

The Weatherford Hospital Authority

Accountants' Reports and Financial Statements

September 30, 2012 and 2011



The Weatherford Hospital Authority
September 30, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
The Weatherford Hospital Authority
Weatherford, Oklahoma

We have audited the accompanying balance sheets of The Weatherford Hospital Authority (the Authority) as of September 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Weatherford Hospital Authority as of September 30, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, 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* and should be considered in assessing the results of our audit.

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 audits 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.

BKD, LLP

January 25, 2013

The Weatherford Hospital Authority

Management's Discussion and Analysis

Years Ended September 30, 2012 and 2011

Introduction

This management's discussion and analysis of the financial performance of The Weatherford Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended September 30, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Unrestricted cash, cash equivalents and short-term certificates of deposit increased in 2012 by \$756,131 or 23.7% and in 2011 by \$1,152,077 or 56.5%.
- The Hospital's net assets increased in 2012 by \$151,873 or 1.6% and decreased in 2011 by \$723,621 or 7.1%.
- The Hospital reported operating income in 2012 of \$614,670 and an operating loss in 2011 of \$178,355. The operating income in 2012 improved by \$793,025 over the operating loss reported in 2011. The operating loss in 2011 decreased by \$252,244 compared with the operating loss reported in 2010.

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 assets; 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 Assets

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 assets 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 assets and changes in them. The Authority's total net assets—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 assets 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 Assets

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheet. The Authority's net assets increased by \$151,873 or 1.6% in 2012 over 2011 and decreased by \$723,621 or 7.1% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Unrestricted cash, cash equivalents and short-term certificates of deposit	\$ 3,948,187	\$ 3,192,056	\$ 2,039,979
Restricted cash and investments	1,635,193	1,386,929	1,309,082
Patient accounts receivable, net	2,651,470	2,315,123	2,876,599
Other current assets	739,833	485,568	595,314
Capital assets, net	14,315,677	15,108,529	15,982,799
Other current and noncurrent assets	845,382	1,577,547	1,703,434
Total assets	<u>\$ 24,135,742</u>	<u>\$ 24,065,752</u>	<u>\$ 24,507,207</u>
Liabilities			
Long-term debt (including current maturities)	\$ 11,709,769	\$ 12,107,038	\$ 12,395,871
Other current and noncurrent liabilities	2,761,678	2,446,292	1,875,293
Total liabilities	<u>14,471,447</u>	<u>14,553,330</u>	<u>14,271,164</u>
Net Assets			
Invested in capital assets, net of related debt	2,574,649	2,984,028	4,155,864
Restricted expendable	1,635,193	1,386,929	1,309,082
Unrestricted	5,454,453	5,141,465	4,771,097
Total net assets	<u>9,664,295</u>	<u>9,512,422</u>	<u>10,236,043</u>
Total liabilities and net assets	<u>\$ 24,135,742</u>	<u>\$ 24,065,752</u>	<u>\$ 24,507,207</u>

Significant changes in the Authority's assets in 2012 are the increase in unrestricted cash, cash equivalents and certificates of deposit and patient accounts receivable and the decrease in capital assets. The increase in cash and investments is due primarily to the receipt of funds under Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP) during the year. The increase in patient accounts receivable is due to billing and payment delays in the billing and collection process. The decrease in capital assets is due to depreciation expense exceeding additions during the year.

Significant changes in the Authority's assets in 2011 are the increase in cash and investments and the decrease in capital assets and patient accounts receivable. The increase in cash and investments is due primarily to the receipt of funds under the Oklahoma Medicaid incentive program related to electronic health records. The decrease in patient accounts receivable is due to an increase in the allowance for bad debts. The decrease in capital assets is due to depreciation expense exceeding additions during the year.

Operating Results and Changes in the Hospital's Net Assets

In 2012, the Authority's net assets increased by \$151,873 or 1.6% as shown in Table 2. This increase is made up of several different components and represents an improvement of 121.0% compared with the decrease in net assets for 2011 of \$723,621. The Authority's change in net assets changed from a decrease of \$775,448 in 2010 to a decrease of \$723,621 in 2011, an improvement of 6.7%.

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues			
Net patient service revenue	\$ 18,342,597	\$ 15,987,487	\$ 14,317,591
Other operating revenues	<u>317,319</u>	<u>930,093</u>	<u>265,972</u>
Total operating revenues	<u>18,659,916</u>	<u>16,917,580</u>	<u>14,583,563</u>
Operating Expenses			
Salaries and wages and employee benefits	8,598,501	7,998,184	7,256,031
Purchased services and professional fees	3,561,964	3,155,085	2,537,654
Depreciation and amortization	1,668,677	1,676,327	1,709,410
Supplies and other	<u>4,216,104</u>	<u>4,266,339</u>	<u>3,511,067</u>
Total operating expenses	<u>18,045,246</u>	<u>17,095,935</u>	<u>15,014,162</u>
Operating Income (Loss)	<u>614,670</u>	<u>(178,355)</u>	<u>(430,599)</u>
Nonoperating Revenue (Expenses)			
Investment income	40,597	50,586	45,732
Interest expense	(755,208)	(730,670)	(739,419)
Noncapital gifts	<u>804</u>	<u>4,372</u>	<u>955</u>
Total nonoperating expenses	<u>(713,807)</u>	<u>(675,712)</u>	<u>(692,732)</u>
Capital Appropriations and Gifts			
Capital appropriations – City of Weatherford	105,947	77,728	266,851
Capital gifts	<u>145,063</u>	<u>52,718</u>	<u>81,032</u>
	<u>251,010</u>	<u>130,446</u>	<u>347,883</u>
Increase (Decrease) in Net Assets	<u>\$ 151,873</u>	<u>\$ (723,621)</u>	<u>\$ (775,448)</u>

Operating Income (Loss)

The first component of the overall change in the Authority's net assets 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.

The operating income for 2012 improved by \$793,025 as compared to the operating loss in 2011. The primary components of this improvement are:

- An increase in net patient service revenue of \$2,355,110 or 14.7%. This increase is due primarily to increases in surgery volumes and payments received under Oklahoma's SHOPP during the year.
- A decrease in other operating revenue of \$612,774 or 65.9% due to Medicaid EHR incentive payments being paid in the prior year and the second year requirements not being met until fiscal year 2013.
- An increase in salaries, wages and employee benefits of \$600,317 or 7.5%. This increase is primarily due to an approximate 5% increase in wage rates.
- An increase in purchased services and professional fees of \$406,879 or 12.9%. This increase is largely due to an increase in emergency room physician fees because of a change in staffing.

The operating loss for 2011 improved by \$252,244 or 58.6% as compared to the operating loss in 2010. The primary components of the improved operating loss are:

- An increase in net patient service revenue of \$1,669,896 or 11.7%.
- An increase in other operating revenue of \$664,121 or 249.7%.
- An increase in salaries, wages and employee benefits of \$742,153 or 10.2%.
- An increase in purchased services and professional fees of \$617,431 or 24.3%.
- An increase in other operating expenses of \$755,272 or 21.5%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense, all of which remained relatively constant in 2012 as compared to 2011.

Capital Gifts and Appropriations

The Authority recognized capital gifts of approximately \$145,000 and \$53,000 in 2012 and 2011, respectively, to assist in funding various capital asset additions.

The Authority received capital appropriations from the City of Weatherford of approximately \$106,000 and \$78,000 during 2012 and 2011, respectively.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Authority had \$14,315,677 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Authority purchased new equipment costing \$862,340. Of this amount, \$67,500 was acquired through incursion of capital lease obligations. At the end of 2011, the Authority had \$15,108,529 invested in capital assets, net of accumulated depreciation. In 2011, the Authority purchased new equipment costing \$782,641. Of this amount, \$445,461 was acquired through incursion of capital lease obligations.

Debt

At September 30, 2012 and 2011, the Authority had \$11,709,769 and \$12,107,038, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. Except for capital leases of \$67,500 and \$445,461 initiated in 2012 and 2011, respectively, the Authority issued no new debt in 2012 or 2011.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administrative offices by telephoning 580.772.5551.

The Weatherford Hospital Authority

Balance Sheets

September 30, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 2,431,228	\$ 2,207,101
Short-term certificates of deposit	1,516,959	984,955
Restricted cash and investments – current	613,468	365,274
Patient accounts receivable, net of allowance; 2012 – \$2,306,000, 2011 – \$1,690,000	2,651,470	2,315,123
Supplies	300,946	279,616
Prepaid expenses and other	197,522	18,079
Notes receivable – current	241,365	187,873
Total current assets	7,952,958	6,358,021
Noncurrent Cash and Investments		
Certificate of deposit	-	522,720
Held by trustee for debt service	1,021,725	1,021,655
	1,021,725	1,544,375
Capital Assets, Net	14,315,677	15,108,529
Other Assets		
Deferred financing costs	256,241	269,727
Notes receivable	589,141	785,100
	845,382	1,054,827
Total assets	\$ 24,135,742	\$ 24,065,752

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Line of credit	\$ 419,750	\$ 419,750
Current maturities of long-term debt	585,955	464,106
Accounts payable	1,099,167	592,199
Accrued expenses	624,306	527,153
Accrued interest	287,500	287,190
Estimated amounts due to third-party payers	330,955	620,000
	<u>3,347,633</u>	<u>2,910,398</u>
Total current liabilities		
	3,347,633	2,910,398
Long-Term Debt	<u>11,123,814</u>	<u>11,642,932</u>
Total liabilities	<u>14,471,447</u>	<u>14,553,330</u>
Net Assets		
Invested in capital assets, net of related debt	2,574,649	2,984,028
Restricted expendable for		
Debt service	1,451,062	1,309,201
Capital acquisitions	184,131	77,728
Unrestricted	5,454,453	5,141,465
	<u>9,664,295</u>	<u>9,512,422</u>
Total net assets		
	<u>9,664,295</u>	<u>9,512,422</u>
Total liabilities and net assets	<u>\$ 24,135,742</u>	<u>\$ 24,065,752</u>

The Weatherford Hospital Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$3,857,456, 2011 – \$3,823,722	\$ 18,342,597	\$ 15,987,487
Other	<u>317,319</u>	<u>930,093</u>
Total operating revenues	<u>18,659,916</u>	<u>16,917,580</u>
Operating Expenses		
Salaries and wages	7,254,502	6,748,980
Employee benefits	1,343,999	1,249,204
Purchased services and professional fees	3,561,964	3,155,085
Supplies and other	4,216,104	4,266,339
Depreciation and amortization	<u>1,668,677</u>	<u>1,676,327</u>
Total operating expenses	<u>18,045,246</u>	<u>17,095,935</u>
Operating Income (Loss)	<u>614,670</u>	<u>(178,355)</u>
Nonoperating Revenues (Expenses)		
Investment income	40,597	50,586
Interest expense	(755,208)	(730,670)
Noncapital gifts	<u>804</u>	<u>4,372</u>
Total nonoperating revenues (expenses)	<u>(713,807)</u>	<u>(675,712)</u>
Deficiency of Revenues over Expenses Before Capital Appropriations and Capital Gifts	(99,137)	(854,067)
Capital Appropriations – City of Weatherford	105,947	77,728
Capital Gifts	<u>145,063</u>	<u>52,718</u>
Increase (Decrease) in Net Assets	151,873	(723,621)
Net Assets, Beginning of Year	<u>9,512,422</u>	<u>10,236,043</u>
Net Assets, End of Year	<u><u>\$ 9,664,295</u></u>	<u><u>\$ 9,512,422</u></u>

The Weatherford Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 17,717,205	\$ 16,797,963
Payments to suppliers and contractors	(7,471,563)	(7,415,018)
Payments to and on behalf of employees	(8,501,348)	(7,923,013)
Other receipts and payments, net	459,786	981,192
	<u>2,204,080</u>	<u>2,441,124</u>
Net cash provided by operating activities		
Noncapital Financing Activities		
Principal paid on line of credit	-	(80,000)
Proceeds from issuance of line of credit	-	499,750
Interest paid on line of credit	(23,357)	(13,696)
Noncapital gifts	804	4,372
	<u>(22,553)</u>	<u>410,426</u>
Net cash provided by (used in) noncapital financing activities		
Capital and Related Financing Activities		
Capital gifts	145,063	52,718
Capital appropriations – City of Weatherford	105,947	77,728
Principal paid on long-term debt	(469,001)	(738,969)
Interest paid on long-term debt	(727,619)	(716,974)
Purchase of capital assets	(794,839)	(337,180)
	<u>(1,740,449)</u>	<u>(1,662,677)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Interest on investments	40,597	50,586
Net purchases of investments	(1,031,009)	(18,671)
	<u>(990,412)</u>	<u>31,915</u>
Net cash provided by (used in) investing activities		
Increase (Decrease) in Cash and Cash Equivalents	(549,334)	1,220,788
Cash and Cash Equivalents, Beginning of Year	<u>3,594,030</u>	<u>2,373,242</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,044,696</u></u>	<u><u>\$ 3,594,030</u></u>

	2012	2011
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 2,431,228	\$ 2,207,101
Restricted cash and investments in current assets	613,468	365,274
Restricted cash and investments in noncurrent assets	<u>-</u>	<u>1,021,655</u>
Total cash and cash equivalents	<u><u>\$ 3,044,696</u></u>	<u><u>\$ 3,594,030</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 614,670	\$ (178,355)
Depreciation and amortization	1,668,677	1,676,327
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(193,880)	612,575
Estimated amounts due to third-party payers	(289,045)	249,000
Accounts payable and accrued expenses	604,431	19,174
Supplies and prepaid expenses	<u>(200,773)</u>	<u>62,403</u>
Net cash provided by operating activities	<u><u>\$ 2,204,080</u></u>	<u><u>\$ 2,441,124</u></u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 67,500	\$ 445,461

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

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

Nature of Operations and Reporting Entity

The Weatherford Hospital Authority (the Authority) was created under a trust indenture dated July 30, 1968, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of the City of Weatherford, Oklahoma.

The Authority operates Weatherford Regional Hospital (the Hospital), a critical access hospital located in Weatherford, Oklahoma, which primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Weatherford, Oklahoma, and the surrounding area. It also operates outpatient clinics in the same geographic area.

Basis of Accounting and Presentation

The accompanying 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, capital 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 capital appropriations), investment income and interest expense are included in nonoperating revenues and expenses. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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 and 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, 2012 and 2011, cash equivalents consisted primarily of money market mutual funds and a certificate of deposit.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Investments in nonnegotiable 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.

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.

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:

Buildings and improvements	5–40 years
Equipment	3–25 years

Deferred Financing Costs

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

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

Compensated Absences

Authority policies permit most employees to accumulate vacation 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 vacation 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 and termination 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 Assets

Net assets of the Authority are classified in three components. Net assets invested in capital assets, net of related debt, consist 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 assets are 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 as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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.

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

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 technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Authority's Medicare utilization plus 20%, limited to 100% of the costs incurred. 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. Payment under both programs are contingent on the Authority 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 under both programs is determined based upon an audit by the fiscal intermediary. 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 2011, the Authority completed the first-year requirements under the Medicaid incentive program and recorded revenue of approximately \$575,000. EHR revenue from Medicaid is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net assets.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2014. 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.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. During 2012, the Authority received approximately \$513,000 in SHOPP funds of which approximately \$411,000 is the estimated annual amount to be received by the Authority over the term of the SHOPP program. The SHOPP revenue is recorded as part of net patient service revenue on the accompanying statements of revenues, expenses and changes in net assets.

City Appropriations

Effective April 6, 2010, the citizens of the City of Weatherford, Oklahoma (the City) approved a 1% sales tax for several major projects within the City. The Authority receives 5% of the 1% sales tax up to an aggregate amount of \$1,022,722. The tax expires in 2020. The City appropriates these amounts monthly to the Authority.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

The Authority received approximately 0.6% and 0.5% of its financial support from city appropriations related to the sales taxes in 2012 and 2011, respectively. Revenue from city appropriations is recognized in the year in which the sales taxes are earned.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement 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. These payment arrangements include:

- **Medicare** – The Authority is reimbursed based on a cost reimbursement methodology for inpatient and outpatient services provided to Medicare program beneficiaries as a critical access hospital. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through September 30, 2010.
- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge 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.

Approximately 49% and 46% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2012 and 2011, 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 compliance with the provisions of state law, which requires all deposits for public trusts be insured or collateralized.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

At September 30, 2012 and 2011, \$771,725 and \$17,599 of the Authority's bank balances of \$5,116,509 and \$3,979,592, respectively, were exposed to custodial credit risk as follows:

	<u>2012</u>	<u>2011</u>
Uninsured and uncollateralized	\$ 771,725	\$ 17,599
	<u>\$ 771,725</u>	<u>\$ 17,599</u>

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, 2012 and 2011, the Authority had \$429,339 and \$1,309,201, respectively, of money market mutual funds that have maturities of less than one year.

Interest Rate Risk – Interest rate risk is the exposure to fair value losses arising from rising interest rates. 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. At September 30, 2012 and 2011, the Authority's investments in money market mutual funds were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

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 places no limit on the amount that may be invested in any one issuer. At September 30, 2012 and 2011, the Authority had no investments other than money market mutual funds. At September 30, 2012 and 2011, all money market mutual funds are held in Federated Prime Obligation Funds.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Authority had no investments denominated in foreign currency at September 30, 2012 and 2011.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 5,154,041	\$ 3,792,504
Investments	429,339	1,309,201
	<u>\$ 5,583,380</u>	<u>\$ 5,101,705</u>
	2012	2011
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,431,228	\$ 2,207,101
Restricted cash and investments – current	613,468	365,274
Short-term certificates of deposit	1,516,959	984,955
Noncurrent cash and investments	1,021,725	1,544,375
	<u>\$ 5,583,380</u>	<u>\$ 5,101,705</u>

Investment Income

Investment income for the years ended September 30, 2012 and 2011, consisted of interest income.

Note 4: Patient Accounts Receivable

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

	2012	2011
Medicare	\$ 721,131	\$ 498,754
Medicaid	498,156	201,023
Other third-party payers	1,089,292	1,080,359
Patients	2,648,891	2,224,987
	<u>4,957,470</u>	<u>4,005,123</u>
Less allowance for uncollectible accounts	2,306,000	1,690,000
	<u>\$ 2,651,470</u>	<u>\$ 2,315,123</u>

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

2012				
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 873,001	\$ -	\$ -	\$ 873,001
Land improvements	130,685	-	-	130,685
Buildings and improvements	15,781,945	-	-	15,781,945
Equipment	8,449,165	862,340	-	9,311,505
Construction in progress	278,915	-	-	278,915
	<u>25,513,711</u>	<u>862,340</u>	<u>-</u>	<u>26,376,051</u>
Less accumulated depreciation				
Land improvements	60,852	8,540	-	69,392
Buildings and improvements	4,399,646	841,335	-	5,240,981
Equipment	5,944,684	805,317	-	6,750,001
	<u>10,405,182</u>	<u>1,655,192</u>	<u>-</u>	<u>12,060,374</u>
Capital assets, net	<u>\$ 15,108,529</u>	<u>\$ (792,852)</u>	<u>\$ -</u>	<u>\$ 14,315,677</u>

2011				
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 873,001	\$ -	\$ -	\$ 873,001
Land improvements	130,685	-	-	130,685
Buildings and improvements	15,778,575	3,370	-	15,781,945
Equipment	7,684,894	764,271	-	8,449,165
Construction in progress	263,915	15,000	-	278,915
	<u>24,731,070</u>	<u>782,641</u>	<u>-</u>	<u>25,513,711</u>
Less accumulated depreciation				
Land improvements	51,536	9,316	-	60,852
Buildings and improvements	3,581,775	817,871	-	4,399,646
Equipment	5,114,960	829,724	-	5,944,684
	<u>8,748,271</u>	<u>1,656,911</u>	<u>-</u>	<u>10,405,182</u>
Capital assets, net	<u>\$ 15,982,799</u>	<u>\$ (874,270)</u>	<u>\$ -</u>	<u>\$ 15,108,529</u>

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

Note 6: Line of Credit

During 2011, the Authority obtained a \$500,000 revolving line of credit expiring in 2012. In 2012, this line of credit was renewed through 2013. No draws have been made during 2012 and 2011, and principal payments of \$0 and \$80,000 were made during 2012 and 2011, respectively. At September 30, 2012 and 2011, there was \$419,750 outstanding related to this line of credit. The line is collateralized by substantially all the Authority's accounts receivable. Interest varies with the bank's prime rate plus 1.5% (4.75% at September 30, 2012) and is payable monthly.

Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance 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 ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Obligations

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

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Bonds, Series 2006	\$ 11,500,000	\$ -	\$ -	\$ 11,500,000	\$ 340,000
Bond discount	(85,535)	-	4,232	(81,303)	4,232
	11,414,465	-	4,232	11,418,697	344,232
Capital lease obligations	692,573	67,500	(469,001)	291,072	241,723
	<u>\$ 12,107,038</u>	<u>\$ 67,500</u>	<u>\$ (464,769)</u>	<u>\$ 11,709,769</u>	<u>\$ 585,955</u>

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue Bonds, Series 2006	\$ 11,500,000	\$ -	\$ -	\$ 11,500,000	\$ -
Bond discount	(90,210)	-	4,675	(85,535)	(4,675)
	11,409,790	-	4,675	11,414,465	(4,675)
Note payable to bank	381,902	-	(381,902)	-	-
Capital lease obligations	604,179	445,461	(357,067)	692,573	468,781
	<u>\$ 12,395,871</u>	<u>\$ 445,461</u>	<u>\$ (734,294)</u>	<u>\$ 12,107,038</u>	<u>\$ 464,106</u>

Revenue Bonds, Series 2006

The Weatherford Hospital Authority Revenue Bonds, Series 2006 (the Bonds) in the original amount of \$11,500,000 and sold at a discount of \$105,793 are dated May 1, 2006, which bear interest at 6%. The Bonds are payable with principal payments due annually beginning May 1, 2013, and interest payments due semiannually beginning November 1, 2006. The Authority is required to make monthly deposits to the debt service fund held by the trustee in the amount of 1/6 the next semiannual interest payment due and 1/12 the amount of the next annual principal payment due. All of the Bonds still outstanding may be redeemed at the Authority's option no earlier than May 1, 2016. The redemption price is 103%, decreasing to 102% on or after May 1, 2017, and decreasing to 101% on or after May 1, 2018. Proceeds from the issuance of these bonds were used to construct a new hospital facility. The Bonds are secured by substantially all the assets of the Authority as described in Section 2.01 of the Bond Indenture.

The Bonds were issued at a discount of approximately \$106,000. The bond discount is being amortized as a component of interest expense based on the straight-line method over the life of the bonds.

The Bond Indenture Agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The Bond Indenture also requires the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio of at least 1.35 to 1.00, restrictions on incurrence of additional debt, maintaining minimum days cash on hand of 60 days, maintaining maximum aged receivables and payables of no more than 120 days and maintaining a current ratio of at least 2.0 to 1.0.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

The debt service requirements as of September 30, 2012, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2013	\$ 1,030,000	\$ 340,000	\$ 690,000
2014	1,029,600	360,000	669,600
2015	1,033,000	385,000	648,000
2016	1,029,900	405,000	624,900
2017	1,030,600	430,000	600,600
2018–2022	5,158,000	2,575,000	2,583,000
2023–2027	5,148,300	3,435,000	1,713,300
2028–2031	4,121,100	3,570,000	551,100
	<u>\$ 19,580,500</u>	<u>\$ 11,500,000</u>	<u>\$ 8,080,500</u>

Note Payable to Bank

The note payable to bank was due July 1, 2012, with principal and interest at prime less 1.77% payable monthly. The note was secured by certain capital assets and was paid in full during fiscal 2011.

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2012 and 2011, totaled \$2,190,451 and \$2,122,951, respectively, net of accumulated depreciation of \$1,771,082 and \$1,453,824, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 4.64% to 6.92% together with the present value of the future minimum lease payments as of September 30, 2012:

Year Ending September 30,	
2013	\$ 251,245
2014	15,916
2015	15,916
2016	15,916
2017	7,958
Total minimum lease payments	306,951
Less amount representing interest	15,879
Present value of future minimum lease payments	<u>\$ 291,072</u>

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

Note 9: Restricted and Designated Net Assets

At September 30, 2012 and 2011, \$1,451,062 and \$1,309,201, respectively, of restricted expendable net assets were available for debt service.

At September 30, 2012 and 2011, \$184,131 and \$77,728, respectively, of restricted expendable net assets were available for capital acquisitions.

Note 10: 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. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	2012	2011
Charity allowances	\$ 270,000	\$ 217,000
State Medicaid and other public aid programs	4,109,000	4,709,000
	<u>\$ 4,379,000</u>	<u>\$ 4,926,000</u>

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, hospice programs and community educational services. Costs related to these services are not separately identifiable and are included in expenses.

Note 11: Operating Leases

Rental expense under month-to-month and other operating lease agreements totaled approximately \$572,000 and \$550,000 for the years ended September 30, 2012 and 2011, respectively.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2012 and 2011

Note 12: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority, expressed as a percentage of covered payroll, were 3.0% and 2.0% for 2012 and 3.5% and 2.0% for 2011, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$166,000 and \$110,000 during 2012 and \$170,000 and \$100,000 during 2011, respectively.

Note 13: Risks and Uncertainties

Current Economic Conditions

The current economic environment presents the health care industry with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Authority's ability to meet debt covenants or maintain sufficient liquidity.

Note 14: 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. Some of these allegations are in areas not covered by commercial insurance; for example, 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 Accountants' 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
The Weatherford Hospital Authority
Weatherford, Oklahoma

We have audited the financial statements of The Weatherford Hospital Authority (the Authority) as of and for the year ended September 30, 2012, and have issued our report thereon dated January 25, 2013. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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*.

Board of Trustees
The Weatherford Hospital Authority

We noted certain matters that we reported to the Authority's management in a separate letter dated January 25, 2013.

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

January 25, 2013

The Weatherford Hospital Authority
Schedule of Findings and Responses
Year Ended September 30, 2012

Reference Number	Finding
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No matters are reportable.