

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Auditor's Reports and Financial Statements
September 30, 2013 and 2012



Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
September 30, 2013 and 2012

Contents

| | |
|--|----|
| Independent Auditor’s Report | 1 |
| Management’s Discussion and Analysis | 3 |
| Financial Statements | |
| Balance Sheets | 8 |
| Statements of Revenues, Expenses and Changes in Net Position | 9 |
| Statements of Cash Flows | 10 |
| Notes to Financial Statements | 11 |
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 25 |
| Schedule of Findings and Responses | 27 |

Independent Auditor's Report

Board of Trustees
Tillman County – City of Frederick Hospital Authority
Frederick, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Tillman County – City of Frederick Hospital Authority (the Authority), a component unit of The Comanche County Hospital Authority, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 respective financial position of the Authority as of September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2014, 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.

BKD, LLP

Tulsa, Oklahoma
June 10, 2014

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Management’s Discussion and Analysis
Years Ended September 30, 2013 and 2012

This management’s discussion and analysis of the financial performance of Tillman County – City of Frederick Hospital Authority (the Authority) provides an overview of the Authority’s financial activities for the years ended September 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Authority’s net position increased in 2013 by \$573 or 11.0% and decreased by \$337 or 6.1% in 2012.
- The Authority reported an operating income of \$274 in 2013 and an operating loss of \$553 in 2012.
- The Authority reported cash, cash equivalents and short-term investments of \$3,329 and \$2,378 in 2013 and 2012, respectively, an increase of \$951 or 40.0%.
- The Authority invested in capital assets costing \$63 and \$364 during 2013 and 2012, respectively.

Using This Annual Report

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

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

One of the most important questions asked about any organization’s finances is, “Is the organization as a whole better or worse off as a result of the year’s activities?” The balance sheet and the statement 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. Using the accrual basis of accounting means that 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 it. The Authority’s total net position—the difference between assets and liabilities—is one measure of the Authority’s financial health or financial position. Over time, increases or decreases in the Authority’s net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority’s patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents 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 balance sheets. The Authority's net position increased in 2013 by \$573 or 11.0% and decreased by \$337 or 6.1% in 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

| | 2013 | 2012 | 2011 |
|---|-----------------|-----------------|-----------------|
| Assets | | | |
| Cash, cash equivalents and short-term investments | \$ 3,329 | \$ 2,378 | \$ 2,775 |
| Patient accounts receivable, net | 771 | 1,084 | 1,034 |
| Other current assets | 403 | 355 | 359 |
| Capital assets, net | 2,055 | 2,499 | 2,670 |
| Other noncurrent assets | - | 5 | 14 |
| | <u>6,558</u> | <u>6,321</u> | <u>6,852</u> |
| Total assets | <u>\$ 6,558</u> | <u>\$ 6,321</u> | <u>\$ 6,852</u> |
| Liabilities | | | |
| Long-term obligations | \$ - | \$ - | \$ 336 |
| Current liabilities | 796 | 1,132 | 990 |
| | <u>796</u> | <u>1,132</u> | <u>1,326</u> |
| Total liabilities | <u>796</u> | <u>1,132</u> | <u>1,326</u> |
| Net Position | | | |
| Net investment in capital assets | 2,048 | 2,167 | 1,972 |
| Restricted expendable for debt service | - | 39 | 41 |
| Unrestricted | 3,714 | 2,983 | 3,513 |
| | <u>5,762</u> | <u>5,189</u> | <u>5,526</u> |
| Total net position | <u>5,762</u> | <u>5,189</u> | <u>5,526</u> |
| Total liabilities and net position | <u>\$ 6,558</u> | <u>\$ 6,321</u> | <u>\$ 6,852</u> |

Some significant changes in the Authority's assets and liabilities in 2013 are:

- An increase in cash, cash equivalents and unrestricted investments of \$951 or 40.0% due primarily to the receipt of \$1,437 of Medicare funds associated with the Electronic Health Records Incentive Program
- A decrease in net patient accounts receivable of \$313 or 28.9% due to declines in patient volumes
- A decrease in accrued liabilities of \$143 or 22.5% due to a decrease in accrued self-insured claims

A significant change in the Authority's assets and liabilities in 2012 was the decrease in cash, cash equivalents and short-term investments of \$397 or 14.3%. The decrease is primarily due to funding operating losses and the purchase of capital assets.

Operating Results and Changes in the Authority's Net Position

In 2013, the Authority's net position increased by \$573 or 11.0% as shown in Table 2. This increase is made up of several different components and represents an increase of \$910 compared with the decrease in net position for 2012 of \$337.

Table 2: Operating Results and Changes in Net Position

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|-----------------|-----------------|-----------------|
| Operating Revenues | | | |
| Net patient service revenue | \$ 6,853 | \$ 7,680 | \$ 7,750 |
| Other operating revenues | 1,554 | 86 | 378 |
| | <u>8,407</u> | <u>7,766</u> | <u>8,128</u> |
| Operating Expenses | | | |
| Salaries, wages and employee benefits | 4,725 | 4,774 | 4,960 |
| Medical supplies and drugs | 558 | 619 | 521 |
| Depreciation and amortization | 511 | 546 | 386 |
| Other operating expenses | 2,339 | 2,380 | 2,103 |
| | <u>8,133</u> | <u>8,319</u> | <u>7,970</u> |
| Operating Income (Loss) | <u>274</u> | <u>(553)</u> | <u>158</u> |
| Nonoperating Revenues (Expenses) | | | |
| City appropriations – unrestricted | 293 | 214 | 232 |
| Investment income | 15 | 27 | 33 |
| Interest expense | (9) | (25) | (41) |
| | <u>299</u> | <u>216</u> | <u>224</u> |
| Increase (Decrease) in Net Position | 573 | (337) | 382 |
| Net Position, Beginning of Year | <u>5,189</u> | <u>5,526</u> | <u>5,144</u> |
| Net Position, End of Year | <u>\$ 5,762</u> | <u>\$ 5,189</u> | <u>\$ 5,526</u> |

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2013 and 2011, the Authority reported operating income, while in 2012 the Authority reported an operating loss.

The operating income for 2013 increased by \$827 or 149.6% compared to 2012. The primary components of the increased operating income are:

- A decrease in net patient service revenue of \$827 or 10.8% due primarily to decreased patient volumes
- An increase in other operating revenue of \$1,468 or 1707.0% due to the Authority completing the first-year requirements under the Medicare Electronic Health Records Incentive Program and second-year requirements under the Medicaid Electronic Health Records Incentive Program. See *Note 1* for further information

The operating loss for 2012 increased by \$711 or 450.0% compared to 2011. The primary components of the increased operating loss are:

- A decline in other operating revenues of \$292 or 77.3% due to the Authority completing the first-year requirements under the Medicaid Electronic Health Records Incentive Program during 2011
- An increase in other operating expenses of \$277 or 13.2% primarily as a result of the Supplemental Hospital Offset Payment Program (SHOPP) assessment for 2012 (see *Note 1*)
- An increase in depreciation and amortization of \$160 or 41.5% primarily due to a full year of depreciation on the Authority's electronic health records system

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and unrestricted city appropriations. Investment income exceeds interest expense due to cash, cash equivalents and short-term investment balances exceeding long-term debt balances.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income, nonoperating revenues and expenses and changes in accounts payable.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal 2013 and 2012, the Authority had \$2,055 and \$2,499, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013 and 2012, the Authority invested in assets costing \$63 and \$364, respectively. No additional debt was incurred in conjunction with these purchases.

Debt

At September 30, 2013 and 2012, the Authority had \$0 and \$336, respectively, of notes and capital lease obligations outstanding as detailed in *Note 7* to the financial statements. During 2013 and 2012, the Authority did not incur any additional long-term debt.

Contacting the Authority's Financial Management

This financial report is designed to provide 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. Questions about this report and requests for additional financial information should be directed to the Authority's Administrative Office at Tillman County – City of Frederick Hospital Authority, 319 East Josephine Avenue, Frederick, Oklahoma 73542-2220.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Balance Sheets
September 30, 2013 and 2012

Assets

| | 2013 | 2012 |
|--|--------------|--------------|
| Current Assets | | |
| Cash and cash equivalents | \$ 3,225,831 | \$ 317,586 |
| Restricted cash and investments – current | - | 24,390 |
| Short-term investments | - | 2,036,498 |
| Patient accounts receivable, net of allowance; 2013 – \$1,201,000, 2012 – \$1,646,000 | 771,265 | 1,083,601 |
| Amount due from related party | 92,003 | 92,321 |
| Other receivables | 53,656 | 21,353 |
| Supplies | 171,150 | 185,843 |
| Prepaid expenses and other | 86,744 | 56,689 |
| Total current assets | 4,400,649 | 3,818,281 |
| Noncurrent Cash and Investments | | |
| Held by trustee for debt service | - | 24,390 |
| Less amount required to meet current obligations | - | 24,390 |
| | - | - |
| Other long-term investments | 102,758 | - |
| Capital Assets, Net | 2,054,750 | 2,498,540 |
| Other Assets | | |
| Deferred financing costs | - | 4,604 |
| Total assets | \$ 6,558,157 | \$ 6,321,425 |

Liabilities and Net Position

| | | |
|--|--------------|--------------|
| Liabilities | | |
| Current maturities of long-term debt | \$ - | \$ 336,146 |
| Accounts payable | 167,868 | 156,531 |
| Accrued expenses | 493,599 | 635,669 |
| Estimated amounts due to third-party payer | 135,000 | 2,684 |
| Accrued interest payable | - | 1,026 |
| Total liabilities | 796,467 | 1,132,056 |
| Net Position | | |
| Net investment in capital assets | 2,047,579 | 2,166,998 |
| Restricted expendable for debt service | - | 39,623 |
| Unrestricted | 3,714,111 | 2,982,748 |
| Total net position | 5,761,690 | 5,189,369 |
| Total liabilities and net position | \$ 6,558,157 | \$ 6,321,425 |

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

| | 2013 | 2012 |
|--|--------------|--------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$1,262,000, 2012 – \$950,000 | \$ 6,853,214 | \$ 7,679,700 |
| Other | 1,553,478 | 85,959 |
| Total operating revenues | 8,406,692 | 7,765,659 |
| Operating Expenses | | |
| Salaries and wages | 3,958,233 | 3,821,816 |
| Employee benefits | 767,246 | 952,416 |
| Purchased services and professional fees | 985,953 | 1,086,173 |
| Medical supplies and drugs | 558,309 | 618,728 |
| Supplies and other | 1,222,714 | 1,173,498 |
| Insurance | 129,153 | 120,101 |
| Depreciation and amortization | 511,162 | 546,092 |
| Total operating expenses | 8,132,770 | 8,318,824 |
| Operating Income (Loss) | 273,922 | (553,165) |
| Nonoperating Revenues (Expenses) | | |
| City appropriations – unrestricted | 292,463 | 213,982 |
| Investment income | 14,863 | 27,331 |
| Interest expense | (8,927) | (25,073) |
| Total nonoperating revenues (expenses) | 298,399 | 216,240 |
| Increase (Decrease) in Net Position | 572,321 | (336,925) |
| Net Position, Beginning of Year | 5,189,369 | 5,526,294 |
| Net Position, End of Year | \$ 5,761,690 | \$ 5,189,369 |

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|--------------|--------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 7,297,866 | \$ 7,618,084 |
| Payments to suppliers and contractors | (2,907,325) | (3,011,707) |
| Payments to and on behalf of employees | (4,867,549) | (4,626,511) |
| Other receipts (payments), net | 1,551,053 | 39,859 |
| Net cash provided by operating activities | 1,074,045 | 19,725 |
| Noncapital Financing Activities | | |
| City appropriations received | 262,903 | 216,489 |
| Net cash provided by noncapital financing activities | 262,903 | 216,489 |
| Capital and Related Financing Activities | | |
| Principal paid on long-term debt | (336,146) | (375,663) |
| Interest paid on long-term debt | (9,953) | (26,064) |
| Purchase of capital assets | (55,597) | (258,379) |
| Net cash used in capital and related financing activities | (401,696) | (660,106) |
| Investing Activities | | |
| Purchase of investments | (100,000) | (200,000) |
| Proceeds from disposition of investments | 2,036,498 | 200,000 |
| Income on investments | 12,105 | 3,580 |
| Net cash provided by investing activities | 1,948,603 | 3,580 |
| Increase (Decrease) in Cash and Cash Equivalents | 2,883,855 | (420,312) |
| Cash and Cash Equivalents, Beginning of Year | 341,976 | 762,288 |
| Cash and Cash Equivalents, End of Year | \$ 3,225,831 | \$ 341,976 |

| | <u>2013</u> | <u>2012</u> |
|---|-----------------------------|-----------------------------|
| Reconciliation of Cash and Cash Equivalents to the Balance Sheets | | |
| Cash and cash equivalents in current assets | \$ 3,225,831 | \$ 317,586 |
| Cash equivalents in noncurrent cash and investments held by trustee for debt service | - | 24,390 |
| | <u> </u> | <u> </u> |
| Total cash and cash equivalents | <u>\$ 3,225,831</u> | <u>\$ 341,976</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | |
| Operating income (loss) | \$ 273,922 | \$ (553,165) |
| Depreciation and amortization | 511,162 | 546,092 |
| Accrued self-insurance costs | (91,225) | (76,546) |
| Provision for uncollectible accounts | 1,262,000 | 950,000 |
| Changes in operating assets and liabilities | | |
| Patient and other accounts receivable, net | (952,089) | (1,045,924) |
| Supplies and prepaid expenses | (23,884) | 47,404 |
| Estimated amount due from third-party payer | 132,316 | (11,792) |
| Accounts payable and accrued expenses | (38,157) | 163,656 |
| | <u> </u> | <u> </u> |
| Net cash provided by operating activities | <u>\$ 1,074,045</u> | <u>\$ 19,725</u> |
| Supplemental Cash Flows Information | | |
| Capital asset acquisitions included in accounts payable | \$ 7,171 | \$ - |
| Prepaid assets included in accounts payable | \$ 8,522 | \$ - |

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Tillman County – City of Frederick Hospital Authority (the Authority) is a public trust organized under the provisions of Title 60 of the Oklahoma statutes. The beneficiaries of the trust include Tillman County, Oklahoma, and the city of Frederick, Oklahoma.

The Authority primarily earns revenues by operating a 37-bed short-term hospital which was leased from Tillman County, Oklahoma, on May 1, 1981. The lease term is 50 years or until all debts of the Authority payable from the revenues of the hospital have been paid. The lease amount of \$10 was prepaid at the lease inception. At the end of the lease term, control of the hospital's operations reverts to the county of Tillman, Oklahoma. The Authority also earns revenues by operating a 30-bed nursing center, a home health agency and a physician clinic.

Effective September 1, 1993, The Comanche County Hospital Authority (CCHA), an Oklahoma public trust, entered into a sublease agreement with the Authority for the use of the hospital and nursing center facilities and to take over full administration, management and operational control of the hospital and nursing center. The term of the sublease was for a period of 20 years with a renewal option for an additional 20 years. CCHA's consideration to the Authority under the sublease was CCHA's partial guarantee of the Authority's Revenue Refunding Note, Series 2003 (see *Note 7*).

Effective July 31, 2013, CCHA entered into a sublease agreement with the Authority whereby CCHA was granted continued use of the hospital and the nursing center facilities and full administrative, management and operational control of the hospital and the nursing center. Under generally accepted accounting principles, the Authority constitutes a component unit of CCHA for financial reporting purposes.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, city appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee disability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, short-term disability and employee health and dental care benefits. Settled claims have not exceeded any commercial insurance coverage in any of the three preceding years.

The Authority participates in self-insured plans sponsored by CCHA to cover claims arising from unemployment, employee health and dental care and short-term disability.

The Authority obtains workers' compensation insurance through membership in the Oklahoma Health Care Association (the Association), which was formed for the benefit of qualified Oklahoma hospitals and related entities who wish to pool their resources pursuant to the provisions of Section 149.1 of Title 85 of the Oklahoma Statutes and Rule 3 of the Administrator of Oklahoma Workers' Compensation Court. Each member of the Association has jointly and severally agreed to assume, pay and discharge any liability under the *Oklahoma Workers' Compensation Act* of any and all members of the Association.

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as uncollectible accounts based on individual credit evaluation and specific circumstances of the account.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

| | |
|--|------------|
| Land improvements | 15 years |
| Building, improvements and fixed equipment | 5–30 years |
| Major moveable equipment | 3–15 years |

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized using the interest method over the terms of the respective debt.

Compensated Absences

The Authority's policies permit most employees to accumulate paid days off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees under the revenue note indenture, reduced by the outstanding balances of any related borrowings. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2013, the Authority completed the first-year requirements under the Medicare program and the second-year requirements under the Medicaid program and recognized revenue of approximately \$1,279,000 and \$195,000, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The annual amounts to be received and paid by the Authority over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on current information available, the annual net benefit to the Authority over the term of the SHOPP program is not expected to be materially different than the amounts received in 2013 and 2012. The amounts noted in the table below for the years ended September 30, 2013 and 2012, represent the approximate annual amounts to be received and paid by the Authority over the term of the SHOPP program.

| | 2013 | 2012 |
|----------------------------|-------------|-------------|
| SHOPP funds received | \$ 298,000 | \$ 348,000 |
| SHOPP assessment fees paid | 152,000 | 185,000 |
| Net SHOPP benefit | \$ 146,000 | \$ 163,000 |

City Appropriations

Effective March 1, 1980, the citizens of the city of Frederick approved a 1% sales tax for the support of the Authority. In 2013 and 2012, the Authority received approximately 3% of its financial support from city appropriations related to the sales tax.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Income Taxes

The Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the state of Oklahoma. However, the Authority is subject to income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Those payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and outpatient services are paid based on a cost reimbursement methodology. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through September 30, 2011.
- **Medicaid** – The Authority has been reimbursed for hospital services rendered to patients covered by the state Medicaid program on a prospective per discharge method and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority has also been reimbursed for services rendered to nursing center patients covered by the state Medicaid program on a prospective per diem method with no retroactive adjustments.

Approximately 58% and 60% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates and fixed payments per enrollee in capitated plans in which the Authority participates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At September 30, 2013 and 2012, none of the Authority's bank balances of \$3,437,340 and \$2,565,791, respectively, were exposed to custodial credit risk.

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At September 30, 2013 and 2012, the Authority had the following investments and maturities:

| September 30, 2013 | | | | | |
|---------------------------|-------------------|----------------------------|------------|-------------|---------------------|
| Type | Fair Value | Maturities in Years | | | |
| | | Less than 1 | 1–5 | 6–10 | More than 10 |
| Money market mutual funds | \$ 11,947 | \$ 11,947 | \$ - | \$ - | \$ - |

| September 30, 2012 | | | | | |
|---------------------------|-------------------|----------------------------|------------|-------------|---------------------|
| Type | Fair Value | Maturities in Years | | | |
| | | Less than 1 | 1–5 | 6–10 | More than 10 |
| Money market mutual funds | \$ 35,570 | \$ 35,570 | \$ - | \$ - | \$ - |

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

- **Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As means of limiting its exposure to fair value losses from rising interest rates, the Authority’s investment policy limits sale of investments prior to maturity dates and directly investing in securities maturing more than five years from the date of purchase. The Authority also limits investment in securities maturing in more than three years from purchase date to no more than 40% of its portfolio. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.
- **Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority’s policy to limit its investments to securities with a credit rating of AAA by Standard & Poor’s or Aaa by Moody’s, U.S. Treasury and other U.S. agencies and instrumentalities obligations, certificates of deposit and money market mutual funds.
- **Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.
- **Concentration of Credit Risk** – The Authority’s policy requires periodic review of its investments to identify concentrations in a single issuer and, if there is a risk of significant loss, to reinvest as appropriate to reduce that risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

| | 2013 | 2012 |
|--|--------------|--------------|
| Carrying value | | |
| Deposits | \$ 3,316,642 | \$ 2,342,904 |
| Investments | 11,947 | 35,570 |
| | \$ 3,328,589 | \$ 2,378,474 |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | \$ 3,225,831 | \$ 317,586 |
| Restricted cash and investments – current | - | 24,390 |
| Short-term investments | - | 2,036,498 |
| Other long-term investments | 102,758 | - |
| | \$ 3,328,589 | \$ 2,378,474 |

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Investment Income

Investment income for the years ended September 30, 2013 and 2012, consisted of interest income.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, most of whom are southwestern Oklahoma residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2013 and 2012, consisted of:

| | 2013 | 2012 |
|---|-------------------|---------------------|
| Patients | \$ 1,250,215 | \$ 1,622,803 |
| Medicare | 293,115 | 656,845 |
| Medicaid | 156,533 | 147,523 |
| Other third-party payers | 272,402 | 302,430 |
| | 1,972,265 | 2,729,601 |
| Less allowance for uncollectible accounts | 1,201,000 | 1,646,000 |
| | <u>\$ 771,265</u> | <u>\$ 1,083,601</u> |

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

| | 2013 | | | | Ending Balance |
|--|------------------------------|---------------------|------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Transfers | |
| Land | \$ 24,566 | \$ - | \$ - | \$ - | \$ 24,566 |
| Buildings, improvements and fixed equipment | 5,190,834 | 22,614 | - | - | 5,213,448 |
| Major moveable equipment | 4,270,613 | 22,439 | (24,074) | 31,227 | 4,300,205 |
| Construction in progress | 31,227 | 17,715 | - | (31,227) | 17,715 |
| | 9,517,240 | 62,768 | (24,074) | - | 9,555,934 |
| Less accumulated depreciation | | | | | |
| Buildings, improvements and fixed equipment | 4,885,120 | 39,231 | - | - | 4,924,351 |
| Major moveable equipment | 2,133,580 | 467,327 | (24,074) | - | 2,576,833 |
| | 7,018,700 | 506,558 | (24,074) | - | 7,501,184 |
| Capital assets, net | <u>\$ 2,498,540</u> | <u>\$ (443,790)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,054,750</u> |

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

| | 2012 | | | | Ending Balance |
|--|----------------------|---------------------|------------------|-------------|---------------------|
| | Beginning Balance | Additions | Disposals | Transfers | |
| Land | \$ 24,566 | \$ - | \$ - | \$ - | \$ 24,566 |
| Buildings, improvements and fixed equipment | 5,136,464 | 54,370 | - | - | 5,190,834 |
| Major moveable equipment | 4,075,612 | 240,645 | (146,220) | 100,576 | 4,270,613 |
| Construction in progress | 63,109 | 68,694 | - | (100,576) | 31,227 |
| | <u>9,299,751</u> | <u>363,709</u> | <u>(146,220)</u> | <u>-</u> | <u>9,517,240</u> |
| Less accumulated depreciation | | | | | |
| Buildings, improvements and fixed equipment | 4,833,023 | 52,097 | - | - | 4,885,120 |
| Major moveable equipment | 1,796,817 | 482,373 | (145,610) | - | 2,133,580 |
| | <u>6,629,840</u> | <u>534,470</u> | <u>(145,610)</u> | <u>-</u> | <u>7,018,700</u> |
| Capital assets, net | <u>\$ 2,669,911</u> | <u>\$ (170,761)</u> | <u>\$ (610)</u> | <u>\$ -</u> | <u>\$ 2,498,540</u> |

Note 6: Medical Malpractice Coverage and Claims

The Authority has purchased medical malpractice insurance for hospital and nursing home services under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable costs of such incidents. Because the Authority is a component unit of CCHA, which in turn is a political subdivision of the state of Oklahoma, management believes the limit of liability for any individual tort claim not covered by insurance would be limited to \$125,000. Based upon the Authority's claims experience, no accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Note 7: Long-Term Debt

The following is a summary of long-term debt transactions for the Authority for the years ended September 30:

| | 2013 | | | | |
|--------------------------|--------------------------|------------------|-------------------|-----------------------|------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Revenue refunding note | \$ 280,000 | \$ - | \$ 280,000 | \$ - | \$ - |
| Note payable to bank | 11,071 | - | 11,071 | - | - |
| Capital lease obligation | 45,075 | - | 45,075 | - | - |
| | <u>\$ 336,146</u> | <u>\$ -</u> | <u>\$ 336,146</u> | <u>\$ -</u> | <u>\$ -</u> |
| | 2012 | | | | |
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Revenue refunding note | \$ 550,000 | \$ - | \$ 270,000 | \$ 280,000 | \$ 280,000 |
| Note payable to bank | 29,564 | - | 18,493 | 11,071 | 11,071 |
| Capital lease obligation | 132,245 | - | 87,170 | 45,075 | 45,075 |
| | <u>\$ 711,809</u> | <u>\$ -</u> | <u>\$ 375,663</u> | <u>\$ 336,146</u> | <u>\$ 336,146</u> |

Revenue Refunding Note

Hospital Revenue Refunding Note, Series 2003, in the original amount of \$2,295,000 dated December 1, 2003, which bore interest at 4.4% payable semiannually. Principal was payable semiannually through September 2013. The Authority was required to make monthly deposits to the debt service funds held by the trustee. The note was secured by a pledge of the Authority's appropriations from the city of Frederick (see *Note 11*) and repaid from certain revenues of the Authority. CCHA had guaranteed approximately 40% of the principal and interest payments. The agreement required the Authority to comply with certain restrictive covenants. During 2013, the note was paid in full.

Note Payable to Bank

The note payable to bank was due April 8, 2013, with principal and interest at 3.1% payable monthly. The note was secured by a certificate of deposit held by the Authority. During 2013, the note was paid in full.

Capital Lease Obligation

The Authority was obligated under a lease for equipment that was accounted for as a capital lease, including interest of 4.50%. During 2013, the capital lease was paid in full. Assets under the capital lease at September 30, 2012, totaled \$477,423, net of accumulated depreciation of \$429,792.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Note 8: Self-Insured Claims

The Authority participates in a self-insured plan sponsored by CCHA to cover self-insured health and dental care and short-term disability claims. This plan is self-insured for participating employees and dependents up to an annual amount of \$250,000. Commercial stop-loss insurance is purchased for claims in excess of the aggregate annual amount. The Authority accrues its share of both claims reported and claims incurred but not yet reported and includes this accrual in accrued expenses on the accompanying balance sheets. The accrual is estimated based on a consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors, it is reasonably possible that the Authority's estimate will change by a material amount in the near term.

Activity in the Authority's accrued employee health claims liability is summarized as follows for the years ended September 30:

| | 2013 | 2012 |
|--|-------------|-------------|
| Balance, beginning of year | \$ 184,465 | \$ 107,919 |
| Current year claims incurred and changes in estimated for claims incurred in prior years | 269,466 | 382,597 |
| Claims and expenses paid | (360,691) | (306,051) |
| Balance, end of year | \$ 93,240 | \$ 184,465 |

Note 9: Charity Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. The costs of charity care provided under the Authority's charity care policy was approximately \$85,000 and \$53,000 for the years ended September 30, 2013 and 2012, respectively. The cost of charity care is estimated by applying the ratio of costs to gross charges from the most recent filed Medicare cost report to the gross charity care charges.

Note 10: Retirement Plan

The Authority administers a defined contribution retirement plan for its employees. Contributions are made at the discretion of the Authority and no employee contributions are permitted. The Authority had contributions of approximately \$72,000 and \$144,000 accrued for the plan at September 30, 2013 and 2012, respectively.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Note 11: City Appropriations

A 1% sales tax ordinance with no established expiration date was enacted March 1, 1980, by the city of Frederick, Oklahoma, to originally provide unrestricted appropriations to be used by the Authority for hospital purposes. Effective April 1, 1994, under the terms of the Series 1994A and 1994B Bond Indentures, the appropriations were restricted to providing debt service on the outstanding bonds (see *Note 7*). In December 2003, the city of Frederick executed a revised sales tax agreement to secure payment of the Hospital Revenue Refunding Note (see *Note 7*) with a pledge of the appropriations. All city appropriations are considered unrestricted now that the Hospital Revenue Refunding Note was paid in full.

Note 12: Related-Party Transactions

The Authority purchased ancillary services and supplies from CCHA during 2013 and 2012. Included in accounts payable at September 30, 2013 and 2012, are \$28,225 and \$28,042, respectively, owed to CCHA for services and supplies. Included in accrued expenses are \$93,240 and \$184,465 for 2013 and 2012, respectively, related to estimated amounts due to CCHA for the Authority's participation in CCHA's self-insured health insurance plan. At September 30, 2013 and 2012, the Authority also had \$92,003 and \$92,321, respectively, in accounts receivable for billings collected by CCHA on behalf of the Authority. The following related-party transactions are included in the accompanying statements of revenues, expenses and changes in net position and balance sheets for the years ended September 30, 2013 and 2012:

| | 2013 | 2012 |
|--------------------------------------|-------------|-------------|
| Expenses | | |
| Ancillary services provided by CCHA | \$ 20,678 | \$ 16,049 |
| Management services provided by CCHA | \$ 229,903 | \$ 251,107 |
| Liability | | |
| Payable to CCHA | \$ 28,225 | \$ 28,042 |

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2013 and 2012

Note 13: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. These allegations are in areas that may not be covered by commercial insurance purchased by the Authority, such as punitive damages, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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

Board of Trustees
Tillman County – City of Frederick Hospital Authority
Frederick, 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 basic financial statements of Tillman County – City of Frederick Hospital Authority (the Authority), a component unit of The Comanche County Hospital Authority, which comprise the statement of financial position as of September 30, 2013, 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 basic financial statements, and have issued our report thereon dated June 10, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Trustees
Tillman County – City of Frederick Hospital Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of 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*.

We noted certain matters that we reported to the Authority’s management in a separate letter dated June 10, 2014.

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.

BKD, LLP

Tulsa, Oklahoma
June 10, 2014

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Schedule of Findings and Responses
Year Ended September 30, 2013

| Reference Number | Finding |
|-----------------------------|----------------|
|-----------------------------|----------------|

No matters are reportable.