



Management's Discussion and Analysis
and Financial Statements
September 30, 2018 and 2017

Weatherford Hospital Authority

Independent Auditor’s Report.....	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	12
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 <i>Government Auditing Standards</i>	29
Schedule of Findings and Responses.....	31



Independent Auditor's Report

Board of Trustees
Weatherford Hospital Authority
Weatherford, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Weatherford Hospital Authority (Authority) as of September 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and statements of 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 perform 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, 2018 and 2017, and changes in its net position, and its 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 inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019 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.



Oklahoma City, Oklahoma
January 28, 2019

Our discussion and analysis for Weatherford Hospital Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal years ended September 30, 2018, 2017, and 2016. 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 \$855,703 or 21% decrease in 2018 and a \$2,895,899 or 41% decrease in 2017.
- The Authority reported an operating loss in 2018 of \$888,401 and an operating loss of \$1,470,883 in 2017. The operating loss in 2018 decreased by \$582,482 or 41% over the loss reported in 2017. Operating loss in 2017 increased by \$217,158 or 17% compared to 2016.

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 2018 by \$855,703 or 21% and decreased in 2017 by \$2,895,899 or 41%.

	2018	2017	2016
Assets			
Cash, cash equivalents, and short term certificates of deposit	\$ 2,832,299	\$ 3,624,149	\$ 3,710,858
Restricted cash and investments	1,306,933	1,219,125	2,080,273
Patient accounts receivable, net	2,656,376	2,203,742	3,005,285
Other current assets	452,264	435,310	596,833
Capital assets, net	8,927,816	8,957,482	9,962,245
Other noncurrent assets	650,124	192,729	543,910
	Total assets	Total assets	Total assets
	\$ 16,825,812	\$ 16,632,537	\$ 19,899,404
Liabilities			
Long-term debt	\$ 10,144,536	\$ 10,374,530	\$ 10,210,752
Other current liabilities	3,374,237	2,095,265	2,630,011
	Total liabilities	Total liabilities	Total liabilities
	13,518,773	12,469,795	12,840,763
Net Position			
Net investment in capital assets	(1,216,720)	(1,417,048)	(248,507)
Restricted, expendable	1,306,933	1,219,125	2,080,273
Unrestricted	3,216,826	4,360,665	5,226,875
	Total net position	Total net position	Total net position
	3,307,039	4,162,742	7,058,641
	Total liabilities and net position	Total liabilities and net position	Total liabilities and net position
	\$ 16,825,812	\$ 16,632,537	\$ 19,899,404

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 \$791,850 or 22% during 2018 and decreased \$86,709 or 2% during 2017.
- Patient receivables increased \$452,634 or 21% during 2018 compared to the decrease of \$801,543 or 27% during 2017.
- Other current liabilities increased \$1,253,972 or 60% during 2018 compared to the decrease of \$534,746 or 20% during 2017.

Operating Results and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenue			
Net patient service revenue	\$ 15,788,145	\$ 15,324,959	\$ 16,373,066
Other revenue	266,997	203,389	161,397
	<u>16,055,142</u>	<u>15,528,348</u>	<u>16,534,463</u>
Operating Expenses			
Salaries, wages, and employee benefits	8,050,112	8,119,296	8,702,599
Purchased services and professional fees	4,132,695	3,729,862	3,862,496
Depreciation	775,789	1,144,228	1,369,334
Supplies and other	3,984,947	4,005,845	3,852,759
	<u>16,943,543</u>	<u>16,999,231</u>	<u>17,787,188</u>
Operating Loss	<u>(888,401)</u>	<u>(1,470,883)</u>	<u>(1,253,725)</u>
Nonoperating Revenues (Expenses)			
Investment income	27,243	9,806	9,145
Interest expense	(279,720)	(756,026)	(682,335)
Non capital grants and contributions	12,573	26,004	41,797
Loss on disposal of capital assets	-	(20,010)	-
Debt related costs and other	98,746	(851,546)	-
	<u>(141,158)</u>	<u>(1,591,772)</u>	<u>(631,393)</u>
Expenses in Excess of Revenues	(1,029,559)	(3,062,655)	(1,885,118)
Capital appropriations and contributions			
Capital appropriations-City of Weatherford	126,856	109,756	104,950
Capital contributions	47,000	57,000	9,500
Change in Net Position	(855,703)	(2,895,899)	(1,770,668)
Net Position, Beginning of the Year	<u>4,162,742</u>	<u>7,058,641</u>	<u>8,829,309</u>
Net Position, End of Year	<u>\$ 3,307,039</u>	<u>\$ 4,162,742</u>	<u>\$ 7,058,641</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally, the operating income or loss is the difference between net patient service revenues and the expenses incurred to perform those services. The operating loss for 2018 was \$888,401. The operating loss in 2018 decreased by \$582,482 compared to the 2017 operating loss of \$1,470,883. The primary components of the change in the operating income during 2018 was the increase in net patient service revenue of \$488,186 compared to a decrease of \$1,048,107 in 2017 which was attributable to declines in census and the decrease in operating expenses of \$55,688 in 2018 compared to a decrease of \$787,957 in 2017.

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 \$241,000 of charity care provided in 2018 and \$443,000 in 2017 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. In 2018, the Authority's interest expense decreased by \$476,306, compared to an increase of \$73,691 in 2017. In 2017, the Authority incurred costs of \$851,546 for debt issuance and early termination fees to pay off the Series 2006 bonds and issue new debt under the USDA. No such costs were incurred in 2018. As a result of these factors, total net nonoperating expenses decreased by \$1,450,614 in 2018 compared to the \$960,379 increase of nonoperating expenses in 2017.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents of \$718,487 in 2018 and a decrease of \$1,497,015 in 2017. Cash flows from operating activities increased by \$372,454 during 2018. This was due primarily to the decrease in payments to suppliers and contractors. Cash flows from operating activities decreased by \$311,342 in 2017. Cash used for non-capital financing activities increased by \$33,431 when compared with 2017 and decreased by \$19,168, when compared with 2016. Cash used for capital and capital related financing activities decreased by \$695,931 when compared with 2017 and increased \$535,053 when compared to 2016. Cash used for investing activities increased by \$256,426 in 2018 and increased \$193,546 in 2017 due to issuance of notes receivable.

Capital Assets

At the end of 2018 and 2017, the Authority had \$8,927,816 and \$8,957,482 invested in net capital assets, as detailed in Note 4 to the financial statements. The Authority had capital additions of \$746,123 in 2018 compared with additions of \$159,476 in 2017.

Debt

At September 30, 2018, the Authority had \$10,144,536 in outstanding long-term debt, which represents a decrease of \$229,994 over 2017 compared to an increase of \$163,778 over 2016. 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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	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,262,941	\$ 2,069,236
Short term investments	1,569,358	1,554,913
Receivables		
Patient, net of estimated uncollectibles of approximately \$2,778,000 in 2018 and \$1,901,000 in 2017	2,656,376	2,203,742
Estimated third-party payor settlements	-	63,998
Supplies	231,480	223,088
Prepaid expenses	220,784	148,224
	<u>5,940,939</u>	<u>6,263,201</u>
Noncurrent Cash and Certificates of Deposit		
Restricted for future construction	822,373	739,125
Restricted by trustee for debt service	484,560	480,000
	<u>1,306,933</u>	<u>1,219,125</u>
Notes Receivable	<u>650,124</u>	<u>192,729</u>
Capital Assets		
Capital assets not being depreciated	1,569,883	1,151,916
Capital assets being depreciated, net	7,357,933	7,805,566
	<u>8,927,816</u>	<u>8,957,482</u>
Total assets	<u>\$ 16,825,812</u>	<u>\$ 16,632,537</u>

See Notes to Financial Statements

Weatherford Hospital Authority
Statements of Net Position
September 30, 2018 and 2017

	2018	2017
Liabilities and Net Position		
Current Liabilities		
Note payable to bank	\$ 374,096	\$ 399,096
Current maturities of long-term debt	369,124	290,472
Accounts payable		
Trade	2,238,310	1,157,984
Estimated third-party payor settlements	267,031	-
Accrued salaries and benefits	494,800	538,185
Total current liabilities	3,743,361	2,385,737
Long Term Debt, Less Current Maturities	9,775,412	10,084,058
Total liabilities	13,518,773	12,469,795
Net Position		
Net investment in capital assets	(1,216,720)	(1,417,048)
Restricted		
Expendable for debt service	484,560	480,000
Expendable for capital acquisitions	822,373	739,125
Unrestricted	3,216,826	4,360,665
Total net position	3,307,039	4,162,742
Total liabilities and net position	\$ 16,825,812	\$ 16,632,537

Weatherford Hospital Authority
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$3,592,736 in 2018 and \$4,930,598 in 2017	\$ 15,788,145	\$ 15,324,959
Other revenue	266,997	203,389
Total operating revenue	16,055,142	15,528,348
Operating Expenses		
Salaries and wages	6,809,276	6,813,927
Employee benefits	1,240,836	1,305,369
Purchased services and professional fees	4,132,695	3,729,862
Supplies and other	3,984,947	4,005,845
Depreciation and amortization	775,789	1,144,228
Total operating expenses	16,943,543	16,999,231
Operating Loss	(888,401)	(1,470,883)
Nonoperating Revenues (Expenses)		
Investment income	27,243	9,806
Interest expense	(279,720)	(756,026)
Non capital grants and contributions	12,573	26,004
Early termination fees	-	(191,600)
Debt issuance costs	-	(659,946)
Loss on disposal of capital assets	-	(20,010)
Other	98,746	-
Nonoperating expenses, net	(141,158)	(1,591,772)
Expenses in Excess of Revenues Before Capital Appropriations and Capital Contributions	(1,029,559)	(3,062,655)
Capital Appropriations - City of Weatherford	126,856	109,756
Capital Contributions	47,000	57,000
Change in Net Position	(855,703)	(2,895,899)
Net Position, Beginning of the Year	4,162,742	7,058,641
Net Position, End of Year	\$ 3,307,039	\$ 4,162,742

Weatherford Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 15,666,540	\$ 16,210,982
Payments to and on behalf of employees	(8,093,497)	(8,064,903)
Payments to suppliers and contractors	(7,118,268)	(8,000,150)
Other receipts	266,997	203,389
Net Cash from Operating Activities	<u>721,772</u>	<u>349,318</u>
Non Capital Related Financing Activities		
Interest paid on short term bank note	(20,804)	(20,804)
Payments on line of credit	(25,000)	(5,000)
Non capital contributions and donations	12,573	26,004
Net Cash from (used for) Non Capital Financing Activities	<u>(33,231)</u>	<u>200</u>
Capital and Capital Related Financing Activities		
Capital contributions	47,000	57,000
Capital appropriations - City of Weatherford	126,856	109,756
Principal payments on debt obligations	(321,697)	(140,409)
Proceeds from issuance of debt	-	10,250,000
Retirements of debt	-	(9,945,813)
Interest paid on debt obligations	(258,916)	(977,875)
Payment for early termination fees	-	(191,600)
Debt issuance (costs) refunds	98,746	(659,946)
Purchase of capital assets	(654,420)	(159,475)
Net Cash used for Capital and Capital Related Financing Activities	<u>(962,431)</u>	<u>(1,658,362)</u>
Investing Activities		
Interest income	27,243	9,806
Issuance of note receivable	(457,395)	(192,729)
Purchase of investments	(14,445)	(5,248)
Net Cash used for Investing Activities	<u>(444,597)</u>	<u>(188,171)</u>
Net Change in Cash and Cash Equivalents	(718,487)	(1,497,015)
Cash and Cash Equivalents, Beginning of Year	<u>3,288,361</u>	<u>4,785,376</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,569,874</u>	<u>\$ 3,288,361</u>

Weatherford Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 1,262,941	\$ 2,069,236
Noncurrent cash and investments		
Restricted future construction	822,373	739,125
Restricted for debt service	484,560	480,000
Total cash and cash equivalents	\$ 2,569,874	\$ 3,288,361
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (888,401)	\$ (1,470,883)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	775,789	1,144,228
Provision for bad debts	3,592,736	4,930,598
Changes in assets and liabilities		
Patient receivables	(4,045,370)	(4,129,055)
Supplies	(8,392)	57,747
Prepaid expenses	(72,560)	19,296
Estimated third-party payor settlements	331,029	84,480
Accounts payable	1,080,326	(341,486)
Accrued expenses	(43,385)	54,393
Net Cash from Operating Activities	\$ 721,772	\$ 349,318
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	\$ (91,703)	\$ -

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.

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

Weatherford Regional Hospital, Inc. (WRHI), is a corporation that was established in order to qualify for a USDA loan. WRHI is a non-profit corporation and subject to federal income tax. The WRHI is included as a blended component unit of the Authority. The financial statements include only the financial activity of the Authority and WRHI, collectively referred to as the Authority. Financial statements of 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, 2018 and 2017.

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, 2018 and 2017, 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. Amortization expense is included in purchased services and professional fees in the accompanying financial statements. 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, 2018 and 2017, notes receivable from physicians and employees totaled \$650,124 and \$192,729.

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 \$241,000 and \$443,000 for the years ended September 30, 2018 and 2017. Total direct and indirect costs related to these foregone charges were approximately \$104,000 and \$202,000 at September 30, 2018 and 2017, 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 \$296,000 and \$329,000 for the years ended September 30, 2018 and 2017, 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 \$886,000 through September 30, 2018. The tax expires in 2020. The City appropriates these amounts monthly to the Authority. The Authority reports this as Capital Appropriations - City of Weatherford in the statements of revenues, expenses and changes in net position.

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, 2016. 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, 2018 and 2017:

	2018	2017
Medicare	42%	41%
Medicaid	12%	12%
Blue Cross and other commercial payors	38%	39%
Self pay and other	8%	8%
	100%	100%

The net patient service revenue decreased approximately \$69,000 and \$589,000 for the years ended September 30, 2018 and 2017 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.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of September 30, 2018 and 2017 are as follows:

	2018	2017
Carrying amounts		
Cash and deposits	\$ 4,139,232	\$ 4,843,274

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

	2018	2017
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,262,941	\$ 2,069,236
Short-term certificates of deposit	1,569,358	1,554,913
Non current cash and certificates of deposit		
Restricted for future construction	822,373	739,125
Restricted by trustee for debt service	484,560	480,000
	\$ 4,139,232	\$ 4,843,274

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, 2018 and 2017 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 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, 2018 and 2017 was \$27,243 and \$9,806.

Note 4 - Capital Assets

Capital assets additions and transfers, disposals, and balances for the year ended September 30, 2018 are as follows:

	Balance, September 30, 2017	Additions	Transfers and Disposals	Balance , September 30, 2018
Capital assets not being depreciated				
Land	\$ 873,001	\$ -	\$ -	\$ 873,001
Construction in progress	278,915	417,967	-	696,882
Total capital assets not being depreciated	<u>\$ 1,151,916</u>	<u>\$ 417,967</u>	<u>\$ -</u>	<u>\$ 1,569,883</u>
Capital assets being depreciated				
Land improvements	\$ 130,685	\$ -	\$ -	\$ 130,685
Building and improvements	15,777,131	9,670	-	15,786,801
Equipment	10,579,106	318,486	-	10,897,592
	<u>26,486,922</u>	<u>\$ 328,156</u>	<u>\$ -</u>	<u>26,815,079</u>
Less accumulated depreciation for:				
Land improvements	(113,254)	\$ (3,711)	\$ -	(116,965)
Building and improvements	(9,019,116)	(455,551)	-	(9,474,667)
Equipment	(9,548,987)	(316,527)	-	(9,865,514)
Total accumulated depreciation	<u>(18,681,357)</u>	<u>\$ (775,789)</u>	<u>\$ -</u>	<u>(19,457,146)</u>
Total capital assets being depreciated, net	<u>\$ 7,805,565</u>			<u>\$ 7,357,933</u>
Total capital assets, net	<u>\$ 8,957,482</u>			<u>\$ 8,927,816</u>

Construction in progress at September 30, 2018, represents an addition of a surgery suite and rehab and professional building and an upgrade of an existing wing of the hospital into a new oncology suite. The estimated cost to complete the surgery suite and rehab and professional building 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. The estimated cost to complete the oncology suite is \$325,000, which will be financed with a loan and cash from hospital reserves. The project is in the preconstruction phase and is estimated to be completed by 2019. Included in construction in progress is approximately \$396,000 in equipment that was purchased but was not placed in service as of year-end September 30, 2018.

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

	<u>Balance, September 30, 2016</u>	<u>Additions and Transfers</u>	<u>Disposals</u>	<u>Balance, September 30, 2017</u>
Capital assets not being depreciated				
Land	\$ 873,001	\$ -	\$ -	\$ 873,001
Construction in progress	278,915	-	-	278,915
Total capital assets not being depreciated	<u>\$ 1,151,916</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,151,916</u>
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
Total capital assets being depreciated	<u>26,531,431</u>	<u>\$ 159,475</u>	<u>\$ (203,984)</u>	<u>26,486,922</u>
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	<u>(17,721,102)</u>	<u>\$ (1,144,228)</u>	<u>\$ 183,973</u>	<u>(18,681,357)</u>
Total capital assets being depreciated, net	<u>\$ 8,810,329</u>			<u>\$ 7,805,565</u>
Total capital assets, net	<u>\$ 9,962,245</u>			<u>\$ 8,957,482</u>

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, 2018 and 2017 for all operating leases was \$459,379 and \$528,717. The capitalized leased assets consist of:

	2018	2017
Major movable equipment	\$ 391,042	\$ 367,106
Less accumulated amortization	(208,412)	(187,789)
	\$ 182,630	\$ 179,317

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

Years Ending September 30,	Capital Leases	Operating Leases
2019	\$ 153,742	\$ 355,607
2020	39,605	327,645
2021	5,680	306,761
2022	-	179,328
2023	-	83,744
Total minimum lease payments	199,027	\$ 1,253,085
Less interest (imputed interest 5.5%-6.7%)	(7,084)	
Present value of minimum lease payments (Note 7)	\$ 191,943	

Note 6 - Note Payable to Bank

The Authority has a \$500,000 revolving line of credit. The line of credit has been renewed through June 2019. No draws were made on the line of credit during the years ended September 30, 2018 and 2017, and principal payments of \$25,000 were made during 2018 and 2017. At September 30, 2018 and 2017, there was \$374,096 and \$399,096 outstanding related to this line of credit. The line is collateralized by the Authority's accounts receivable. Interest varies with the bank's prime rate plus 1.5% (5.5% at September 30, 2018) and is payable monthly.

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2018 and 2017 is as follows:

	Balance, September 30, 2017	Additions	Reductions or Payments	Balance, September 30, 2018	Due Within One Year
USDA Note Payable Note payable	\$ 10,191,623	\$ -	\$ (239,030)	\$ 9,952,593	\$ 221,153
Capital Leases (Note 5)	182,907	91,703	(82,667)	191,943	147,971
Total long-term debt	<u>\$ 10,374,530</u>	<u>\$ 91,703</u>	<u>\$ (321,697)</u>	<u>\$ 10,144,536</u>	<u>\$ 369,124</u>
	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	<u>\$ 10,210,752</u>	<u>\$ 10,250,000</u>	<u>\$ (10,086,222)</u>	<u>\$ 10,374,530</u>	<u>\$ 290,472</u>

- 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 for the year ended September 30, 2017.
- Capital lease obligations with varying imputed interest of 5.5% to 6.7% maturing April 2019 through November 2020.
- 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 for the year ended September 30, 2017.

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

<u>Year Ending September 30,</u>	<u>Long-Term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2019	\$ 221,153	\$ 257,323	\$ 478,476
2020	230,249	248,227	478,476
2021	239,344	239,132	478,476
2022	248,439	472,420	720,859
2023	257,535	472,198	729,733
2024-2028	1,424,103	968,277	2,392,380
2029-2033	1,651,487	740,893	2,392,380
2034-2038	1,878,871	513,509	2,392,380
2039-2043	2,106,255	286,125	2,392,380
2044-2048	1,695,157	65,373	1,760,530
Total	<u>\$ 9,952,593</u>	<u>\$ 4,263,477</u>	<u>\$ 14,216,070</u>

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 \$112,000, and \$113,000 and \$122,000 for the years ended September 30, 2018, and 2017 and 2016.

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, 2018 and 2017 was as follows:

	2018	2017
Medicare	23%	29%
Medicaid	8%	9%
Other third-party payors	29%	27%
Patients	40%	35%
	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 \$47,000 and \$63,000 for the years ended September 30, 2018 and 2017. 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.

The Authority has a working relationship with SSM Health Care of Oklahoma, Inc., an Oklahoma nonprofit corporation that owns and operates St. Anthony Hospital (Manager). On April 1, 2018, the Authority entered into a contract with the Manager to provide management services to the Authority beginning April 1, 2018 and will continue for a period of 3 years. The Manager provides the Authority with an executive team consisting of the Chief Executive Officer, Chief Financial Officer, Chief Nursing Officer, and Human Resource Director on a full-time basis. The Authority will reimburse the Manager for compensation, including salary and employee benefits, for the executive team plus a 3% markup. The Authority will also reimburse the Manager a management fee of \$15,000 per month, adjusted for CPI. Management fees will increase if the Authority becomes profitable, but not to exceed \$30,000 per month. Fees totaling \$259,444 and \$90,000 were paid for executive team compensation and monthly management fees during the year ended September 30, 2018.

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 years ended September 30, 2018 and 2017.

Statement of net position as of September 30, 2018:

	Regional Hospital, Inc.	Hospital Authority	Reclassifications or Eliminations	Combined Total
Assets				
Current assets	\$ 478,476	\$ 5,940,939	\$ (478,476)	\$ 5,940,939
Capital assets, net	-	8,927,816	-	8,927,816
Other assets	9,976,309	1,712,187	(9,731,439)	1,957,057
Total assets	\$ 10,454,785	\$ 16,580,942	\$ (10,209,915)	\$ 16,825,812
Liabilities				
Current liabilities	\$ 478,476	\$ 3,743,361	\$ (478,476)	\$ 3,743,361
Due to related party - lease payable	-	9,731,439	(9,731,439)	-
Long-term debt, less current maturities	9,731,439	43,973	-	9,775,412
Total liabilities	10,209,915	13,518,773	(10,209,915)	13,518,773
Net position				
Net investment in capital assets	-	(1,216,720)	-	(1,216,720)
Restricted	244,870	1,062,063	-	1,306,933
Unrestricted	-	3,216,826	-	3,216,826
Total net position	244,870	3,062,169	-	3,307,039
Total liabilities and net position	\$ 10,454,785	\$ 16,580,942	\$ (10,209,915)	\$ 16,825,812

Statement of revenues, expenses and changes in net position for the year ended September 30, 2018:

	Weatherford Regional Hospital, Inc.	Weatherford Hospital Authority	Reclassifications or Eliminations	Combined Total
Operating revenues				
Net patient (and resident) service revenue	\$ -	\$ 15,788,145	\$ -	\$ 15,788,145
Other operating revenue	478,476	266,997	(478,476)	266,997
Total operating revenues	<u>478,476</u>	<u>16,055,142</u>	<u>(478,476)</u>	<u>16,055,142</u>
Operating expenses				
Depreciation and amortization	-	775,789	-	775,789
Other operating expenses	-	16,646,230	(478,476)	16,167,754
Total operating expenses	<u>-</u>	<u>17,422,019</u>	<u>(478,476)</u>	<u>16,943,543</u>
Operating income (loss)	478,476	(1,366,877)	-	(888,401)
Nonoperating revenues (expenses)	<u>(233,606)</u>	92,448	-	<u>(141,158)</u>
Revenues in excess of (less than) expenses	244,870	(1,274,429)	-	(1,029,559)
Capital contributions/appropriations	<u>-</u>	<u>173,856</u>	<u>-</u>	<u>173,856</u>
Change in net position	244,870	(1,100,573)	-	(855,703)
Net position, beginning of year	<u>-</u>	<u>4,162,742</u>	<u>-</u>	<u>4,162,742</u>
Net position, end of year	<u>\$ 244,870</u>	<u>\$ 3,062,169</u>	<u>\$ -</u>	<u>\$ 3,307,039</u>

Cash flows for the year ended September 30, 2018:

	Weatherford Regional Hospital, Inc.	Weatherford Hospital Authority	Eliminations	Total
Net cash from operating activities	\$ 478,476	\$ 721,772	\$ (478,476)	\$ 721,772
Net cash used for noncapital financing activities	-	(33,231)	-	(33,231)
Net cash used for capital and capital related financing activities	(478,476)	(1,442,431)	958,476	(962,431)
Net cash used for investing activities	<u>-</u>	<u>(444,597)</u>	<u>-</u>	<u>(444,597)</u>
Net change in cash and cash equivalents	-	(1,198,487)	480,000	(718,487)
Cash and cash equivalents, beginning of year	<u>480,000</u>	<u>3,288,361</u>	<u>(480,000)</u>	<u>3,288,361</u>
Cash and cash equivalents, end of year	<u>\$ 480,000</u>	<u>\$ 2,089,874</u>	<u>\$ -</u>	<u>\$ 2,569,874</u>

Statement of net position as of September 30, 2017:

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

Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2018 and 2017

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

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

Cash flows for the year ended September 30, 2017:

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



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

Board of Trustees
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, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2019.

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 2018-A through 2018-B 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 deficiency described as item 2018-C in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma
January 28, 2019

**2018-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 findings and will do an analysis of the cost versus benefit of internal financial statement preparation.

**2018-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.

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 finding and has come up with a different tool to use for calculating contractual adjustments and doubtful account estimates.

**2018-C Cost Report Estimate
 Significant Deficiency**

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 Medicare cost report settlement correctly. The Authority did not have a process in place to estimate the cost report settlement or controls in place to monitor or identify the activity which could have a significant result on the settlement.

Effect: This resulted in an audit 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 an audit 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 and to identify significant activity which could impact the settlement.

Views of Responsible Officials: Management agrees with the finding and will find a method to more accurately estimate cost report settlements.