

**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
Auditor's Reports and Financial Statements  
September 30, 2014 and 2013





**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**September 30, 2014 and 2013**

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## 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 Tillman County – City of Frederick Hospital Authority (the Authority), a component unit of The Comanche County Hospital Authority, which are comprised of the balance sheets as of September 30, 2014 and 2013, 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 financial position of the Authority as of September 30, 2014 and 2013, 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 listed in the table of contents 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 May 26, 2015, 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  
May 26, 2015

**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, 2014 and 2013**

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, 2014 and 2013. 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 reported cash, cash equivalents and investments of \$2,081 and \$3,329 in 2014 and 2013, respectively, a decrease of \$1,248 or 37.5%.
- Estimated amounts due from third-party payer increased in 2014 by \$928. In 2013, estimated amounts due to third-party payer increased by \$132.
- The Authority’s net position decreased in 2014 by \$925 or 16.1% and increased by \$573 or 11.0% in 2013.
- The Authority reported an operating loss of \$1,170 in 2014 and operating income of \$274 in 2013.
- The Authority invested in capital assets costing \$419 and \$68 during 2014 and 2013, 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 sheet. The Authority's net position decreased in 2014 by \$880 or 15.3% and increased by \$573 or 11.0% in 2013 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Cash, cash equivalents and investments	\$ 2,081	\$ 3,329	\$ 2,378
Patient accounts receivable, net	732	771	1,084
Other current assets	1,151	403	355
Capital assets, net	2,013	2,055	2,499
Other noncurrent assets	-	-	5
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 5,977</u>	<u>\$ 6,558</u>	<u>\$ 6,321</u>
<b>Liabilities</b>			
Long-term debt	\$ 11	\$ -	\$ 336
Other current liabilities	1,129	796	796
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>1,140</u>	<u>796</u>	<u>1,132</u>
<b>Net Position</b>			
Net investment in capital assets	2,002	2,048	2,167
Restricted expendable for debt service	-	-	39
Unrestricted	2,835	3,714	2,983
	<hr/>	<hr/>	<hr/>
Total net position	<u>4,837</u>	<u>5,762</u>	<u>5,189</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 5,977</u>	<u>\$ 6,558</u>	<u>\$ 6,321</u>

Some significant changes in the Authority's assets and liabilities in 2014 are:

- A decrease in cash, cash equivalents and investments of \$1,248 or 37.5% due primarily to the operating losses incurred during the year
- An increase in other current assets of \$748 or 185.6% due primarily to the Authority meeting the second-year requirements under the Medicare Electronic Health Records Incentive Program

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

- An increase in cash, cash equivalents and 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

### **Operating Results and Changes in the Authority's Net Position**

In 2014, the Authority's net position decreased by \$925 or 16.1% as shown in Table 2. This decrease is made up of several different components and represents a decrease of \$1,498 compared with the increase in net position for 2013 of \$573.

**Table 2: Operating Results and Changes in Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 6,044	\$ 6,853	\$ 7,680
Other operating revenues	1,044	1,554	86
	<u>7,088</u>	<u>8,407</u>	<u>7,766</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	4,812	4,725	4,774
Medical supplies and drugs	558	558	619
Depreciation and amortization	461	512	546
Other operating expenses	2,427	2,338	2,380
	<u>8,258</u>	<u>8,133</u>	<u>8,319</u>
<b>Operating Income (Loss)</b>	<u>(1,170)</u>	<u>274</u>	<u>(553)</u>
<b>Nonoperating Revenues (Expenses)</b>			
City appropriations – unrestricted	239	293	214
Noncapital grants and gifts	5	-	-
Investment income	1	15	27
Interest expense	-	(9)	(25)
	<u>245</u>	<u>299</u>	<u>216</u>
<b>Increase (Decrease) in Net Position</b>	(925)	573	(337)
<b>Net Position, Beginning of Year</b>	<u>5,762</u>	<u>5,189</u>	<u>5,526</u>
<b>Net Position, End of Year</b>	<u>\$ 4,837</u>	<u>\$ 5,762</u>	<u>\$ 5,189</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 2014 and 2012, the Authority reported an operating loss, while in 2013 the Authority reported operating income.

The operating loss for 2014 worsened by \$1,444 or 527.0% compared to 2013. The primary components of the decreased operating performance are:

- A decrease in net patient service revenue of \$809 or 11.8% due primarily to decreased patient volumes
- A decrease in other operating revenue of \$510 or 32.8% due to the decrease in the second-year incentive revenue recorded in 2014 as compared to the first-year incentive revenue recorded in 2013 under the Medicare Electronic Health Records Incentive Program. See *Note 1* for further information

The operating income for 2013 improved 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

### ***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 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 (loss), nonoperating revenues and expenses and changes in estimated amounts due to/from third-party payer and accounts payable.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At the end of fiscal 2014 and 2013, the Authority had \$2,013 and \$2,055, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014 and 2013, the Authority invested in assets costing \$419 and \$68, respectively. Of this amount, \$13 was acquired through incursion of capital lease obligations in 2014. No additional debt was incurred in 2013.

## **Debt**

At September 30, 2014 and 2013, the Authority had \$11 and \$0, respectively, of a capital lease obligation outstanding as detailed in *Note 7* to the financial statements. Except for the incursion of a capital lease of \$13 in 2014, 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, 2014 and 2013**

**Assets**

	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,978,004	\$ 3,225,831
Short-term investments	102,809	-
Patient accounts receivable, net of allowance; 2014 – \$1,566,000, 2013 – \$1,201,000	732,160	771,265
Estimated amount due from third-party payer	793,000	-
Amounts due from related party	49,743	92,003
Other receivables	42,551	53,656
Supplies	168,184	171,150
Prepaid expenses and other	97,159	86,744
Total current assets	3,963,610	4,400,649
<b>Other Long-Term Investments</b>	-	102,758
<b>Capital Assets, Net</b>	2,013,494	2,054,750
Total assets	\$ 5,977,104	\$ 6,558,157

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 6,603	\$ -
Accounts payable	226,593	139,643
Accrued expenses	591,783	477,859
Amounts due to related party	310,585	43,965
Estimated amounts due to third-party payer	-	135,000
Total current liabilities	1,135,564	796,467
<b>Long-Term Debt</b>	4,768	-
Total liabilities	1,140,332	796,467
<b>Net Position</b>		
Net investment in capital assets	2,002,123	2,047,579
Unrestricted	2,834,649	3,714,111
Total net position	4,836,772	5,761,690
Total liabilities and net position	\$ 5,977,104	\$ 6,558,157

**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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – \$1,119,315, 2013 – \$1,261,832	\$ 6,043,707	\$ 6,853,214
Other	1,044,249	1,553,478
Total operating revenues	7,087,956	8,406,692
<b>Operating Expenses</b>		
Salaries and wages	3,895,928	3,958,233
Employee benefits	916,563	767,246
Purchased services and professional fees	1,151,558	985,953
Medical supplies and drugs	557,536	558,309
Supplies and other	1,227,975	1,222,155
Insurance	47,975	129,153
Depreciation and amortization	460,541	511,721
Total operating expenses	8,258,076	8,132,770
<b>Operating Income (Loss)</b>	<b>(1,170,120)</b>	<b>273,922</b>
<b>Nonoperating Revenues (Expenses)</b>		
City appropriations – unrestricted	238,851	292,463
Noncapital grants and gifts	5,000	-
Investment income	1,351	14,863
Interest expense	-	(8,927)
Total nonoperating revenues (expenses)	245,202	298,399
<b>Increase (Decrease) in Net Position</b>	<b>(924,918)</b>	<b>572,321</b>
<b>Net Position, Beginning of Year</b>	<b>5,761,690</b>	<b>5,189,369</b>
<b>Net Position, End of Year</b>	<b>\$ 4,836,772</b>	<b>\$ 5,761,690</b>

**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**Statements of Cash Flows**  
**Years Ended September 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 5,918,546	\$ 7,297,866
Payments to suppliers and contractors	(2,631,752)	(2,907,325)
Payments to and on behalf of employees	(4,698,567)	(4,867,549)
Other receipts, net	329,934	1,551,053
Net cash provided by (used in) operating activities	(1,081,839)	1,074,045
<b>Noncapital Financing Activities</b>		
City appropriations received	242,797	262,903
Noncapital grants and gifts	5,000	-
Net cash provided by noncapital financing activities	247,797	262,903
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(1,835)	(336,146)
Interest paid on long-term debt	-	(9,953)
Purchase of capital assets	(413,250)	(55,597)
Net cash used in capital and related financing activities	(415,085)	(401,696)
<b>Investing Activities</b>		
Purchase of investments	-	(100,000)
Proceeds from disposition of investments	-	2,036,498
Income on investments	1,300	12,105
Net cash provided by investing activities	1,300	1,948,603
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(1,247,827)	2,883,855
<b>Cash and Cash Equivalents, Beginning of Year</b>	3,225,831	341,976
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,978,004	\$ 3,225,831

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>		
<b>Provided by (Used in) Operating Activities</b>		
Operating income (loss)	\$ (1,170,120)	\$ 273,922
Depreciation and amortization	460,541	511,721
Accrued self-insurance costs	(45,424)	(91,225)
Provision for uncollectible accounts	1,119,315	1,261,832
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(1,030,791)	(951,921)
Supplies and prepaid expenses	(15,971)	(23,884)
Estimated amounts due to (from) third-party payer	(928,000)	132,316
Accounts payable and accrued expenses	<u>528,611</u>	<u>(38,157)</u>
Net cash provided by (used in) operating activities	<u>\$ (1,081,839)</u>	<u>\$ 1,074,604</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ -	\$ 7,171
Prepaid assets included in accounts payable	\$ -	\$ 8,522
Capital lease obligations incurred for capital assets	\$ 13,206	\$ -

**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

**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. 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. Government-mandated nonexchange transactions that are not program specific (such as city appropriations), investment income, interest expense and noncapital grants and gifts are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

***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, 2014 and 2013, 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; medical malpractice; 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.

***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.

***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.



**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

**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

**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.

**Net Position**

Net position of the Authority is classified in two 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. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets.

**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.

**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

***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.

***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.

***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 is 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.

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 2014, the Authority completed the second-year requirements under the Medicare program and recognized revenue of approximately \$959,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

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.

**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

**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.

During the years ended September 30, 2014 and 2013, the Authority had the following activity related to the SHOPP program:

	<b>2014</b>	<b>2013</b>
SHOPP funds received	\$ 336,000	\$ 298,000
SHOPP assessment fees paid	174,000	152,000
Net SHOPP benefit	\$ 162,000	\$ 146,000

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 the current information available, the annual benefit to the Authority over the remaining term of the SHOPP program is not expected to be materially different than the net amounts received in 2014. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses in the accompanying statements of revenues, expenses and changes in net position.

**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 2014 and 2013, the Authority received approximately 3% of its financial support from city appropriations related to the sales tax.

**Reclassifications**

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. The reclassifications had no effect on the changes in financial position.

**Tillman County – City of Frederick Hospital Authority**  
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**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, 2012.
- **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 64% and 58% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2014 and 2013, 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.

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 and prospectively determined daily rates.

**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.

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At September 30, 2014 and 2013, none of the Authority’s bank balances of \$2,159,574 and \$3,437,340, 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, 2014 and 2013, the Authority had the following investments and maturities:

<b>September 30, 2014</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less than 1</b>	<b>1–5</b>	<b>6–10</b>	<b>More than 10</b>
Money market mutual funds	\$ 13,683	\$ 13,683	\$ -	\$ -	\$ -

  

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

- **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. The acceptable securities under the investment policy are 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.

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- **Concentration of Credit Risk** – The Authority places no limit on the amount that may be invested in any one issuer. However, 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:

	<b>2014</b>	<b>2013</b>
Carrying value		
Deposits	\$ 2,067,130	\$ 3,316,642
Investments	13,683	11,947
	\$ 2,080,813	\$ 3,328,589
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,978,004	\$ 3,225,831
Short-term investments	102,809	-
Other long-term investments	-	102,758
	\$ 2,080,813	\$ 3,328,589

**Investment Income**

Investment income for the years ended September 30, 2014 and 2013, 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, 2014 and 2013, consisted of:

	<b>2014</b>	<b>2013</b>
Patients	\$ 1,640,333	\$ 1,250,215
Medicare	238,935	293,115
Medicaid	162,777	156,533
Other third-party payers	256,115	272,402
	2,298,160	1,972,265
Less allowance for uncollectible accounts	1,566,000	1,201,000
	\$ 732,160	\$ 771,265

**Tillman County – City of Frederick Hospital Authority**  
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**Note 5: Capital Assets**

Capital asset activity for the years ended September 30 was:

	<b>2014</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 24,566	\$ -	\$ -	\$ -	\$ 24,566
Buildings, improvements and fixed equipment	5,213,448	19,180	-	-	5,232,628
Major moveable equipment	4,300,205	158,049	-	259,771	4,718,025
Construction in progress	17,715	242,056	-	(259,771)	-
	<u>9,555,934</u>	<u>419,285</u>	<u>-</u>	<u>-</u>	<u>9,975,219</u>
Less accumulated depreciation					
Buildings, improvements and fixed equipment	4,926,739	33,526	-	-	4,960,265
Major moveable equipment	2,574,445	427,015	-	-	3,001,460
	<u>7,501,184</u>	<u>460,541</u>	<u>-</u>	<u>-</u>	<u>7,961,725</u>
Capital assets, net	<u>\$ 2,054,750</u>	<u>\$ (41,256)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,013,494</u>
	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 24,566	\$ -	\$ -	\$ -	\$ 24,566
Buildings, improvements and fixed equipment	5,190,834	22,614	-	-	5,213,448
Major moveable equipment	4,270,613	27,602	(29,237)	31,227	4,300,205
Construction in progress	31,227	17,715	-	(31,227)	17,715
	<u>9,517,240</u>	<u>67,931</u>	<u>(29,237)</u>	<u>-</u>	<u>9,555,934</u>
Less accumulated depreciation					
Buildings, improvements and fixed equipment	4,885,120	41,619	-	-	4,926,739
Major moveable equipment	2,133,580	470,102	(29,237)	-	2,574,445
	<u>7,018,700</u>	<u>511,721</u>	<u>(29,237)</u>	<u>-</u>	<u>7,501,184</u>
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**  
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**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 this estimate could change materially in the near term.

**Note 7: Long-Term Debt**

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

	<b>2014</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Capital lease obligation	\$ -	\$ 13,206	\$ 1,835	\$ 11,371	\$ 6,603
	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
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>

**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.



**Tillman County – City of Frederick Hospital Authority**  
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**Notes to Financial Statements**  
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**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 Obligations**

The Authority was obligated under separate leases at September 30, 2014 and 2013, for equipment that was accounted for as capital leases. During 2013, one capital lease, including interest at 4.5%, was paid in full. During 2014, the Authority entered into a separate capital lease, including interest at 4.0%. Assets under the capital lease at September 30, 2014, totaled \$13,206, net of accumulated depreciation of \$1,321. This lease includes monthly payments of \$550 for a period of 24 months.

**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. The Authority also has an additional accrual included as part of due to related party in the accompanying balance sheets for claims that CCHA has paid and the Authority owes CCHA. These amounts for September 30, 2014 and 2013, were \$106,985 and \$15,740, respectively.

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

	<b>2014</b>	<b>2013</b>
Balance, beginning of year	\$ 93,240	\$ 184,465
Current year claims incurred and changes in estimates for claims incurred in prior years	507,199	269,466
Claims and expenses paid	<u>(432,658)</u>	<u>(360,691)</u>
Balance, end of year	<u>\$ 167,781</u>	<u>\$ 93,240</u>

**Tillman County – City of Frederick Hospital Authority**  
**A Component Unit of The Comanche County Hospital Authority**  
**Notes to Financial Statements**  
**September 30, 2014 and 2013**

**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 were approximately \$14,000 and \$57,000 for the years ended September 30, 2014 and 2013, respectively. The cost of charity care is estimated by applying the ratio of costs to gross charges from the related Medicare cost report to the gross charity care charges. Such programs include health screenings and assessments, prenatal education and care, hospice programs, community educational services and various support groups.

**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 recorded contributions of approximately \$72,000 to the plan for 2014 and 2013. At September 30, 2014 and 2013, the Authority had \$144,000 and \$72,000, respectively, included in accrued expenses on the accompanying balance sheets.

**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. As of 2013, the Hospital Revenue Refunding Note was paid in full and all city appropriations are considered unrestricted.

**Tillman County – City of Frederick Hospital Authority**  
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**Note 12: Related-Party Transactions**

The Authority purchased ancillary services and supplies from CCHA and was also a participant in CCHA’s self-insured health insurance plan during 2014 and 2013. Included in due to related party at September 30, 2014 and 2013, are \$310,585 and \$43,965, respectively, owed to CCHA for services, supplies and employee health claims. At September 30, 2014 and 2013, the Authority also had \$49,743 and \$92,003, respectively, in 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 as of and for the years ended September 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Asset		
Receivable from CCHA	\$ 49,743	\$ 92,003
Liability		
Payable to CCHA	\$ 310,585	\$ 43,965
Expenses		
Ancillary services provided by CCHA	\$ 23,324	\$ 20,678
Management services provided by CCHA	\$ 204,703	\$ 229,903

**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 balance sheet as of September 30, 2014, 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 May 26, 2015.

***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 May 26, 2015.

### ***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  
May 26, 2015

**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, 2014**

<b>Reference Number</b>	<b>Finding</b>
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No matters are reportable.