Management's Discussion and Analysis
and Financial Statements
September 30, 2016 and 2015

Weatherford Hospital Authority

EideBailly
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, 2016 and 2015, 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, 2016 and 2015, 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 January 30, 2017 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
January 30, 2017

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, 2016, 2015, and 2014. 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 $1,770,668 or 20% decrease in 2016 and a $754,619 or 8% decrease in 2015.
- The Authority reported operating loss in 2016 of $1,253,725 and operating loss of $231,056 in 2015. The operating loss in 2016 increased by $1,022,669 or 443% over the loss reported in 2015. Operating loss in 2015 increased by $549,172 or 173% compared to 2014.

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 2015 by $1,770,668 and decreased by $754,619 with a 20% decrease in 2016 and 8% decrease in 2015.

	2016	2015	2014
Assets			
Cash, cash equivalents, and short term certificates of deposit	$ 3,710,858	$ 4,251,740	$ 4,007,784
Restricted cash and investments	2,080,273	1,973,527	1,860,802
Patient accounts receivable, net	3,005,285	3,474,034	2,689,754
Other current assets	596,833	839,388	1,356,211
Capital assets, net	9,962,245	10,924,321	12,229,232
Other noncurrent assets	543,910	543,910	536,880
Total assets	$ 19,899,404	$ 22,006,920	$ 22,680,663
Liabilities			
Long-term debt	$ 10,210,752	$ 10,371,222	$ 10,763,808
Other current liabilities	2,630,011	2,806,389	2,332,927
Total liabilities	12,840,763	13,177,611	13,096,735
Net Position			
Net investment in capital assets	(248,507)	553,099	1,465,424
Restricted expendable	2,080,273	1,973,527	1,860,802
Unrestricted	5,226,875	6,302,683	6,257,702
Total net position	7,058,641	8,829,309	9,583,928
Total liabilities and net position	$ 19,899,404	$ 22,006,920	$ 22,680,663

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 $540,882 during 2016 and increased $243,956 during 2015.
- Capital assets, net decreased $962,076 during 2016 compared to the decrease of $1,304,911 during 2015.
- Net position decreased $1,770,668 during 2016 compared to the decrease of $754,619 during 2015.

Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenue			
Net patient service revenue	$ 16,373,066	$ 17,546,117	$ 16,651,392
Other revenue	161,397	161,060	1,092,377
Total operating revenue	16,534,463	17,707,177	17,743,769
Operating Expenses			
Salaries, wages, and employee benefits	8,702,599	8,640,451	8,202,523
Purchased services and professional fees	3,863,496	3,661,866	3,607,774
Depreciation	1,369,334	1,489,340	1,533,371
Supplies and other	3,852,759	4,146,576	4,081,985
Total operating expenses	17,788,188	17,938,233	17,425,653
Operating (Loss) Income	(1,253,725)	(231,056)	318,116
Nonoperating Revenues (Expenses)			
Investment income	9,145	15,385	22,999
Interest expense	(682,335)	(702,357)	(698,700)
Non capital grants and contributions	41,797	25,829	26,861
Net nonoperating expenses	(631,393)	(661,143)	(648,840)
Expenses in excess of Revenues	(1,885,118)	(892,199)	(330,724)
Capital appropriations and contributions			
Capital appropriations-City of Weatherford	104,950	104,137	114,605
Capital contributions	9,500	33,443	38,449
	114,450	137,580	153,054
Change in Net Position	(1,770,668)	(754,619)	(177,670)
Net Position, Beginning of the Year	8,829,309	9,583,928	9,761,598
Net Position, End of Year	$ 7,058,641	$ 8,829,309	$ 9,583,928

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 2016 was $1,253,725. The operating loss in 2016 increased by $1,022,669 compared to the 2015 operating loss of $231,056. The primary components of the change in the operating income during 2016 was the decrease in net patient service revenue of $1,173,051 compared to an increase of $894,725 in 2015 and the decrease in operating expenses of $150,045 in 2016 compared to an increase of $512,580 in 2015.

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 $642,403 of charity care provided in 2016 and $352,311 in 2015 based on charges foregone. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of, interest expense, non-capital donations and investment income. The major change in nonoperating expense is due to the decrease in interest expense which decreased in 2016 by $20,022 compared to an increase of $3,657 in 2015 and the decrease in investment income which decreased in 2016 by $6,240 compared to a decrease of $7,614 in 2015. As a result of these factors, net nonoperating expenses decreased by $29,750 in 2016 compared to the $12,303 decrease of nonoperating expenses in 2015.

The Authority's Cash Flows

The Authority’s overall liquidity decreased during the year with a net decrease to cash and cash equivalents of $437,906 in 2016 and an increase of $355,764 in 2015. Cash flows provided by operating activities decreased by $813,648 during 2016. This was due primarily to the increase in payments to and on behalf of employees and payments to suppliers and contractors and increases in payments to employees. Cash flows provided by operating activities decreased by $150,066 in 2015. Cash from non-capital financing activities increased by $15,968 when compared with 2015 and increased by $24,256, when compared with 2014. Cash used for capital and capital related financing activities decreased by $7,693 when compared with 2015 and decreased $294,836 when compared to 2014. Cash from investing activities decreased by $3,683 in 2016 and decreased $9,310 in 2015 due to renewing certificates of deposits.

Capital Assets

At the end of 2016 and 2015, the Authority had $9,962,245 and $10,924,321 invested in net capital assets, as detailed in Note 4 to the financial statements. The Authority had capital additions of $407,258 in 2016 compared with additions of $184,429 in 2015.

Debt

At September 30, 2016, the Authority had $10,210,752 in outstanding long-term debt, which represents a decrease of $160,470 over 2015 compared to a decrease of $392,586 over 2014. The Authority added two capital leases resulting in additional indebtedness of $299,606 in 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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	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 2,705,103	$ 3,249,755
Short term investments	1,005,755	1,001,985
Restricted cash and investments	429,613	429,131
Receivables		
Patient, net of estimated uncollectibles of approximately $1,838,000 in 2016 and $1,825,000 in 2015	3,005,285	3,474,034
Estimated third-party payor settlements	148,478	345,943
Supplies	280,835	329,460
Prepaid expenses	167,520	163,985
Total current assets	7,742,589	8,994,293
Noncurrent Cash and Investments		
Noncurrent certificate of deposit	543,910	543,910
Restricted for future construction	628,412	522,734
Restricted by trustee for debt service	1,022,248	1,021,662
Total noncurrent cash and investments	2,194,570	2,088,306
Capital Assets		
Capital assets not being depreciated	1,151,916	1,151,916
Capital assets being depreciated, net	8,810,329	9,772,405
Total capital assets	9,962,245	10,924,321
Total assets	$ 19,899,404	$ 22,006,920

	2016	2015
Liabilities and Net Position		
Current Liabilities		
Note payable to bank	$ 404,096	$ 404,096
Current maturities of long-term debt	507,753	415,573
Accounts payable	1,499,470	1,466,679
Accrued expenses		
Salaries and benefits	483,792	682,836
Interest	242,653	252,778
Total current liabilities	3,137,764	3,221,962
Long Term Debt, Less Current Maturities	9,702,999	9,955,649
Total liabilities	12,840,763	13,177,611
Net Position		
Net investment in capital assets	(248,507)	553,099
Restricted		
Expendable for debt service	1,451,861	1,450,793
Expendable for capital acquisitions	628,412	522,734
Unrestricted	5,226,875	6,302,683
Total net position	7,058,641	8,829,309
Total liabilities and net position	$ 19,899,404	$ 22,006,920

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $2,650,146 in 2016 and $2,547,215 in 2015	$ 16,373,066	$ 17,546,117
Other revenue	161,397	161,060
Total operating revenue	16,534,463	17,707,177
Operating Expenses		
Salaries and wages	7,242,476	7,192,131
Employee benefits	1,460,123	1,448,320
Purchased services and professional fees	3,863,496	3,661,866
Supplies and other	3,852,759	4,146,576
Depreciation	1,369,334	1,489,340
Total operating expenses	17,788,188	17,938,233
Operating Loss	(1,253,725)	(231,056)
Nonoperating Revenues (Expenses)		
Investment income	9,145	15,385
Interest expense	(682,335)	(702,357)
Non capital grants and contributions	41,797	25,829
Net nonoperating expenses	(631,393)	(661,143)
Expenses in Excess of Revenues Before Capital Appropriations and Capital Contributions	(1,885,118)	(892,199)
Capital Appropriations - City of Weatherford	104,950	104,137
Capital Contributions	9,500	33,443
Change in Net Position	(1,770,668)	(754,619)
Net Position, Beginning of the Year	8,829,309	9,583,928
Net Position, End of Year	$ 7,058,641	$ 8,829,309

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	$ 17,039,280	$ 16,751,057
Payments to and on behalf of employees	(8,901,643)	(8,414,647)
Payments to suppliers and contractors	(7,638,374)	(7,477,500)
Other receipts	161,397	615,398
Net Cash from Operating Activities	660,660	1,474,308
Non Capital Related Financing Activities		
Interest paid on short term bank note	(22,429)	(22,429)
Non capital contributions and donations	41,797	25,829
Net Cash from Non Capital Financing Activities	19,368	3,400
Capital and Capital Related Financing Activities		
Capital contributions	9,500	33,443
Capital appropriations - City of Weatherford	104,950	104,137
Principal payments on debt obligations	(464,355)	(396,865)
Interest paid on debt obligations	(665,752)	(687,288)
Purchase of capital assets	(107,652)	(184,429)
Net Cash used for Capital and Capital Related Financing Activities	(1,123,309)	(1,131,002)
Investing Activities		
Investment income	9,145	15,385
Purchase of investments	(3,770)	(6,327)
Net Cash from Investing Activities	5,375	9,058
Net Change in Cash and Cash Equivalents	(437,906)	355,764
Cash and Cash Equivalents, Beginning of Year	5,223,282	4,867,518
Cash and Cash Equivalents, End of Year	$ 4,785,376	$ 5,223,282
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	$ 2,705,103	$ 3,249,755
Restricted cash and investments - in current assets	429,613	429,131
Noncurrent cash and investments		
Restricted future construction	628,412	522,734
Restricted for debt service	1,022,248	1,021,662
Total Cash and Cash Equivalents	$ 4,785,376	$ 5,223,282

	2016	2015
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$ (1,253,725)	$ (231,056)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	1,369,334	1,489,340
Provision for bad debts	2,650,146	2,547,215
Forgiveness of notes receivable included in salary expense	-	129,798
Changes in assets and liabilities		
Patient receivables	(2,181,397)	(3,331,495)
Other receivables	-	454,338
Supplies	48,625	(51,313)
Prepaid expenses	(3,535)	(6,840)
Estimated third-party payor settlements	197,465	(10,780)
Accounts payable and accrued expenses	(166,253)	485,101
Net Cash from Operating Activities	$ 660,660	$ 1,474,308
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.

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. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

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

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

Basis of Presentation

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

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

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.

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, 2016 and 2015, 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 Investments

Noncurrent cash and investments includes unrestricted certificates of deposit with maturity dates in excess of 12 months and restricted investments for future capital improvements are restricted under a sales tax ordinance. Restricted investments under debt agreements are restricted by the trustee for debt service. Designated or restricted investments 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.

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 $642,000 and $352,000 for the years ended September 30, 2016 and 2015. Total direct and indirect costs related to these foregone charges were approximately $310,000 and $159,000 at September 30, 2016 and 2015, 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 $497,000 and $571,000 for the years ended September 30, 2016 and 2015, 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 $539,000 through September 30, 2016 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, 2014. 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, 2016 and 2015:

	2016	2015
Medicare	40%	41%
Medicaid	13%	13%
Blue Cross and other commercial payors	40%	39%
Self pay and other	7%	7%
	100%	100%

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The net patient service revenue decreased approximately $797,000 for the year ended September 30, 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 revenue increased approximately $201,000 for the year ended September 30, 2016 and increased approximately $81,000 for the year ended September 30, 2015 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, 2016 and 2015 are as follows:

	2016	2015
Carrying amounts		
Cash and deposits	$ 6,335,041	$ 6,769,177

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

	2016	2015
Included in the following balance sheet captions		
Cash and cash equivalents	$ 2,705,103	$ 3,249,755
Short-term investments	1,005,755	1,001,985
Current portion restricted under bond indenture agreements	429,613	429,131
Non current cash and investments		
Noncurrent certificate of deposit	543,910	543,910
Restricted for future construction	628,412	522,734
Restricted by trustee for debt service	1,022,248	1,021,662
	$ 6,335,041	$ 6,769,177

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 Authority's deposits in banks at September 30, 2016 and 2015 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, 2016 and 2015 was $9,145 and $15,385.

Note 4 - Capital Assets

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
	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

Construction in progress at September 30, 2016, 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. The project 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, 2015 are as follows:

	Balance September 30, 2014	Additions and Transfers	Disposals	Balance September 30, 2015
Capital assets not being depreciated				
Land	$ 873,001	$ -	$ -	$ 873,001
Construction in progress	278,915	-		278,915
Total capital assets not being depreciated	$ 1,151,916	$ -	$ -	$ 1,151,916
Capital assets being depreciated				
Land improvements	130,685	$ -	$ -	130,685
Building and improvements	15,781,945	-	(4,814)	15,777,131
Equipment	10,227,319	184,429	(195,391)	10,216,357
Total capital assets being depreciated	26,139,949	$ 184,429	$ (200,205)	26,124,173
Less accumulated depreciation for:				
Land improvements	(88,024)	$ (9,316)	$ -	(97,340)
Building and improvements	(6,842,001)	(744,785)	4,814	(7,581,972)
Equipment	(8,132,608)	(735,239)	195,391	(8,672,456)
Total accumulated depreciation	(15,062,633)	$ (1,489,340)	$ 200,205	(16,351,768)
Total capital assets being depreciated, net	$ 11,077,316			$ 9,772,405
Total capital assets, net	$ 12,229,232			$ 10,924,321

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, 2016 and 2015 for all operating leases was $433,452 and $497,052. The capitalized leased assets consist of:

	2016	2015
Major movable equipment	$ 367,106	$ 67,500
Less accumulated amortization	(110,621)	(28,928)
	$ 256,485	$ 38,572

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

Years Ending September 30,	Capital Leases	Operating Leases
2017	$ 94,475	$ 359,266
2018	86,517	70,521
2019	67,306	64,618
2020	2,746	59,612
2021	39,604	-
Total minimum lease payments	290,648	$ 554,017
Less interest (imputed interest 5.5%-6.78%)	(25,709)	
Present value of minimum lease payments (Note 7)	$ 264,939	

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 2017. The Authority made draws of $0 during the years ended September 30, 2016 and 2015 and principal payments of $0 were made during 2016 and 2015, respectively. At September 30, 2016 and 2015, there was $404,096 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, 2016) and is payable monthly.

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2016 and 2015 is as follows:

	Balance September 30, 2015	Additions	Reductions	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

	Balance September 30, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
Bonds payable:					
Revenue bonds,					
Series 2006	$ 10,800,000	$ -	$ (382,969)	$ 10,417,031	$ 405,000
Bond discount	(72,745)	-	4,279	(68,466)	(4,279)
Total bonds	10,727,255	-	(378,690)	10,348,565	400,721
Capital Leases (Note 5)	36,553		(13,896)	22,657	14,852
Total long-term debt	$ 10,763,808	$ -	$ (392,586)	$ 10,371,222	$ 415,573

Revenue Bonds, Series 2006

The Weatherford Hospital Authority Revenue Bonds, Series 2006 (Bonds) in the original amount of $11,500,000 and sold at a discount of $105,793 are dated May 1, 2006, which bear interest at 6% and due May 1, 2031. The Bonds are payable with principal payments due annually and interest payments due semiannually. The Authority is required to make monthly deposits to the debt service fund held by the trustee in the amount of 1/6 the next semiannual interest payment due and 1/12 the amount of the next annual principal payment due. All of the Bonds still outstanding may be redeemed at the Authority's option. The redemption price is 103%, decreasing to 102% on or after May 1, 2017, and decreasing to 101% on or after May 1, 2018. Proceeds from the issuance of these bonds were used to construct a new hospital facility. The Bonds are secured by substantially all the assets of the Authority as described in Section 2.01 of the Bond Indenture. The bond discount is being amortized over the life of the bonds.

The Bond Indenture Agreements require that certain funds be established with the trustee. Accordingly, these funds are included as asset held by trustee for debt service in the accompanying statements of net position. The Bond Indenture also requires the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio, restrictions on incurrence of additional debt, maintaining minimum days cash on hand, maintaining maximum aged receivables and payables of no more than a specified amount of days and maintaining a current ratio as defined by the Indenture. For the year ended September 30, 2016 the Hospital did not meet the debt service coverage ratio covenant. Under the terms of the agreement, the Hospital is to retain an independent consultant to make recommendations to increase the debt service ratio to required levels. The bonds are secured by substantially all assets, future revenues and the debt service fund.

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

Year Ending September 30,	Bonds Payable Principal	Bonds Payable Interest	Total
2017	$ 430,000	$ 600,600	$ 1,030,600
2018	455,000	574,800	1,029,800
2019	485,000	547,500	1,032,500
2020	515,000	518,400	1,033,400
2021	545,000	487,500	1,032,500
2022-2026	3,240,000	1,907,700	5,147,700
2027-2031	4,340,000	811,500	5,151,500
Total	$ 10,010,000	$ 5,448,000	$ 15,458,000

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 $122,000, and $114,000 and $107,000 for the years ended September 30, 2016, and 2015 and 2014.

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, 2016 and 2015 was as follows:

	2016	2015
Medicare	27%	35%
Medicaid	10%	8%
Other third-party payors	31%	27%
Patients	32%	30%
	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.

CPAs & BUSINESS ADVISORS

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

Board of Trustees
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) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 30, 2017.

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 Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described as items 2016-A through 2016-D in the accompanying Schedule of Findings and Responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Responses. 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
January 30, 2017

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weaknesses:

2016-A Preparation of Financial Statements

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

Effect: The effect of this condition is material misstatements during the year and 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. Furthermore, 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.

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

2016-B Allowance for Contractual Adjustments and Doubtful Accounts Estimate

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

Effect: Changes in reimbursement from third-party payors and patients can change due to internal charge increases, contract modifications, external insurance coverage (i.e. higher deductible account balances), interim rate changes, etc. The 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 was based on percentage of the first payor class and the balances not being moved to self-pay after the final payor class payment had been received.

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.

Management Response: Management agrees with the above finding.

2016-C Cost Report Estimate

Condition and 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 Hospital implement a system that provides adequate controls over estimating cost report settlements.

Management Response: Management agrees with the above finding.

2016-D Capital Leases

Condition and criteria: During the year we identified two leases that should have been classified as capital leases. GASB Statement No. 62 includes criteria to properly classify lease agreements between operating and capital leases.

Effect: Capital assets and long-term debt were not properly stated in the interim financial statements.

Cause: The Authority does not have proper policies and procedures in place to distinguish between capital and operating leases.

Auditor's Recommendation: It is recommended that the Authority develop policies and procedures to appropriately classify capital and operating leases.

Management Response: Management will develop a process to identify capital leases and record them appropriately.