Management's Discussion and Analysis
and Financial Statements
September 30, 2017 and 2016

Weatherford Hospital Authority

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
Weatherford Hospital Authority
Weatherford, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Weatherford Hospital Authority (Authority) which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and related notes to the financial statements, which collectively comprise the Authority's financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Weatherford Hospital Authority as of September 30, 2017 and 2016, 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 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
April 30, 2018

Our discussion and analysis for Weatherford Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended September 30, 2017, 2016, and 2015. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

Financial Highlights

- The Authority's net position decreased in each of the past 2 years with a $2,895,899 or 41% decrease in 2017 and a $1,770,668 or 20% decrease in 2016.
- The Authority reported an operating loss in 2017 of $1,470,883 and an operating loss of $1,253,725 in 2016. The operating loss in 2017 increased by $217,158 or 17% over the loss reported in 2016. Operating loss in 2016 increased by $1,022,669 or 443% compared to 2015.
- The Authority activated a dormant non-profit corporation by naming its board as the board of Weatherford Regional Hospital, Inc. (WRHI) for the purpose of retiring the bonds payable. WRHI purchased the Authority's assets and leased them back to the Authority.

Using This Annual Report

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

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

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The 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 all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Statements of Cash Flows

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

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Statements of Net Position on page 8. The Authority's net position decreased in 2017 by $2,895,899 or 41% and decreased in 2016 by $1,770,668 or 20%.

	2017	2016	2015
Assets			
Cash, cash equivalents, and short term certificates of deposit	$ 3,624,149	$ 3,710,858	$ 4,251,740
Restricted cash and investments	1,219,125	2,080,273	1,973,527
Patient accounts receivable, net	2,203,742	3,005,285	3,474,034
Other current assets	435,310	596,833	839,388
Capital assets, net	8,957,482	9,962,245	10,924,321
Other noncurrent assets	192,729	543,910	543,910
Total assets	$ 16,632,537	$ 19,899,404	$ 22,006,920
Liabilities			
Long-term debt	$ 10,374,530	$ 10,210,752	$ 10,371,222
Other current liabilities	2,095,265	2,630,011	2,806,389
Total liabilities	12,469,795	12,840,763	13,177,611
Net Position			
Net investment in capital assets	(1,417,048)	(248,507)	553,099
Restricted expendable	1,219,125	2,080,273	1,973,527
Unrestricted	4,360,665	5,226,875	6,302,683
Total net position	4,162,742	7,058,641	8,829,309
Total liabilities and net position	$ 16,632,537	$ 19,899,404	$ 22,006,920

Assets, Liabilities, and Net Position

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

- Cash, cash equivalents and short term certificates of deposit decreased $86,709 or 2% during 2017 and decreased $540,882 or 13% during 2016.
- Patient receivables decreased $801,543 or 27% during 2017 compared to the decrease of $468,749 or 13% during 2016.
- Capital assets, net decreased $1,004,763 during 2017 compared to the decrease of $962,076 during 2016.

Operating Results and Changes in Net Position

	2017	2016	2015
Operating Revenue			
Net patient service revenue	$ 15,324,959	$ 16,373,066	$ 17,546,117
Other revenue	203,389	161,397	161,060
Total operating revenue	15,528,348	16,534,463	17,707,177
Operating Expenses			
Salaries, wages, and employee benefits	8,119,296	8,702,599	8,640,451
Purchased services and professional fees	3,729,862	3,863,496	3,661,866
Depreciation	1,144,228	1,369,334	1,489,340
Supplies and other	4,005,845	3,852,759	4,146,576
Total operating expenses	16,999,231	17,788,188	17,938,233
Operating Loss	(1,470,883)	(1,253,725)	(231,056)
Nonoperating Revenues (Expenses)			
Investment income	9,806	9,145	15,385
Interest expense	(756,026)	(682,335)	(702,357)
Debt issuance costs	(659,946)	-	-
Early termination fees	(191,600)	-	-
Loss on disposal of capital assets	(20,010)	-	-
Non capital grants and contributions	26,004	41,797	25,829
Net nonoperating expenses	(1,591,772)	(631,393)	(661,143)
Expenses in Excess of Revenues	(3,062,655)	(1,885,118)	(892,199)
Capital appropriations and contributions			
Capital appropriations-City of Weatherford	109,756	104,950	104,137
Capital contributions	57,000	9,500	33,443
Change in Net Position	(2,895,899)	(1,770,668)	(754,619)
Net Position, Beginning of the Year	7,058,641	8,829,309	9,583,928
Net Position, End of Year	$ 4,162,742	$ 7,058,641	$ 8,829,309

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally the operating income or loss is the difference between net patient service revenues and the expenses incurred to perform those services. The operating loss for 2017 was $1,470,883. The operating loss in 2017 increased by $217,158 compared to the 2016 operating loss of $1,253,725. The primary components of the change in the operating income during 2017 was the decrease in net patient service revenue of $1,048,107 which is attributable to declining census, compared to a decrease of $1,173,051 in 2016 which was attributable to declines in census and decreases in reimbursement rates and the decrease in operating expenses of $788,957 in 2017 compared to a decrease of $150,045 in 2016.

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Authority when it was established. There was $443,000 of charity care provided in 2017 and $642,000 in 2016 based on charges foregone. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of, interest expense, debt issuance costs, non-capital donations and investment income. The major change in nonoperating expense is due to the addition of debt issuance costs and early termination fees which were $851,546 in 2017 compared to $0 in 2016 and the increase in interest expense which increased in 2017 by $73,691 compared to a decrease of $20,022 in 2016. As a result of these factors, net nonoperating expenses increased by $960,379 in 2017 compared to the $29,750 decrease of nonoperating expenses in 2016.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents of $1,497,015 in 2017 and a decrease of $437,906 in 2016. Cash flows from operating activities decreased by $311,342 during 2017. This was due primarily to the decrease in receipts from and on behalf of patients. Cash flows from operating activities decreased by $813,648 in 2016. Cash from non-capital financing activities decreased by $19,168 when compared with 2016 and increased by $15,968, when compared with 2015. Cash used for capital and capital related financing activities increased by $535,053 when compared with 2016 and decreased $7,693 when compared to 2015. Cash from investing activities decreased by $193,546 in 2017 and decreased $3,683 in 2016 due to renewing certificates of deposits.

Capital Assets

At the end of 2017 and 2016, the Authority had $8,957,482 and $9,962,245 invested in net capital assets, as detailed in Note 4 to the financial statements. The Authority had capital additions of $159,476 in 2017 compared with additions of $407,258 in 2016.

Debt

At September 30, 2017, the Authority had $10,374,530 in outstanding long-term debt, which represents an increase of $163,778 over 2016 compared to a decrease of $160,470 over 2015. For additional information regarding long-term debt, please see Note 7 to the financial statements.

Contacting the Authority's Financial Management

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

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	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 2,069,236	$ 2,705,103
Short term investments	1,554,913	1,005,755
Restricted cash and investments	-	429,613
Receivables		
Patient, net of estimated uncollectibles of approximately $1,901,000 in 2017 and $1,838,000 in 2016	2,203,742	3,005,285
Estimated third-party payor settlements	63,998	148,478
Supplies	223,088	280,835
Prepaid expenses	148,224	167,520
Total current assets	6,263,201	7,742,589
Noncurrent Cash and Certificates of Deposit		
Noncurrent certificate of deposit	-	543,910
Restricted for future construction	739,125	628,412
Restricted by trustee for debt service	480,000	1,022,248
Total noncurrent cash and certificates of deposit	1,219,125	2,194,570
Notes Receivable	192,729	-
Capital Assets		
Capital assets not being depreciated	1,151,916	1,151,916
Capital assets being depreciated, net	7,805,566	8,810,329
Total capital assets	8,957,482	9,962,245
Total assets	$ 16,632,537	$ 19,899,404

	2017	2016
Liabilities and Net Position		
Current Liabilities		
Note payable to bank	$ 399,096	$ 404,096
Current maturities of long-term debt	290,472	507,753
Accounts payable	1,157,984	1,499,470
Accrued expenses		
Salaries and benefits	538,185	483,792
Interest	-	242,653
Total current liabilities	2,385,737	3,137,764
Long Term Debt, Less Current Maturities	10,084,058	9,702,999
Total liabilities	12,469,795	12,840,763
Net Position		
Net investment in capital assets	(1,417,048)	(248,507)
Restricted		
Expendable for debt service	480,000	1,451,861
Expendable for capital acquisitions	739,125	628,412
Unrestricted	4,360,665	5,226,875
Total net position	4,162,742	7,058,641
Total liabilities and net position	$ 16,632,537	$ 19,899,404

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $4,930,598 in 2017 and $2,781,822 in 2016	$ 15,324,959	$ 16,373,066
Other revenue	203,389	161,397
Total operating revenue	15,528,348	16,534,463
Operating Expenses		
Salaries and wages	6,813,927	7,242,476
Employee benefits	1,305,369	1,460,123
Purchased services and professional fees	3,729,862	3,863,496
Supplies and other	4,005,845	3,852,759
Depreciation and amortization	1,144,228	1,369,334
Total operating expenses	16,999,231	17,788,188
Operating Loss	(1,470,883)	(1,253,725)
Nonoperating Revenues (Expenses)		
Early termination fees	(191,600)	-
Debt issuance costs	(659,946)	-
Investment income	9,806	9,145
Interest expense	(756,026)	(682,335)
Non capital grants and contributions	26,004	41,797
Loss on disposal of capital assets	(20,010)	-
Nonoperating expenses, net	(1,591,772)	(631,393)
Expenses in Excess of Revenues Before Capital Appropriations and Capital Contributions	(3,062,655)	(1,885,118)
Capital Appropriations - City of Weatherford	109,756	104,950
Capital Contributions	57,000	9,500
Change in Net Position	(2,895,899)	(1,770,668)
Net Position, Beginning of the Year	7,058,641	8,829,309
Net Position, End of Year	$ 4,162,742	$ 7,058,641

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	$ 16,210,982	$ 17,039,280
Payments to and on behalf of employees	(8,064,903)	(8,901,643)
Payments to suppliers and contractors	(8,000,150)	(7,638,374)
Other receipts	203,389	161,397
Net Cash from Operating Activities	349,318	660,660
Non Capital Related Financing Activities		
Interest paid on short term bank note	(20,804)	(22,429)
Payments on line of credit	(5,000)	-
Non capital contributions and donations	26,004	41,797
Net Cash from Non Capital Financing Activities	200	19,368
Capital and Capital Related Financing Activities		
Capital contributions	57,000	9,500
Capital appropriations - City of Weatherford	109,756	104,950
Principal payments on debt obligations	(140,409)	(464,355)
Proceeds from issuance of debt	10,250,000	299,606
Retirements of debt	(9,945,813)	-
Interest paid on debt obligations	(977,875)	(665,752)
Payment for early termination fees	(191,600)	-
Payment for debt issuance costs	(659,946)	-
Purchase of capital assets	(159,475)	(407,258)
Net Cash used for Capital and Capital Related Financing Activities	(1,658,362)	(1,123,309)
Investing Activities		
Interest income	9,806	9,145
Issuance of note receivable	(192,729)	-
Purchase of investments	(5,248)	(3,770)
Net Cash from (used for) Investing Activities	(188,171)	5,375
Net Change in Cash and Cash Equivalents	(1,497,015)	(437,906)
Cash and Cash Equivalents, Beginning of Year	4,785,376	5,223,282
Cash and Cash Equivalents, End of Year	$ 3,288,361	$ 4,785,376

	2017	2016
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	$ 2,069,236	$ 2,705,103
Restricted cash and investments - in current assets	-	429,613
Noncurrent cash and investments		
Restricted future construction	739,125	628,412
Restricted for debt service	480,000	1,022,248
Total Cash and Cash Equivalents	$ 3,288,361	$ 4,785,376

	2017	2016
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$ (1,470,883)	$ (1,253,725)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	1,144,228	1,369,334
Provision for bad debts	4,930,598	2,650,146
Changes in assets and liabilities		
Patient receivables	(4,129,055)	(2,181,397)
Supplies	57,747	48,625
Prepaid expenses	19,296	(3,535)
Estimated third-party payor settlements	84,480	197,465
Accounts payable	(341,486)	32,791
Accrued expenses	54,393	(199,044)
Net Cash from Operating Activities	$ 349,318	$ 660,660

	2017	2016
Supplemental Non Cash Investing and Financing Activities		
Assets purchased under capital lease financing arrangements	$ -	$ 299,606

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

Weatherford Regional Hospital, Inc. (WRHI) was an inactive not for profit entity with the Authority listed as the beneficiary. In January 2017, the Authority's board reactivated the WRHI, appointing the board members of the Authority as the board of WRHI for the purpose of terminating the 2006 Revenue Bonds at 6% and obtaining new financing at 2.375%. On June 9, 2017, WRHI entered into a 30 year loan agreement with the USDA for $10,250,000. WRHI purchased the hospital facilities of the Authority. Effective the same day June 9, 2017, WRHI and the Authority entered into a lease agreement where the Authority agreed to lease the facilities from WRHI for annual payments of $478,476, which are the debt service payments of the USDA loan. When the USDA loans have been paid back in full, the Authority will pay $10 for each lease renewal period thereafter.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority.

Blended Component Unit

WRHI is a corporation that was established in order to qualify for a USDA loan. The WRHI is a non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The WRHI is included as a blended component unit of the Authority. The financial statements include only the financial activity of the Authority and the WRHI, collectively referred to as the Authority. Financial statements of the WRHI can be obtained by contacting the Authority's Chief Financial Officer.

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.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority did not have any restricted non expendable net position for the years ended September 30, 2017 and 2016.

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 reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents. At September 30, 2017 and 2016, cash equivalents consisted of money market mutual funds and certificates of deposit.

Short-Term Investments

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

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 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.

Noncurrent Cash and Certificates of Deposit

Noncurrent cash and certificates of deposit includes unrestricted certificates of deposit with maturity dates in excess of 12 months and restricted certificates of deposit for future capital improvements are restricted under a sales tax ordinance. Restricted certificates of deposit under debt agreements are restricted by the trustee for debt service. Designated or restricted certificates of deposit that are available for obligations classified as current liabilities are reported in current assets.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment 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 the depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	10 years
Buildings and improvements	5-40 years
Equipment	3-25 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from expenses in excess of revenues. 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.

Notes Receivable

The Authority issues notes to employees and physicians as part of its recruitment process. Notes are repayable starting 36 months after the note is received or immediately if the agreement is terminated. The notes are then amortized over a 36 month period and are issued with 2.0% interest rate, not to exceed the prime rate of interest as published in the Wall Street Journal. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven.

At September 30, 2017 and 2016, notes receivable from physicians and employees totaled $192,729 and $0.

Bond Premiums and Discounts

Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are amortized over the life debt using the effective interest method. Amortization is included in interest expense.

Compensated Absences

The Authority's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued salaries and benefits in the accompanying financial statements.

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 $443,000 and $642,000 for the years ended September 30, 2017 and 2016. Total direct and indirect costs related to these foregone charges were approximately $202,000 and $310,000 at September 30, 2017 and 2016, based on an average ratio of cost to gross charges.

Supplemental Hospital Offset Payment Program Act

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

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

The Authority received SHOPP payments totaling approximately $329,000 and $497,000 for the years ended September 30, 2017 and 2016, which is included in net patient service revenue.

Capital Appropriations

Effective April 6, 2010, the citizens of the City of Weatherford, Oklahoma (City) approved a 1% sales tax for several major projects within the City. The Authority receives 5% of the 1% sales tax up to an aggregate amount of $1,022,722. The Authority has received approximately $652,000 through September 30, 2017 and expects to not exceed receipts in excess of the aggregate amount. The tax expires in 2020. The City appropriates these amounts monthly to the Authority. The Authority reports this as Capital Appropriations - City of Weatherford.

Grants and Contributions

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

Note 2 - Net Patient Service Revenue

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

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursed methodology with a final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended September 30, 2015. Clinical services are paid on a cost basis or fixed fee schedule.

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

Blue Cross: Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

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

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, 2017 and 2016:

	2017	2016
Medicare	41%	40%
Medicaid	12%	13%
Blue Cross and other commercial payors	39%	40%
Self pay and other	8%	7%
	100%	100%

The net patient service revenue decreased approximately $589,000 and $797,000 for the years ended September 30, 2017 and 2016 due to actual collection less than allowances previously estimated and other changes in estimates.

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 increased approximately $201,000 for the year ended September 30, 2016 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.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of September 30, 2017 and 2016 are as follows:

	2017	2016
Carrying amounts		
Cash and deposits	$ 4,843,274	$ 6,335,041

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

	2017	2016
Included in the following balance sheet captions		
Cash and cash equivalents	$ 2,069,236	$ 2,705,103
Short-term certificates of deposit	1,554,913	1,005,755
Current portion restricted under bond indenture agreements	-	429,613
Non current cash and certificates of deposit		
Noncurrent certificate of deposit	-	543,910
Restricted for future construction	739,125	628,412
Restricted by trustee for debt service	480,000	1,022,248
	$ 4,843,274	$ 6,335,041

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. 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 Weatherford Hospital Authority's deposits in banks at September 30, 2017 and 2016 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

As of September 30, 2017, $230,000 of Weatherford Regional Hospital, Inc.'s bank balance of $480,000 was exposed to custodial credit risk.

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

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

Investment Income

Investment income, primarily interest income, for the years ended September 30, 2017 and 2016 was $9,806 and $9,145.

Note 4 - Capital Assets

Capital assets additions and transfers, disposals, and balances for the year ended September 30, 2017 are as follows:

	Balance, September 30, 2016	Additions and Transfers	Disposals	Balance , September 30, 2017
Capital assets not being depreciated				
Land	$ 873,001	$ -	$ -	$ 873,001
Construction in progress	278,915	-	-	278,915
Total capital assets not being depreciated	$ 1,151,916	$ -	$ -	$ 1,151,916
Capital assets being depreciated				
Land improvements	$ 130,685	$ -	$ -	$ 130,685
Building and improvements	15,777,131	-	-	15,777,131
Equipment	10,623,615	159,475	(203,984)	10,579,106
	26,531,431	$ 159,475	$ (203,984)	26,486,922
Less accumulated depreciation for:				
Land improvements	(106,655)	$ (6,599)	$ -	(113,254)
Building and improvements	(8,328,046)	(691,070)	-	(9,019,116)
Equipment	(9,286,401)	(446,559)	183,973	(9,548,987)
Total accumulated depreciation	(17,721,102)	$ (1,144,228)	$ 183,973	(18,681,357)
Total capital assets being depreciated, net	$ 8,810,329			$ 7,805,565
Total capital assets, net	$ 9,962,245			$ 8,957,482

Construction in progress at September 30, 2017, represents an addition of a surgery suite and rehab and professional building. The estimated cost to complete this project is $6,250,000, which will be financed with loan and sales tax proceeds. The project is in the preconstruction phase and is currently on hold. The board is revisiting the project quarterly. The preconstruction cost are not considered impaired.

Capital assets additions and transfers, disposals, and balances for the year ended September 30, 2016 are as follows:

	Balance, September 30, 2015	Additions and Transfers	Disposals	Balance, September 30, 2016
Capital assets not being depreciated				
Land	$ 873,001	$ -	$ -	$ 873,001
Construction in progress	278,915	-	-	278,915
Total capital assets not being depreciated	$ 1,151,916	$ -	$ -	$ 1,151,916
Capital assets being depreciated				
Land improvements	$ 130,685	$ -	$ -	$ 130,685
Building and improvements	15,777,131	-	-	15,777,131
Equipment	10,216,357	407,257	-	10,623,614
Total capital assets being depreciated	26,124,173	$ 407,257	$ -	26,531,430
Less accumulated depreciation for:				
Land improvements	(97,340)	$ (9,315)	$ -	(106,655)
Building and improvements	(7,581,972)	(746,074)	-	(8,328,046)
Equipment	(8,672,456)	(613,945)	-	(9,286,401)
Total accumulated depreciation	(16,351,768)	$ (1,369,334)	$ -	(17,721,102)
Total capital assets being depreciated, net	$ 9,772,405			$ 8,810,328
Total capital assets, net	$ 10,924,321			$ 9,962,245

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended September 30, 2017 and 2016 for all operating leases was $528,717 and $433,452. The capitalized leased assets consist of:

	2017	2016
Major movable equipment	$ 367,106	$ 367,106
Less accumulated amortization	(187,789)	(110,621)
	$ 179,317	$ 256,485

Minimum future lease payments for capital and operating leases are as follows:

Years Ending September 30,	Capital Leases	Operating Leases
2018	$ 86,517	$ 67,645
2019	67,305	61,135
2020	39,605	39,582
2021	2,746	-
2022	-	-
Total minimum lease payments	196,173	$ 168,362
Less interest (imputed interest 5.5%-6.7%)	(13,266)	
Present value of minimum lease payments (Note 7)	$ 182,907	

Note 6 - Note Payable to Bank

The Authority has a $500,000 revolving line of credit. The line of credit has been renewed through February 2018. The Authority made draws of $0 during the years ended September 30, 2017 and 2016 and principal payments of $5,000 were made during both 2017 and 2016, respectively. At September 30, 2017 and 2016, there was $399,096 and $404,096 outstanding related to this line of credit at September 30, 2017 and 2016. The line is collateralized by the Authority's accounts receivable. Interest varies with the bank's prime rate plus 1.5% (5.5% at September 30, 2017) and is payable monthly.

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2016 and 2017 is as follows:

	Balance, September 30, 2016	Additions	Reductions or Payments	Balance, September 30, 2017	Due Within One Year
Bonds payable:					
Revenue bonds,					
Series 2006	$ 10,010,000	$ -	$ (10,010,000)	$ -	$ -
Bond discount	(64,187)	-	64,187	-	-
Total bonds	9,945,813	-	(9,945,813)	-	-
USDA Note Payable					
Note payable	-	10,250,000	(58,377)	10,191,623	212,058
Capital Leases (Note 5)	264,939	-	(82,032)	182,907	78,414
Total long-term debt	$ 10,210,752	$ 10,250,000	$ (10,086,222)	$ 10,374,530	$ 290,472

	Balance, September 30, 2015	Additions	Reductions or Payments	Balance, September 30, 2016	Due Within One Year
Bonds payable:					
Revenue bonds,					
Series 2006	$ 10,417,031	$ -	$ (407,031)	$ 10,010,000	$ 430,000
Bond discount	(68,466)	-	4,279	(64,187)	(4,279)
Total bonds	10,348,565	-	(402,752)	9,945,813	425,721
Capital Leases (Note 5)	22,657	299,606	(57,324)	264,939	82,032
Total long-term debt	$ 10,371,222	$ 299,606	$ (460,076)	$ 10,210,752	$ 507,753

- The Weatherford Hospital Authority Revenue Bonds, Series 2006 (Bonds) in the original amount of $11,500,000 and sold at a discount of $105,793 were dated May 1, 2006, which bear interest at 6% and were due May 1, 2031. The Bonds were payable with principal payments due annually and interest payments due semiannually. The Authority was required to make monthly deposits to the debt service fund held by the trustee in the amount of 1/6 the next semiannual interest payment due and 1/12 the amount of the next annual principal payment due. The bonds were paid in full in July 2017 at a redemption price of 102%. Early termination fees of $191,600 were recorded as non operating expenses in the accompanying statement of revenues, expenses and net position.

- The USDA Note Payable issued June 2017 is secured by the Authority's real and personal assets, and is payable in monthly installments of $39,873 including interest at 2.375% through maturity in June 2047. In connection with the USDA Note Payable debt issuance cost of $659,946 were recorded as non operating expenses in the accompanying statement of revenues, expenses, and net position.

- Capital lease obligations with varying imputed interest of 5.5% to 6.7% maturing April 2019 through November 2020.

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending September 30,	Long-Term Debt Principal	Long-Term Debt Interest	Total
2018	$ 212,058	$ 266,418	$ 478,476
2019	221,153	257,323	478,476
2020	230,249	248,227	478,476
2021	239,344	239,132	478,476
2022	248,439	230,037	478,476
2023-2027	1,378,627	1,013,753	2,392,380
2028-2032	1,606,011	786,369	2,392,380
2033-2037	1,833,395	558,986	2,392,381
2038-2042	2,060,778	331,602	2,392,380
2023-2047	2,161,569	104,407	2,265,976
Total	$ 10,191,623	$ 4,036,254	$ 14,227,877

Note 8 - Retirement Plan

Defined Contribution Plan

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

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

Participants are immediately vested in their voluntary contribution plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100% vested after three years of service. The discretionary contributions to the Plan were approximately $113,000, and $122,000 and $114,000 for the years ended September 30, 2017, and 2016 and 2015.

Note 9 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	29%	27%
Medicaid	9%	10%
Other third-party payors	27%	31%
Patients	35%	32%
	100%	100%

Note 10 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

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

Litigation, Claims and Disputes

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

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

Note 11 - Related Party Transactions

The financial statements of the Authority include contributions received by Weatherford Regional Hospital Foundation in the amount of $63,000 and $20,900 for the years ended September 30, 2017 and 2016. The Foundation is a not-for-profit organization that raises funds to secure and expend financial aid for the operation and maintenance of the Weatherford Regional Hospital Authority.

Note 12 - Condensed Combining Information

The following summarizes combining information for the Authority and WRHI, which has been presented as a blended component unit, as of and for the year ended September 30, 2017.

Statement of net position as of September 30, 2017:

	Weatherford Regional Hospital, Inc.	Weatherford Hospital Authority	Total of Authority	Reclassifications or Eliminations	Combined Total
Assets					
Current assets	$ 478,476.00	$ 6,263,201	$ 6,741,677	$ (478,476)	$ 6,263,201
Capital assets, net	-	8,957,482	8,957,482	-	8,957,482
Other assets	10,459,564	931,854	11,391,418	(9,979,564)	1,411,854
Total assets	$ 10,938,040	$ 16,152,537	$ 27,090,577	$ (10,458,040)	$ 16,632,537
Liabilities					
Current liabilities	$ 478,476	$ 2,385,737	$ 2,864,213	$ (478,476)	$ 2,385,737
Due to related party - lease payable	-	9,979,564	9,979,564	(9,979,564)	-
Long-term debt, less current maturities	9,979,564	104,494	10,084,058	-	10,084,058
Total liabilities	10,458,040	12,469,795	22,927,835	(10,458,040)	12,469,795
Net position					
Net investment in capital assets	-	(1,417,048)	(1,417,048)	-	(1,417,048)
Restricted	480,000	739,125	1,219,125	-	1,219,125
Unrestricted	-	4,360,665	4,360,665	-	4,360,665
Total net position	480,000	3,682,742	4,162,742	-	4,162,742
Total liabilities and net position	$ 10,938,040	$ 16,152,537	$ 27,090,577	$ (10,458,040)	$ 16,632,537

Statement of revenues, expenses and changes in net position for the year ended September 30, 2017:

	Weatherford Regional Hospital, Inc.	Weatherford Hospital Authority	Total of Authority	Reclassifications or Eliminations	Combined Total
Operating revenues					
Net patient (and resident) service revenue	$ -	$ 15,324,959	$ 15,324,959	$ -	$ 15,324,959
Other operating revenue	119,619	203,389	323,008	(119,619)	203,389
Total operating revenues	119,619	15,528,348	15,647,967	(119,619)	15,528,348
Operating expenses					
Depreciation and amortization	-	1,144,228	1,144,228	-	1,144,228
Other operating expenses	-	15,974,622	15,974,622	(119,619)	15,855,003
Total operating expenses	-	17,118,850	17,118,850	(119,619)	16,999,231
Operating income (loss)	119,619	(1,590,502)	(1,470,883)	-	(1,470,883)
Nonoperating revenues (expenses)	360,381	(1,952,153)	(1,591,772)	-	(1,591,772)
Revenues in excess of (less than) expenses	480,000	(3,542,655)	(3,062,655)	-	(3,062,655)
Capital contributions/appropriations	-	166,756	166,756	-	166,756
Change in net position	480,000	(3,375,899)	(2,895,899)	-	(2,895,899)
Net position, beginning of year	-	7,058,641	7,058,641	-	7,058,641
Net position, end of year	$ 480,000	$ 3,682,742	$ 4,162,742	$ -	$ 4,162,742

Cash flows for the year ended September 30, 2017:

	Weatherford Regional Hospital, Inc.	Weatherford Hospital Authority	Total of Authority	Eliminations	Combined Total
Net cash from operating activities	$ 119,619	$ 349,318	$ 468,937	$ (119,619)	$ 349,318
Net cash from (used for) noncapital financing activities	-	200	200	-	200
Net cash from (used for) capital and capital related financing activities	360,381	(2,138,362)	(1,777,981)	119,619	(1,658,362)
Net cash from (used for) investing activities	-	(188,171)	(188,171)	-	(188,171)
Net change in cash and cash equivalents	480,000	(1,977,015)	(1,497,015)	-	(1,497,015)
Cash and cash equivalents, beginning of year	-	4,785,376	4,785,376	-	4,785,376
Cash and cash equivalents, end of year	$ 480,000	$ 2,808,361	$ 3,288,361	$ -	$ 3,288,361

Note 13 - Subsequent Events

On February 15, 2018, Weatherford Regional Hospital, Inc. (Hospital) signed a management agreement with SSM Health Care of Oklahoma, Inc., an Oklahoma nonprofit corporation that owns and operates St. Anthony Hospital (Manager), stating that SSM Health Care of Oklahoma, Inc. will provide management services to the Hospital starting April 1, 2018 and will continue for a period of 3 years. The Manager will provide a qualified person who will be the Chief Executive Officer (CEO) for the Hospital on a full-time basis. The Manager will also provide qualified persons who will be the Chief Financial Officer (CFO), Chief Nursing Officer (CNO), and Human Resource Director (HRD) for the Hospital, who will report directly to the CEO. The Hospital will reimburse the Manager for compensation, including salary and employee benefits, for the CEO, CFO, CNO, and HRD plus a 3% markup in addition to the base management fee of $15,000 per month, adjusted for CPI. Management fees will increase if the Hospital becomes profitable, but not to exceed $30,000 per month.

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

Board of Trustees
Weatherford Hospital Authority
Weatherford, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Weatherford Hospital Authority (Authority) which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

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.

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 questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2017-A through 2017-C in the accompanying schedule of findings and questioned costs 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. We consider the following deficiency described as item 2017-D in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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 responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority'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 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
April 30, 2018

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Its Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Trustees
Weatherford Hospital Authority
Weatherford, Oklahoma

Report on Compliance for the Major Federal Program

We have audited Weatherford Hospital Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended September 30, 2017. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal programs occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

A s*ignificant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended September 30, 2017, and have issued our report thereon dated April 30, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
April 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
Department of Agriculture			
Direct - Rural Development Program			
Community Facilities Loans and Grants	10.766	N/A	$ 10,250,000
Department of Health and Human Services			
Passed through the Oklahoma State Department of Health			
Hospital Preparedness Program	93.074	N/A	5,455
Passed through the Oklahoma Office of Rural Health			
Small Rural Hospital Improvement Program	93.301	N/A	8,146
Total Department of Health and Human Services			13,601
Total Federal Financial Assistance			$ 10,263,601

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Weatherford Hospital Authority (Authority) under programs of the federal government for the year ended September 30, 2017. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note B - Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note C – Indirect Cost Rate

The Authority does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Note D – Loans Programs

Expenditures reported in the schedule consist of the beginning of the year outstanding loan balance plus advances made on the loan during the year. The outstanding balance at September 30, 2017 was $10,191,623.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiency identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program	CFDA Number
Community Facilities Loans and Grants	10.766

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2017-A Preparation of Financial Statements
Material Weakness

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

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with standards established by GAAP.

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

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

Auditor's Recommendation: We recommend that management should consider the cost and benefits of financial statement preparation internally or from an outside party. In addition, management should consider the effects of other deficiencies on the financial reporting process.

Views of Responsible Officials: Management agrees with the finding.

2017-B Allowance for Contractual Adjustments and Doubtful Accounts Estimate
Material Weakness

Condition: Accounting standards require an entity to estimate an allowance on the collectability of patient receivables. The allowance should be based on historical data and current reimbursement rates

Criteria: The Authority does not have an internal control process designed to identify changes in reimbursement from third-party payors or patients (self-pay).

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 Authority'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 Authority 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.

Section II – Financial Statement Findings (continued)

Cause: The Authority's method for calculating the allowance for bad debts was based on estimated collection percentages by aging class, which had not been updated for historical collections. The Authority's method for calculating allowances for contractual allowances had been updated to reflect current collection trends.

Auditor's Recommendation: It is recommended the Authority 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 after the final payment from the first payor class has been received.

Views of Responsible Officials: Management agrees with the above finding.

2017-C Cost Report Estimate
Material Weakness

Condition: Accounting standards require an entity to estimate cost report settlements in order to fairly state financial position monthly and as of year-end.

Criteria: During the current year the Authority did not estimate the financial effect of the Medicare cost report settlement for the current year correctly. The Authority should record adjustments for current year activity to the estimated third party payor settlement account. Accounting standards require an entity to estimate the Medicare cost report settlement in order to fairly state the financial position as of year-end.

Effect: This resulted in material adjusting journal entry to properly state the current year settlement.

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

Auditor's Recommendation: It is recommended the Authority implement a system that provides adequate controls over estimating cost report settlements.

Views of Responsible Officials: Management agrees with the above finding.

Section II – Financial Statement Findings (continued)

2017-D Depreciation Schedule
Significant Deficiency

Condition: The Authority did not reconcile the fixed asset listing to the general ledger. The fixed asset listing has not been updated for prior year reconciling items and the Authority did not record a loss on the impairment of two boilers.

Criteria: Accounting task such as monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. This would involve monthly reconciliations of the fixed asset listing to the general ledger.

Effect: Capital assets, depreciation and gain (loss) on disposals were not properly stated in the interim financial statements.

Cause: The Authority does not have proper policies and procedures in place to reconcile the fixed asset listing to the general ledger.

Auditor's Recommendation: It is recommended that the Authority develop policies and procedures to appropriately update and reconcile the fixed asset listing to the general ledger.

Views of Responsible Officials: Management agrees with the above finding.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs to the major federal award program during the year ended September 30, 2017.