secured by Hospital investments.



Supplementary Information
June 30, 2015 and 2014

**Cordell Hospital Authority, d/b/a
Cordell Memorial Hospital**



Independent Auditor's Report on Supplementary Information

Board of Trustees
Cordell Hospital Authority, d/b/a Cordell Memorial Hospital
New Cordell, Oklahoma

We have audited the financial statements of Cordell Hospital Authority, d/b/a Cordell Memorial Hospital as of and for the years then ended June 30, 2015 and 2014 and our report thereon dated December 8, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient revenue, other operating revenue, and operating expenses 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.

Oklahoma City, Oklahoma
December 8, 2015

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	2015		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 566,390	\$ 10,187	\$ 576,577
Other Nursing Services			
Central services and supply	79,752	16,405	96,157
Emergency services	30,573	732,645	763,218
Total other nursing services	110,325	749,050	859,375
Other Professional Services			
Ambulance	1,330	127,939	129,269
Blood	-	-	-
CT scan	103,793	457,157	560,950
Electrocardiology	5,994	23,270	29,264
Laboratory	115,942	510,136	626,078
Pharmacy	322,335	105,752	428,087
Physical therapy	25,944	-	25,944
Radiology	29,264	147,726	176,990
Respiratory therapy	4,326	6,800	11,126
Ultrasound	17,252	193,054	210,306
Total other professional services	626,180	1,571,834	2,198,014
Gross Patient Service Revenue	\$ 1,302,895	\$ 2,331,071	3,633,966
Charity Care			(867)
Total patient service revenue			3,633,099
Contractual Adjustments			
Medicare			430,113
Medicaid			(139,710)
Other			(517,808)
Total contractual adjustments			(227,405)
Provision for Bad Debts			(336,774)
Net Patient Service Revenue, Less Provision for Bad Debts			\$ 3,068,920

Cordell Memorial Hospital
Schedules of Net Patient Service Revenues
Years Ended June 30, 2015 and 2014

Inpatient	2014 Outpatient	Total
\$ 524,865	\$ 7,252	\$ 532,117
145,670	27,090	172,760
16,094	734,068	750,162
161,764	761,158	922,922
2,124	165,534	167,658
14,142	5,897	20,039
122,004	235,292	357,296
17,058	23,667	40,725
176,737	407,548	584,285
474,835	189,045	663,880
20,858	-	20,858
40,456	101,096	141,552
47,749	14,232	61,981
36,163	32,324	68,487
952,126	1,174,635	2,126,761
\$ 1,638,755	\$ 1,943,045	3,581,800
		(5,995)
		3,575,805
		417,815
		(122,123)
		(233,626)
		62,066
		(255,915)
		\$ 3,381,956

Cordell Memorial Hospital
Schedules of Other Operating Revenue
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Other Revenue		
Ambulance subsidy income	\$ 9,354	\$ 18,669
Clinic rent - physician's expense reimbursement	38,800	34,800
Cafeteria	6,309	5,751
Rent	3,525	3,025
Miscellaneous	<u>30,629</u>	<u>4,317</u>
Total other revenue	<u>\$ 88,617</u>	<u>\$ 66,562</u>

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	2015		Total
	Salaries	Other	
Nursing Services			
Medical and surgical	\$ 726,372	\$ 71,075	\$ 797,447
Central services and supply	683	27,278	27,961
Emergency services	241,452	445,315	686,767
Total nursing services	<u>968,507</u>	<u>543,668</u>	<u>1,512,175</u>
Other Professional Services			
Ambulance	102,258	2,828	105,086
Blood	-	3,705	3,705
CT scan	23,819	72,688	96,507
Electrocardiology	9,306	164	9,470
Laboratory	143,566	229,893	373,459
Pharmacy	49,477	68,029	117,506
Physical therapy	440	17,237	17,677
Radiology	87,422	(24,567)	62,855
Respiratory therapy	5,630	1,524	7,154
Ultrasound	-	52,500	52,500
Total other professional services	<u>421,918</u>	<u>424,001</u>	<u>845,919</u>
General Services			
Dietary	89,324	40,766	130,090
Housekeeping	105,878	9,638	115,516
Laundry and linen	27,019	2,267	29,286
Medical records	29,522	157,105	186,627
Plant engineering	20,315	95,697	116,012
Total general services	<u>272,058</u>	<u>305,473</u>	<u>577,531</u>
Administrative Services			
Administrative and general	474,928	350,733	825,661
Employee benefits	-	534,245	534,245
Total administrative services	<u>474,928</u>	<u>884,978</u>	<u>1,359,906</u>
Depreciation	-	297,500	297,500
Total Operating Expenses	<u>\$ 2,137,411</u>	<u>\$ 2,455,620</u>	<u>\$ 4,593,031</u>

Cordell Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2015 and 2014

Salaries	2014	
	Other	Total
\$ 569,484	\$ 23,093	\$ 592,577
890	23,032	23,922
143,988	440,799	584,787
<u>714,362</u>	<u>486,924</u>	<u>1,201,286</u>
131,359	4,964	136,323
-	6,224	6,224
3,889	67,122	71,011
9,671	1,288	10,959
134,447	202,289	336,736
64,355	76,067	140,422
280	8,811	9,091
97,850	17,498	115,348
8,906	1,569	10,475
-	26,410	26,410
<u>450,757</u>	<u>412,242</u>	<u>862,999</u>
85,280	43,360	128,640
119,793	9,248	129,041
12,850	1,637	14,487
50,157	62,622	112,779
6,954	74,875	81,829
<u>275,034</u>	<u>191,742</u>	<u>466,776</u>
405,466	291,115	696,581
-	902,854	902,854
<u>405,466</u>	<u>1,193,969</u>	<u>1,599,435</u>
-	196,309	196,309
<u>\$ 1,845,619</u>	<u>\$ 2,481,186</u>	<u>\$ 4,326,805</u>



CPAs & BUSINESS ADVISORS

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, d/b/a Cordell Memorial Hospital
New 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, d/b/a Cordell Memorial Hospital (Hospital) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated December 8, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control 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 certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described as items 2015-A through 2015-E in the accompanying Schedule of Findings and Responses to be material weaknesses.

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

Hospital's Response to Findings

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

Purpose of this Report

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

Oklahoma City, Oklahoma
December 8, 2015

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weaknesses:

2015-A Preparation of Financial Statements

Condition and criteria: The Hospital does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes on a periodic or annual basis. In addition, as noted below in other deficiencies, material misstatements to the financial statements were identified. Internal control over preparation of financial statements was reviewed with AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

Effect: The preparation of financial statements as part of the audit engagement may result in financial statements and related information not being available for management purposes as timely as it would be if prepared by Hospital personnel. In addition, the need for adjustments indicates that the Hospital's interim financial information may not be materially correct, which may affect management decisions during the course of the year.

Cause: This condition was caused by a combination of the Board of Trustees' and management's determination that it would take undue expense and effort to provide for a system that prepares the financial statements in accordance with GAAP and the deficiencies reported as 2015-B through 2015-D.

Auditor's Recommendation: While the preparation of financial statements by an outside party is not unusual for an organization of your size, the need for material adjustments should require consideration of the recommendations noted in 2015-B through 2015-D. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with a deficiency in preparation of financial statements because of cost or other considerations.

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.

2015-B Review and/or Reconciliation of Account Balances - Material Journal Entries

Condition and criteria: There was a deficiency in the operation of the Hospital's internal control system over financial reporting designed to identify material variances in account balances through reconciliations or other processes, which resulted in material journal entries. Internal control over review and/or reconciliation of account balances was reviewed with AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

Effect: Material misstatements to the 2015 financial statements were required in the areas of investments, accrued expenses, sales tax revenues and receivables, patient receivables, allowance for contractual adjustments and doubtful accounts, capital assets, retirement expense, and contributions.

Cause: While there were specific causes for each misstatement, overall the deficiency was caused by a combination of personnel changes and lack of timely reviews and/or reconciliations of account balances. It is noted that management had supporting documentation for the majority of the balances, but entries were not reflected in the general ledger to adjust to the support.

Findings Related To Financial Statements (continued)

Auditor's Recommendation: We recommend that the Hospital review its current process for reconciliation of account balances to ensure that all significant balances are reconciled to a subledger or other support on a monthly or predefined timeline to identify potential misstatements timely. Each insignificant balance should be periodically reviewed to ensure that they are still appropriately reported. In addition, a process should be established to ensure that all transactions have been captured within the financial reporting process.

Management Response: Management agrees with the above finding. Subsequent to year end, management has implemented a review process to ensure balances are reconciled and properly posted to the general ledger.

2015-C Estimated Third-Party Payor Settlement Calculations

Condition and criteria: The Hospital does not have an internal control process designed to provide for interim analysis of estimated third-party payor settlements. Internal control over significant estimates was reviewed with AU-C Section 315, *in Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*.

Effect: Changes in estimated third-party payor settlements would not be identified and captured timely on an interim basis. Third-party payors settlements, primarily consisting of Medicare cost reports, is one of the Hospital's significant estimate areas and changes could be material to the Hospital's financial statements.

Cause: The Hospital does not have a control in place to estimate third-party payor settlements, including Medicare cost reports, prior to completion of the cost report after year-end. In addition, open cost reports and related reserves are generally only reviewed annually. There is also a resource constraint as the Hospital may not have available staff time available to commit to such reviews currently.

Auditor's Recommendation: It is recommended the Hospital implement a system to estimate cost report settlements as well as other significant estimates on a periodic basis, more frequently than annually. As previously noted, cost report settlements are a significant estimate area for the Hospital and impact operating results and financial position. While current resources may not be available, we recommend the Hospital review current assignments to provide for this review on an interim basis. Often cost report models or interim cost report preparation is an adequate means of identifying and estimating these settlements. In addition, we recommend that management periodically review open cost reports and related reserves based on tentative or final settlements or other information, as it becomes available, and adjust estimates to reflect these changes.

Management Response: Management agrees with the above finding and is currently reviewing the cost and benefit of options to provide for this review.

2015-D Review Process Did Not Detect Material Errors

Condition and criteria: During the course of the audit, a bank reconciliation was identified that did not reconcile to the general ledger, but was approved without the error being detected. Internal control over monitoring was reviewed with AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

Effect: A reconciliation of cash balances was prepared and reviewed with misstatements not being identified. Lack of an appropriate and effective monitoring control increases the risk of misstatements both due to error and fraud.

Findings Related to Financial Statements: (continued)

Cause: A cause for the deficiency in the monitoring control could not be determined.

Auditor's Recommendation: We recommend the Hospital analyze its process over review of account reconciliations and other analyses to ensure completeness and accuracy.

Management Response: Management agrees with the above finding. Subsequent to year end, management has implemented a review process to ensure balances are reconciled and properly posted to the general ledger.

2015-E Allowance for Contractual Adjustments and Doubtful Accounts Estimate

Condition and criteria: The Hospital does not have an internal control process designed to identify changes in reimbursement from third-party payors or patients (self pay). Internal control over significant estimates was reviewed with AU-C Section 315, in *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*.

Effect: Changes in reimbursement from third-party payors and patients can change due to internal charge increases, contract modifications, external insurance coverage (i.e. higher deductible account balances), interim rate changes, etc. The Hospital's current process may not identify these changes and incorporate their effects into the calculation of the allowance for contractual adjustments and doubtful accounts on a timely basis. This can potentially cause these changes to be reflected several months after they have impacted the Hospital or not recognized at all. In the current year, review of the allowance during the audit resulted in a misstatement that was considered material to the financial statements.

Cause: The Hospital's method for calculating the allowance was based on historical activity and a consistent trend in external factors, which has generally been the case for the Hospital, and included certain "static factors" that were not updated as trends may have changed.

Auditor's Recommendation: It is recommended the Hospital review its current process to determine appropriate sources of information to adequately and appropriately estimate expected collections on patient receivables based on known facts and circumstances. Generally, this is accomplished through review of historical collection activity over a set period of time, segregated by major payor category, and adjusted for factors that may not yet be present in the historical activity.

Management Response: Management agrees with the above finding.

2014-F Segregation of Duties and Review of Manual Journal Entries

Condition and Criteria: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions. The Hospital has a limited number of individuals available to segregate these duties. In addition, the Hospital does not have an internal control process for the review and approval of journal entries, particularly for non-standard journal entries. Internal control over segregation of duties was reviewed with AU-C Section 315, in *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*.

Effect: Inadequate segregation of duties could adversely affect the Hospital's ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions. The lack of review and approval process for recorded journal entries by the appropriate individual increases the risk of misstatement in the financial statements, either due to fraud or error.

Cause: The Hospital's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Auditor's Recommendation: 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 cost or other considerations. While having limited resources available to perform all functions is often present in organizations of your size, it is important to consider the significance of certain controls, such as review of manual journal entries, in detecting and correcting potential misstatements on a timely basis. We recommend that management review current policies and assigned functions and separate the responsibilities of posting and reviewing manual journal entries to appropriate individuals. In addition, we recommend that other functions be reviewed to determine if additional segregation is feasible to improve efficiency and effectiveness of the financial management of the Hospital.

Management Response: Management agrees with the above finding. While it has been determined that hiring additional personnel is not beneficial, management has taken steps to add additional levels of review to the current process, specifically related to manual journal entries.