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

Wagoner Hospital Authority

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

Report on the Financial Statements
We have audited the accompanying statements of net position of Wagoner Hospital Authority (Authority) as of September 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Wagoner Hospital Authority as of September 30, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 inquires 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 March 28, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 28, 2016

This discussion and analysis of the financial performance of Wagoner Hospital Authority (Authority) provides an overview of the Authority's financial activities and balances for the years ended September 30, 2015, 2014, and 2013. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's total assets decreased during the year by $2,292,679 or 20% in 2015 compared with an decrease during 2014 of $1,079,216 or 8%.
- The Authority's total liabilities decreased during the year by $142,545 or 2% in 2015 compared with an decrease during 2014 of $498,505 or 7%.
- The Authority reported an operating loss in 2015 of $2,020,597 and in 2014 of $455,808. The operating loss increased $1,564,789 or 343% from 2014 to 2015. The operating loss increased $1,536,596 or 142% from 2013 to 2014.

Using This Annual Report

The Authority's financial statements consist of three statements – statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about the Authority's finances is, "Is the Authority, as a whole, better or worse off as a result of the year's activities?" The statements of net position 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 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 aforementioned 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.

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 operating, 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 the 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 Statements of Net Position and are reflected in Table 1. The Authority's net position decreased by $2,150,134 or 43% in 2015 and decreased by $580,711 or 10% in 2014.

Condensed Financial Statements

Table 1: Statements of Net Position

	2015	2014	2013
Assets			
Current assets	$ 4,129,955	$ 6,340,926	$ 7,822,998
Capital assets, net	5,198,853	5,280,561	4,877,705
Total assets	$ 9,328,808	$ 11,621,487	$ 12,700,703
Liabilities			
Current liabilities	$ 3,817,480	$ 3,756,637	$ 4,150,691
Non current liabilities	2,668,598	2,871,986	2,976,437
Total liabilities	6,486,078	6,628,623	7,127,128
Net Position			
Net investment in capital assets	2,084,956	2,003,058	1,664,006
Unrestricted	757,774	2,989,806	3,909,569
Total net position	2,842,730	4,992,864	5,573,575
Total liabilities and net position	$ 9,328,808	$ 11,621,487	$ 12,700,703

A significant component of the change in the Authority's assets is the decrease in current assets. Current assets decreased in 2015 by $2,210,971 or 35% compared to a decrease of $1,482,072 or 19% in 2014. Cash and cash equivalents decreased $837,267 or 66% in 2015 compared to 2014 which decreased $2,693,700 or 68%. Patient accounts receivable, net of allowances, decreased $1,293,178 or 33% in 2015 compared to 2014 which increased $620,694 or 19%. The decrease are due to the temporary closure of the OR for remodeling. The OR was closed from June 2015 and reopened in October 2015.

A significant component of the change in the Authority's liabilities is the decrease in non-current liabilities. Non-current liabilities decreased in 2015 by $203,388 or 7% compared to a decrease of $104,451 or 4% in 2014.

Table 2: Statements of Revenues, Expenses, and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	$ 19,530,658	$ 21,610,962	$ 19,360,389
Other operating revenue	548,978	740,143	971,426
Total operating revenues	20,079,636	22,351,105	20,331,815
Operating Expenses			
Nursing services	3,449,765	3,681,924	3,285,778
Other professional services	10,585,962	11,341,487	9,036,481
General services	1,919,847	1,908,355	1,713,285
Administrative services	5,065,422	4,853,589	4,332,904
Depreciation	1,079,237	1,021,558	882,579
Total operating expenses	22,100,233	22,806,913	19,251,027
Operating income (loss)	(2,020,597)	(455,808)	1,080,788
Nonoperating Revenues (Expenses)			
Contribution	-	-	(345,000)
Investment income	3,005	4,042	13,130
Interest expense	(138,942)	(141,717)	(149,531)
Noncapital contributions	6,000	12,772	12,100
Gain on sale of assets	400	-	1,912
Total nonoperating revenues (expenses)	(129,537)	(124,903)	(467,389)
Change in Net Position	(2,150,134)	(580,711)	613,399
Net Position, Beginning of Year	4,992,864	5,573,575	4,960,176
Net Position, End of Year	$ 2,842,730	$ 4,992,864	$ 5,573,575

Operating Income

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating loss for 2015 increased by $1,564,789 or 343% as compared to 2014 and increased in 2014 by $1,536,596 or 142% compared to 2013. The primary components of the decreased operating income are:

- A decrease in net patient service revenue of $2,080,304 or 10% as compared to an increase in 2014 of $2,250,573 or 12%. The decrease is due to the temporary closure of the OR for remodeling. The OR was closed from June 2015 and reopened in October 2015.

- A decrease in nursing services of $232,159 or 6% as compared to an increase in 2014 of $396,146 or 12%.
- A decrease in other professional services of $755,525 or 7% as compared to an increase in 2014 of $2,305,006 or 26%.
- An increase in administrative services of $211,833 or 4% as compared to an increase in 2014 of $520,685 or 12%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest expense. Interest expense decreased $2,775 or 2% from 2014 to 2015 and $7,814 or 5% from 2013 to 2014.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents of $837,267 when compared with 2014. Cash flows from operating activities increased by $1,499,780 during 2015 when compared with 2014. Cash from noncapital financing activities increased $142,724 when compared with 2014. Cash used for capital and capital related financing activities decreased $214,966 when compared to 2014.

Capital Assets

In 2015, the Authority purchased $997,529 of capital assets and had $5,198,853 invested in capital assets, net of accumulated depreciation, at the end of 2015 as detailed in Note 4, to the financial statements. In 2014, the Authority purchased $1,424,414 of capital assets and had $5,280,561 invested in capital assets, net of accumulated depreciation, at the end of 2014 as detailed in Note 4 to the financial statements.

Long term Debt

The Authority incurred additional debt of $197,851 for a capital lease in 2015 and had total long term debt of $3,113,897 at the end of 2015. In 2015, the Authority obtained a revolving line of credit for up to $1,000,000. During 2015, the Authority used $150,039 of the line of credit. In 2014 the Authority entered into capital leases totaling $299,273 and had $3,277,503 of long-term debt at the end of 2014.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling 918-485-1200.

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	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 432,747	$ 1,270,014
Accounts receivable		
Patients, net of allowance for doubtful accounts of $2,296,000 in 2015 and $2,683,000 in 2014	2,639,144	3,932,322
Electronic health record incentive receivable	364,518	537,407
Other	25,453	1,139
Security deposits	27,016	24,214
Supplies	514,260	487,954
Prepaid expenses	126,817	87,876
Total current assets	4,129,955	6,340,926
Capital Assets		
Capital assets not being depreciated	621,916	326,860
Capital assets being depreciated, net	4,576,937	4,953,701
Total capital assets, net	5,198,853	5,280,561
Total assets	$ 9,328,808	$ 11,621,487

	2015	2014
Liabilities and Net Position		
Current Liabilities		
Note payable	$ 150,039	$ -
Current maturities of long-term debt	445,299	405,517
Accounts payable		
Trade	1,069,244	1,249,206
Estimated third-party payor settlements	1,237,200	1,202,494
Accrued expenses	915,698	899,420
Total current liabilities	3,817,480	3,756,637
Long-Term Debt, net of current maturities	2,668,598	2,871,986
Total liabilities	6,486,078	6,628,623
Net Position		
Net investment in capital assets	2,084,956	2,003,058
Unrestricted	757,774	2,989,806
Total net position	2,842,730	4,992,864
Total liabilities and net position	$ 9,328,808	$ 11,621,487

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $3,957,620 in 2015 and $3,407,132 in 2014	$ 19,530,658	$ 21,610,962
Other revenue	548,978	740,143
Total operating revenues	20,079,636	22,351,105
Operating Expenses		
Nursing services	3,449,765	3,681,924
Other professional services	10,585,962	11,341,487
General services	1,919,847	1,908,355
Administrative services	5,065,422	4,853,589
Depreciation	1,079,237	1,021,558
Total operating expenses	22,100,233	22,806,913
Operating Loss	(2,020,597)	(455,808)
Nonoperating Revenues (Expense)		
Investment income	3,005	4,042
Interest expense	(138,942)	(141,717)
Noncapital contributions	6,000	12,772
Gain on sale of assets	400	-
Net nonoperating revenues (expenses)	(129,537)	(124,903)
Change in Net Position	(2,150,134)	(580,711)
Net Position, Beginning of Year	4,992,864	5,573,575
Net Position, End of Year	$ 2,842,730	$ 4,992,864

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	$ 20,858,542	$ 20,292,302
Payments to suppliers and contractors	(11,883,627)	(12,853,232)
Payments to and on behalf of employees	(9,366,300)	(8,891,498)
Other receipts	697,553	258,816
Net Cash from (used for) Operating Activities	306,168	(1,193,612)
Noncapital Financing Activities		
Proceeds from note payable	150,039	-
Interest paid on note payable	(543)	-
Noncapital contributions	6,000	12,772
Net Cash from Noncapital Related Financing Activities	155,496	12,772
Capital and Capital Related Financing Activities		
Principal payments on long-term debt	(361,457)	(235,469)
Interest payments on long-term debt	(138,399)	(141,717)
Deposit on equipment	(2,802)	(14,575)
Purchase of capital assets	(799,678)	(1,125,141)
Proceeds on sale of equipment	400	-
Net Cash used for Capital and Capital Related Financing Activities	(1,301,936)	(1,516,902)
Investing Activities		
Interest on investments	3,005	4,042
Net Change in Cash and Cash Equivalents	(837,267)	(2,693,700)
Cash and Cash Equivalents, Beginning of Year	1,270,014	3,963,714
Cash and Cash Equivalents, End of Year	$ 432,747	$ 1,270,014

	2015	2014
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities		
Operating loss	$ (2,020,597)	$ (455,808)
Adjustments to reconcile operating loss to net cash from (used for) operating activities		
Depreciation	1,079,237	1,021,558
Provision for bad debts	3,957,620	3,407,132
Changes in assets and liabilities		
Patient receivables	(2,664,442)	(4,027,826)
Other receivables	148,575	(481,327)
Supplies	(26,306)	(73,728)
Prepaid expenses	(38,941)	(21,304)
Accounts payable	(179,962)	27,946
Accrued expenses	16,278	107,711
Estimated third-party payor settlements	34,706	(697,966)
Net Cash from (used for) Operating Activities	$ 306,168	$ (1,193,612)
Supplemental Disclosure of Noncash Capital and Related Capital Financing Activities		
Equipment financed through capital lease arrangement	$ 197,851	$ 299,273

Note 1 - Organization and Significant Accounting Policies

The financial statements of the Wagoner Hospital Authority (Authority) 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 Authority are described below.

Reporting Entity

The Authority is a 100-bed acute care hospital located in Wagoner, Oklahoma. The Authority is a public trust created under the laws of the State of Oklahoma, for the hospital facilities and equipment located in the city of Wagoner, Oklahoma. The trust indenture provides for a Board of Trustees to conduct the business of the Authority and to provide short-term acute care services for the city of Wagoner, Oklahoma, the beneficiary of the Trust. The Authority is governed by the Board of Trustees, whom are appointed by the remaining Trustee or Trustees.

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 the exclusion would cause the Authority's financial situation 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 the organization's governing body and (1) the ability of the Authority 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 does not have a component unit which meets 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 Authority'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 or the related debt obligations related to those assets or debt obligations.
>
> *Restricted, expendable for capital acquisition* consists of assets whose use is restricted for a specific purpose.

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 Authority'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 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.

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.

Supplies

Supplies are valued at the lower of cost (first-in, first-out method) or market and are expensed when used.

Capital Assets

Capital asset acquisitions in excess of $1,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements.

The estimated useful lives of property and equipment are as follows:

	Depreciable Life
Land improvements	10 years
Buildings and improvements	10 - 40 years
Major moveable equipment	3 - 15 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.

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the 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.

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 and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority'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 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.

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 $374,000 and $501,000 for the years ended September 30, 2015 and 2014. Total direct and indirect costs related to these foregone charges were approximately $160,000 and $210,000 at September 30, 2015 and 2014, based on an average ratio of cost to gross charges.

Grants and Contributions

The Authority 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that 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) an initial amount; (2) the Medicare share; and (3) a transition factor applicable to that payment year.

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.

The Authority recognized revenue of $376,278 and $537,407 for the years ended September 30, 2015 and 2014 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

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.

The Authority records payments to administrative services expense and receipts from SHOPP as a reduction in contractual adjustments. The Authority made SHOPP payments totaling $587,917 for the year ended September 30, 2015. In return, the Authority received $1,937,961. The Authority made SHOPP payments totaling $525,909 for the year ended September 30, 2014. In return, the Authority received $1,888,041. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

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: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through September 30, 2010.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment.

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.

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

	2015	2014
Medicare	37%	39%
Medicaid	22%	21%
Blue Cross	13%	11%
Other commercial payors	20%	21%
Self pay and other	8%	8%
	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. The net patient service revenue for the years ended September 30, 2015 and 2014, decreased approximately $118,000 and $93,000 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.

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. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Authority may incur a liability for a claims overpayment at a future date. The Authority has accrued $10,047 and $57,144 for RAC liability as of September 30, 2015 and 2014. The estimate is based on historical overpayments identified.

Note 3 - Deposits

The carrying amounts of deposits as of September 30, 2015 and 2014 are as follows:

	2015	2014
Cash and deposits	$ 432,747	$ 1,270,014

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

	2015	2014
Cash and cash equivalents	$ 432,747	$ 1,270,014

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

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

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 Authority's investment policy does not provide specific maturity limits in certificates of deposits to manage exposure to fair value losses arising from changing interest rates.

Concentration of Credit Risk

The Authority does not have a formally adopted investment policy for managing concentration of credit risk.

Investment Income

Investment income, consisting primarily of interest income, for the years ended September 30, 2015 and 2014, was in the amounts of $3,005 and $4,042.

Note 4 - Capital Assets

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

	Balance September 30, 2014	Additions	Retirements and Transfers	Balance September 30, 2015
Non-depreciable capital assets				
Land	$ 157,808	$ -	$ -	$ 157,808
Construction in progress	169,052	606,848	(311,792)	464,108
Total non-depreciable capital assets	326,860	$ 606,848	$ (311,792)	621,916
Depreciable capital assets				
Land improvements	51,602	$ -	$ -	51,602
Buildings and improvements	5,510,742	-	120,344	5,631,086
Major moveable equipment	12,957,924	390,681	156,354	13,504,959
Total depreciable capital assets	18,520,268	$ 390,681	$ 276,698	19,187,647
Less accumulated depreciation				
Land improvements	31,869	$ 3,823	$ -	35,692
Buildings and improvements	3,524,017	202,172	-	3,726,189
Major moveable equipment	10,010,681	873,242	(35,094)	10,848,829
Total accumulated depreciation	13,566,567	$ 1,079,237	$ (35,094)	14,610,710
Net depreciable capital assets	4,953,701			4,576,937
Capital assets, net	$ 5,280,561			$ 5,198,853

The majority of construction in progress at September 30, 2015, represents cost incurred for OR renovations and various other smaller projects. Total expected cost to complete the OR renovations is approximately $600,000. The remodel will be completed in February 2016. The OR renovations will be financed with internal funds and utilizing the line of credit of approximately $200,000.

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

	Balance September 30, 2013	Additions	Retirements and Transfers	Balance September 30, 2014
Non-depreciable capital assets				
Land	$ 157,808	$ -	$ -	$ 157,808
Construction in progress	493,686	426,575	(751,209)	169,052
Total non-depreciable capital assets	651,494	$ 426,575	$ (751,209)	326,860
Depreciable capital assets				
Land improvements	41,232	$ 10,370	$ -	51,602
Buildings and improvements	5,190,711	5,334	314,697	5,510,742
Major moveable equipment	11,539,277	982,135	436,512	12,957,924
Total depreciable capital assets	16,771,220	$ 997,839	$ 751,209	18,520,268
Less accumulated depreciation				
Land improvements	28,045	$ 3,824	$ -	31,869
Buildings and improvements	3,343,163	180,854	-	3,524,017
Major moveable equipment	9,173,801	836,880	-	10,010,681
Total accumulated depreciation	12,545,009	$ 1,021,558	$ -	13,566,567
Net depreciable capital assets	4,226,211			4,953,701
Capital assets, net	$ 4,877,705			$ 5,280,561

Note 5 - Lease Obligations

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense in September 30, 2015 and 2014, for all operating leases is $536,334 and $411,914. The capitalized leased assets consist of:

	2015	2014
Major movable equipment	$ 1,099,810	$ 901,959
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(603,998)	(417,542)
	$ 495,812	$ 484,417

Minimum future lease payments for the operating leases are as follows:

Year Ending September 30,	Operating Leases
2016	$ 330,390
2017	68,230
2018	49,500
2019	49,500
2020	49,500
2021-2025	247,500
2026-2030	99,000
Total minimum lease payments	$ 893,620

For further information on capital leases, see Note 6.

Note 6 - Notes Payable and Long-Term Debt

A schedule of changes in the Authority's notes payable for 2015 is as follows:

	Balance September 30, 2014	Additions	Payments	Balance September 30, 2015
Notes payable:				
Line of credit	$ -	$ 150,039	$ -	$ 150,039

The terms and due date of the Authority's notes payable at September 30, 2015 is as follows:

- Revolving line of credit used for operations up to $1,000,000; unpaid principal and accrued interest due July 21, 2016; interest rate of 4.00%; collateralized by the assets of the Authority.

A schedule of changes in the Authority's long-term debt for September 30, 2015 and 2014 is as follows:

	Balance September 30, 2014	Additions	Payments	Balance September 30, 2015	Amounts Due Within One Year
Notes Payable:					
First Bank and Trust (1)	$ 2,685,027	$ -	$ 112,051	$ 2,572,976	$ 118,166
Capitalized lease obligations (2)	592,476	197,851	249,406	540,921	327,133
Total long-term debt	$ 3,277,503	$ 197,851	$ 361,457	$ 3,113,897	$ 445,299

	Balance September 30, 2013	Additions	Payments	Balance September 30, 2014	Amounts Due Within One Year
Notes Payable:					
First Bank and Trust (1)	$ 2,792,657	$ -	$ 107,630	$ 2,685,027	$ 113,541
Capitalized lease obligations (2)	421,042	299,273	127,839	592,476	291,976
Total long-term debt	$ 3,213,699	$ 299,273	$ 235,469	$ 3,277,503	$ 405,517

The terms and due dates of the Authority's long-term debt, including capital lease obligations, as of September 30, 2015 are as follows:

1. Note payable, variable interest (4.0% at September 30, 2015), maximum loan principal $3,000,000, due in monthly installments of $18,241 including interest, with a balloon payment due September 2016, collateralized by accounts receivable, supplies and capital assets.
2. Capital lease obligations, at varying rates of imputed interest from 3.3% to 8.6%, collateralized by leased equipment, with varying maturity dates from November 2015 through May 2017.

Future payments of principal and interest payments on notes payable and capital lease obligations are as follows:

	Notes Payable		Capital Lease Obligations	
Year Ending September 30,	Principal	Interest	Principal	Interest
2016	$ 118,166	$ 100,722	$ 327,133	$ 21,236
2017	122,981	95,908	169,468	5,144
2018	127,991	90,897	44,320	248
2019	133,206	85,683	-	-
2020	138,633	80,256	-	-
2021-2025	1,931,999	68,612	-	-
Total	$ 2,572,976	$ 522,078	$ 540,921	$ 26,628

Note 7 - Concentration 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, 2015 and 2014, was as follows:

	2015	2014
Medicare	22%	24%
Medicaid	11%	13%
Commercial insurance	32%	35%
Other and patients	35%	28%
	100%	100%

Note 8 - Pension Plan

The Authority has a defined contribution pension plan under which eligible employees can participate in the plan after one year of employment with the Authority. Employer contributions of 50% of each participant's salary reduction contributions up to 6% are deposited with the plan trustee who invests the plan assets. Total pension plan expense for the years ended September 30, 2015, 2014, and 2013, was $34,269, $73,701, and $31,907.

Note 9 - Management Agreement

The Authority Board of Trustees has a management agreement with Quorum Health Resources LLC. This agreement is a defined service agreement for managing the day-to-day operations of the Authority through August 31, 2016. During the years ended September 30, 2015 and 2014, the Authority incurred fees to Quorum Health Resources, LLC for management services of $168,164 and $161,426.

Note 10 - Contingencies

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.

Medical Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on an occurrence-basis subject to a limit of $1,000,000 per claim and an annual aggregate limit of $3,000,000.

Litigations, Claims, and Disputes

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

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

Note 11 - Subsequent Events

The Authority has evaluated subsequent events through March 28, 2016 the date which the financial statements were available to be issued.

In November and December 2015, the Authority made three draws on their line of credit totaling $825,000.

Supplementary Information
September 30, 2015 and 2014

Wagoner Hospital Authority

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Independent Auditor's Report on Supplementary Information

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

We have audited the financial statements of Wagoner Hospital Authority (Authority) as of and for the years ended September 30, 2015 and 2014, and our report thereon dated March 28, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient service revenue, other operating revenue, and operating expenses are presented for the 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 supplementary information has been subjected to the auditing procedures applied in the audits 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 28, 2016

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	2015		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	$ 10,717,538	$ 138,803	$ 10,856,341
Other Nursing Services			
Central services and supply	-	976	976
Emergency services	833,678	4,680,397	5,514,075
	833,678	4,681,373	5,515,051
Other Professional Services			
Pulmonary rehab	-	549,039	549,039
Clinic	658,353	2,401,116	3,059,469
Laboratory	1,543,534	4,466,297	6,009,831
Observation	-	152,525	152,525
Operating room	2,663,059	4,933,792	7,596,851
Outpatient center	-	25,632	25,632
Pharmacy	3,769,528	1,349,694	5,119,222
Physical therapy	185,895	945	186,840
Psychiatric	1,207,195	-	1,207,195
Radiology	1,114,833	7,837,307	8,952,140
Respiratory therapy	1,157,366	426,494	1,583,860
Scopes	-	-	-
Sleep lab	-	451,200	451,200
	12,299,763	22,594,041	34,893,804
Charity Care			(373,755)
Gross Patient Service Revenue			50,891,441
Reductions from Revenue			
Contractual adjustments			(27,403,163)
Provision for bad debts			(3,957,620)
Total reductions from revenue			(31,360,783)
Net Patient Service Revenue			$ 19,530,658

2014		
Inpatient	Outpatient	Total
$ 10,246,401	$ 295,702	$ 10,542,103
-	10	10
810,453	3,907,072	4,717,525
810,453	3,907,082	4,717,535
-	622,487	622,487
573,898	1,805,859	2,379,757
2,009,882	4,352,104	6,361,986
-	159,638	159,638
2,948,245	5,764,697	8,712,942
-	19,660	19,660
3,275,239	1,362,283	4,637,522
267,271	2,862	270,133
1,291,407	286,375	1,577,782
1,566,461	10,680,916	12,247,377
796,012	311,114	1,107,126
612	-	612
-	502,500	502,500
12,729,027	25,870,495	38,599,522
		(501,150)
		53,358,010
		(28,339,916)
		(3,407,132)
		(31,747,048)
		$ 21,610,962

	2015	2014
Other Revenue		
Rent	$ 53,241	$ 78,422
Vendor rebates	25,383	43,149
Cafeteria	62,720	61,079
Government incentive for electronic health records	376,278	537,407
Miscellaneous	31,356	20,086
Total other revenue	$ 548,978	$ 740,143

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	2015		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	$ 893,431	$ 610,407	$ 1,503,838
Central services and supply	89,524	12,780	102,304
Emergency services	976,116	867,507	1,843,623
	1,959,071	1,490,694	3,449,765
Other Professional Services			
Pulmonary rehab	-	146,354	146,354
Clinic	986,994	662,292	1,649,286
Laboratory	345,676	485,182	830,858
Operating room	1,782,841	1,192,032	2,974,873
Outpatient center	49,503	9,379	58,882
Pharmacy	163,801	555,692	719,493
Physical therapy	4,620	84,789	89,409
Psychiatric	1,688,443	819,976	2,508,419
Radiology	413,553	808,930	1,222,483
Respiratory therapy	191,619	95,686	287,305
Sleep lab	-	98,600	98,600
	5,627,050	4,958,912	10,585,962
General Services			
Dietary	-	525,234	525,234
Housekeeping	212,782	152,180	364,962
Medical records	237,105	83,222	320,327
Plant engineering	178,348	530,976	709,324
	628,235	1,291,612	1,919,847
Administrative Services			
Administrative and general	1,168,222	1,677,657	2,845,879
SHOPP assessment	-	587,917	587,917
Employee benefits	-	1,263,129	1,263,129
Insurance	-	368,497	368,497
	1,168,222	3,897,200	5,065,422
Provision for Depreciation	-	1,079,237	1,079,237
Total Expenses	$ 9,382,578	$ 12,717,655	$ 22,100,233

2014		
Salaries	Other	Total
$ 883,394	$ 839,256	$ 1,722,650
82,412	17,608	100,020
803,588	1,055,666	1,859,254
1,769,394	1,912,530	3,681,924
-	153,762	153,762
852,294	665,223	1,517,517
336,559	468,274	804,833
1,747,407	1,560,409	3,307,816
53,854	15,269	69,123
151,147	562,106	713,253
556	94,648	95,204
1,642,406	784,854	2,427,260
552,538	1,310,081	1,862,619
187,303	95,497	282,800
-	107,300	107,300
5,524,064	5,817,423	11,341,487
(168)	605,600	605,432
202,325	149,027	351,352
231,806	112,703	344,509
147,892	459,170	607,062
581,855	1,326,500	1,908,355
1,123,896	1,555,153	2,679,049
-	525,909	525,909
-	1,157,765	1,157,765
-	490,866	490,866
1,123,896	3,729,693	4,853,589
-	1,021,558	1,021,558
$ 8,999,209	$ 13,807,704	$ 22,806,913

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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
Wagoner Hospital Authority
Wagoner, 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 Wagoner Hospital Authority (Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 28, 2016.

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 opinion 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies: 2015-A through 2015-D.

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. 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 it.

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
March 28, 2016

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2015-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 U.S. generally accepted accounting principles (GAAP).

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

Cause: Misstatements to the internal financial statements were not prevented or detected on a timely basis in the normal course of business. Therefore, there were several significant adjusting journal entries at year end proposed during the audit process.

Effect: Failure to periodically review account balances can result in errors on the interim financial statements and represents a weakness in internal control over financial reporting. Improper oversight of the accounting function allowed misstatements to occur. Also, the year-end financial report is prepared by the auditors, a party outside of the Authority. The outside party does not have constant contact with ongoing financial transactions that the internal staff has. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Authority management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

2015-B Segregation of Duties

Criteria: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

Condition: During the course of our engagement, we noted that the Authority has limited staff completing incompatible accounting functions due to the size of the Authority. There were no review of the journal entries or monthly reconciliations.

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

Effect: Inadequate segregation of duties could adversely affect the organizations ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions.

Auditor's Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Management Response: Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

2015-C Cost Report Estimate

Criteria: Accountings standards require an entity to estimate the Medicare cost report settlement in order to fairly state the financial position as of year-end.

Condition: During the current year, the Authority did not record an estimate for the Medicare cost report settlement for the current year. This has been previously identified as a finding.

Cause: The current year cost report settlement was not estimated at year-end which resulted in a journal entry to the financial statements.

Effect: An adjusting journal entry was necessary to properly state the current year settlement.

Auditor's Recommendation: We recommend the Authority consider interim cost reports, purchase software or develop an internal spread sheet to assist with the estimate.

Management Response: Management will evaluate the cost benefit of providing an accurate estimate.

2015-D Credit Balances in Patient Accounts Receivable

Criteria: An important control in accounts receivable is to monitor patient balances within the detail and determine the reasoning and proper course of action on credit balances.

Condition: A large number of credit balances exist within patient accounts receivable. This has been a recurring finding.

Cause: Credit balances within patient accounts receivable are not being reviewed on a regular basis.

Effect: A reclassification entry was made to record these credit balances (or negative receivables) as accounts payable for financial statement reporting purposes.

Auditor's Recommendation: We recommend that management and business office staff continue to monitor the accounts receivable listing and determine the status of these accounts with credit balances. We also recommend that any credit balances be reviewed on a monthly basis so necessary action can be taken in regards to these accounts as soon as possible. This process will ensure the accuracy of the accounts receivable detail and strengthen internal controls over accounts receivable.

Management Response: Management will work to analyze these accounts and determine the proper course of action on the accounts.