

The Weatherford Hospital Authority

Independent Auditor's Reports and Financial Statements

September 30, 2019



The Weatherford Hospital Authority
September 30, 2019

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Independent Auditor's Report

Board of Trustees
The Weatherford Hospital Authority
Weatherford, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of The Weatherford Hospital Authority (the Authority), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

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 audit. 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. 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, 2019, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The 2018 financial statements, before they were restated for the matters discussed in *Note 16*, were audited by other auditors, and their report thereon, dated January 28, 2019, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

Other Matter

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated April 3, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's 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
April 3, 2020

The Weatherford Hospital Authority

Balance Sheet

September 30, 2019

Assets

Current Assets

Cash and cash equivalents	\$ 918,018
Short-term certificates of deposit	1,821,165
Patient accounts receivable, net of allowance of \$2,059,260	2,107,724
Supplies	236,852
Prepaid expenses and other	288,966
Notes receivable – current	255,571

Total current assets 5,628,296

Noncurrent Cash and Investments

Restricted by trustee for debt service	480,000
Restricted for future construction	348,438

Total noncurrent cash and investments 828,438

Capital Assets, Net 8,476,305

Notes Receivable 505,358

Total assets \$ 15,438,397

Liabilities and Net Position

Current Liabilities

Note payable to bank	\$ 374,096
Current maturities of long-term debt	528,187
Accounts payable	1,666,314
Accrued expenses	429,776
Estimated amounts due to third-party payors	<u>180,000</u>

Total current liabilities 3,178,373

Long-Term Debt

9,611,660

Total liabilities 12,790,033

Net Position

Net investment in capital assets	(1,827,623)
Restricted expendable for	
Debt service	480,000
Future construction	348,438
Unrestricted	<u>3,647,549</u>

Total net position 2,648,364

Total liabilities and net position \$ 15,438,397

The Weatherford Hospital Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended September 30, 2019

Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts of \$4,344,546	\$ 17,036,801
Other revenue	160,402
	<hr/>
Total operating revenues	17,197,203
	<hr/>
Operating Expenses	
Salaries and wages	6,399,296
Employee benefits	1,135,221
Depreciation	1,058,041
Professional fees and services	4,272,941
Supplies and other	4,679,427
	<hr/>
Total operating expenses	17,544,926
	<hr/>
Operating Loss	(347,723)
	<hr/>
Nonoperating Revenues (Expenses)	
Investment income	45,952
Interest expense	(293,974)
Noncapital grants and gifts	7,566
	<hr/>
Total nonoperating revenues (expenses)	(240,456)
	<hr/>
Loss Before Capital Contributions and Capital Appropriations	(588,179)
	<hr/>
Capital grants and gifts	84,726
Capital appropriations – City of Weatherford	123,693
	<hr/>
Total capital contributions and capital appropriations	208,419
	<hr/>
Decrease in Net Position	(379,760)
	<hr/>
Net Position, Beginning of Year, as Previously Reported	3,307,039
	<hr/>
Adjustment applicable to prior years	(278,915)
	<hr/>
Net Position, Beginning of Year, as Restated	3,028,124
	<hr/>
Net Position, End of Year	\$ 2,648,364
	<hr/> <hr/>

The Weatherford Hospital Authority
Statement of Cash Flows
Year Ended September 30, 2019

Operating Activities	
Receipts from and on behalf of patients	\$ 17,658,824
Payments to suppliers and contractors	(9,583,357)
Payments to and on behalf of employees	<u>(7,552,962)</u>
Net cash provided by operating activities	<u>522,505</u>
Noncapital Financing Activities	
Interest paid on line of credit	(26,007)
Noncapital grants and gifts	<u>7,566</u>
Net cash used in noncapital financing activities	<u>(18,441)</u>
Capital and Related Financing Activities	
Capital grants and gifts	84,726
Capital appropriations – City of Weatherford	123,693
Proceeds from issuance of long-term debt	225,000
Principal paid on long-term debt	(454,689)
Interest paid on long-term debt	(267,967)
Purchase of capital assets	<u>(675,006)</u>
Net cash used in capital and related financing activities	<u>(964,243)</u>
Investing Activities	
Income on investments	45,952
Purchase of investments	(27,765)
Issuance of notes receivable	<u>(157,384)</u>
Net cash used in investing activities	<u>(139,197)</u>
Decrease in Cash and Cash Equivalents	(599,376)
Cash and Cash Equivalents, Beginning of Year, as Restated	<u>2,345,832</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,746,456</u></u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Cash and cash equivalents	\$ 918,018
Noncurrent cash and investments	
Restricted by trustee for debt service	480,000
Restricted for future construction	<u>348,438</u>
Total cash and cash equivalents	<u><u>\$ 1,746,456</u></u>

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating loss	\$	(347,723)
Depreciation		1,058,041
Impairment of capital assets		178,642
Forgiveness of notes receivable		46,579
Provision for uncollectible accounts		4,344,546
Changes in operating assets and liabilities		
Patient accounts receivable		(3,795,894)
Estimated amounts due from and to third-party payors		(87,031)
Accounts payable and accrued expenses		(801,101)
Inventories		(5,372)
Prepaid expenses		(68,182)
		<hr/>
Net cash provided by operating activities	\$	<u>522,505</u>

Noncash Investing, Capital and Related Financing Activities

Capital lease obligation incurred for capital assets	\$	225,000
Forgiveness of notes receivable	\$	46,579
Capital asset acquisitions included in accounts payable	\$	164,081

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2019

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

Nature of Operations and Reporting Entity

The Weatherford Hospital Authority (the Authority) is a critical access hospital (CAH) located in Weatherford, Oklahoma. The Authority was created by a trust indenture dated July 30, 1968, as a public trust for the benefit of the City of Weatherford (the City) and the surrounding area. The Authority operates Weatherford Regional Hospital (the Hospital), which primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the City and the surrounding area. It also operates various outpatient clinics in the same geographic area.

Weatherford Regional Hospital, Inc. of Weatherford, Oklahoma (WRHI) is a corporation that was established July 11, 1960, but was inactive after establishment of the Authority. The Authority filed an amended Certificate of Incorporation on March 1, 2016, to re-establish WRHI in order to qualify for a loan with the United States Department of Agriculture (USDA). WRHI is a non-profit corporation subject to income tax. WRHI is a separate legal entity but has substantially the same governing body as the Authority and is reported as a blended component unit of the Authority. WRHI does not issue separate financial statements.

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 or voluntary nonexchange transactions (principally, city appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program-specific (such as city appropriations), investment income and interest on capital asset-related debt 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.

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, 2019, cash equivalents consisted primarily of money market accounts.

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, 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 or market. Costs are determined using the first-in, first-out (FIFO) method.

Investments and Investment Income

Investments consist of non-negotiable certificates of deposit, which are carried at amortized cost. Investment income consists of interest income.

Capital Assets

Capital assets in excess of \$5,000 are recorded at cost at the date of acquisition, or acquisition 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	10–25 years
Buildings and improvements	5–50 years
Equipment	3–25 years

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset's historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

An impairment loss of \$178,642 was recognized during the year ended September 30, 2019, based on the abandonment of the old hospital building during the year. The loss is included in supplies and other expenses in the accompanying statement of revenues, expenses and changes in net position. The loss was determined based on the service units approach.

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

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2019

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.

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.

Net Position

Net position of the Authority is classified in three components on its balance sheet:

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

Net Patient Service Revenue

The Authority has agreements with third-party payors 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 payors 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.

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2019

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.

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 is currently scheduled to sunset on December 31, 2025. The SHOPP is designed to assess certain 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.

CAHs are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. During the year ended September 30, 2019, the Authority received approximately \$510,000 in SHOPP funds. SHOPP revenue is recorded as part of net patient service revenue in the accompanying statement of revenues, expenses and change in net position.

The annual amounts to be received by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds.

Capital Appropriations – City of Weatherford

Effective April 6, 2010, the citizens of 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 Authority has received approximately \$124,000 during the year ended September 30, 2019, and \$1,010,000 to date through September 30, 2019. This tax expires in 2020. The City appropriates these amounts monthly to the Authority. The Authority reports these receipts as capital appropriations – City of Weatherford in the accompanying statement of revenues, expenses and change in net position in the year in which the sales tax is earned. These appropriations are restricted for the purchase of capital equipment.

Note 2: Deposits 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 to be insured or collateralized.

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

At September 30, 2019, none of the Authority's bank balance of \$3,183,569 were exposed to custodial credit risk as uninsured and uncollateralized.

The above amount excludes deposits held by WRHI with bank balances and carrying amounts of \$480,000 at September 30, 2019. As a nongovernmental entity, WRHI is not subject to collateralization requirements. At September 30, 2019, WRHI's depository account exceeded federally insured limits by \$230,000.

Summary of Carrying Values

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

Carrying value	
Deposits	<u>\$ 3,567,621</u>
Included in the following balance sheet captions	
Cash and cash equivalents	\$ 918,018
Short-term investments	1,821,165
Noncurrent cash and investments	
Restricted by trustee for debt service	480,000
Restricted for future construction	<u>348,438</u>
	<u>\$ 3,567,621</u>

Note 3: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at September 30, 2019, consisted of:

Medicare	\$ 522,245
Medicaid	127,256
Other third-party payors	915,695
Patients	<u>2,601,788</u>
	4,166,984
Less allowance for uncollectible accounts	<u>2,059,260</u>
	<u>\$ 2,107,724</u>

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

Note 4: Capital Assets

Capital assets activity for the year ended September 30, 2019, was:

	Beginning Balance (Restated – Note 16)	Additions	Disposals	Transfers	Ending Balance
Land	\$ 873,001	\$ -	\$ -	\$ -	\$ 873,001
Land improvements	130,685	29,967	-	-	160,652
Buildings and leasehold improvements	15,786,801	-	(178,642)	281,854	15,890,013
Equipment	11,293,851	712,454	-	53,482	12,059,787
Construction in progress	21,708	321,667	-	(335,336)	8,039
	<u>28,106,046</u>	<u>1,064,088</u>	<u>(178,642)</u>	<u>-</u>	<u>28,991,492</u>
Less accumulated depreciation					
Land improvements	116,965	4,751	-	-	121,716
Buildings and leasehold improvements	9,474,667	558,847	-	-	10,033,514
Equipment	9,865,514	494,443	-	-	10,359,957
	<u>19,457,146</u>	<u>1,058,041</u>	<u>-</u>	<u>-</u>	<u>20,515,187</u>
Capital assets, net	<u>\$ 8,648,900</u>	<u>\$ 6,047</u>	<u>\$ (178,642)</u>	<u>\$ -</u>	<u>\$ 8,476,305</u>

Note 5: Notes Receivable

The Authority issues notes to physicians as part of its recruitment process. Notes are repayable starting 36 months after the note is received or immediately if the agreement is terminated. The notes are then amortized over a 36-month period and are issued with a 2.0% interest rate. Amortization expense is included in purchased services and professional fees in the accompanying statement of revenues, expenses and changes in net position. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven. At September 30, 2019, notes receivable from physicians totaled \$760,929.

The balance of payments scheduled to be received or forgiven are as follows for the years ending September 30:

2020	\$ 255,571
2021	272,010
2022	<u>233,348</u>
Future minimum lease payments	<u>\$ 760,929</u>

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

Note 6: Note Payable to Bank

The Authority has a \$500,000 revolving line of credit for general operations. The line of credit has been renewed through June 13, 2020. No draws or payments of principal were made on this line of credit during the year ended September 30, 2019. At September 30, 2019, there was \$374,096 outstanding related to this line of credit. The line is collateralized by the Authority's accounts receivable. The line of credit bears interest at the prime rate plus 1.55% (6.55% at September 30, 2019) and is payable monthly. The line is due on demand.

The Authority also has unused letters of credit in the amounts of \$2,000,000 and \$230,000, which expire December 27, 2019 and June 5, 2020, respectively.

Note 7: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the year ended September 30, 2019:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
USDA notes payable	\$ 9,952,593	\$ -	\$ (245,916)	\$ 9,706,677	\$ 250,014
Note payable – third party	-	225,000	(26,155)	198,845	198,845
Capital lease obligations	191,943	225,000	(182,618)	234,325	79,328
	<u>\$ 10,144,536</u>	<u>\$ 450,000</u>	<u>\$ (454,689)</u>	<u>\$ 10,139,847</u>	<u>\$ 528,187</u>
Total long-term debt	<u>\$ 10,144,536</u>	<u>\$ 450,000</u>	<u>\$ (454,689)</u>	<u>\$ 10,139,847</u>	<u>\$ 528,187</u>

USDA Notes Payable

The USDA notes payable consist of two notes issued in June 2017, secured by WRHI's real and personal assets and the Authority's revenues from hospital operations. These notes are payable in aggregated monthly installments of \$39,873, including interest at 2.375% through maturity in June 2047. In the event of default, outstanding amounts become immediately due.

Note Payable – Third Party

The Authority's note payable is with a third party. This note is payable in monthly installments of \$5,080, including interest at 4% through maturity in March 2023. The note is secured by certain equipment and oncology drugs. This note is due on demand.

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Property and equipment include the following property under capital leases at September 30, 2019:

Equipment	\$ 394,465
Less accumulated depreciation	<u>(173,998)</u>
	<u>\$ 220,467</u>

Debt Service Requirements

Debt service requirements on long-term debt other than capital lease obligations as of September 30, 2019, based on no demand being made on the note payable – third party, are as follows:

Year Ending September 30,	Principal	Interest	Total
2020	\$ 304,008	\$ 235,431	\$ 539,439
2021	312,843	226,596	539,439
2022	321,295	218,144	539,439
2023	299,296	209,706	509,002
2024	275,020	203,456	478,476
2025–2029	1,479,833	912,547	2,392,380
2030–2034	1,666,303	726,077	2,392,380
2035–2039	1,876,269	516,111	2,392,380
2040–2044	2,112,603	279,777	2,392,380
2045	<u>1,258,052</u>	<u>42,329</u>	<u>1,300,381</u>
	<u>\$ 9,905,522</u>	<u>\$ 3,570,174</u>	<u>\$ 13,475,696</u>

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

The following is a schedule by year of future minimum lease payments under capital leases, including interest at rates of 5.5% to 7.3% together with the present value of the future minimum lease payments, as of September 30, 2019:

	Capital Lease Obligations
Year ending September 30,	
2020	\$ 93,604
2021	56,831
2022	54,000
2023	54,000
2024	9,183
Total minimum lease payments	267,618
Less amount representing interest	(33,293)
Present value of future minimum lease payments	\$ 234,325

Note 8: 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 9: Operating Leases

Noncancelable operating leases for clinic space and equipment expire in various years through 2023. These leases generally contain renewal options and require the Authority to pay all executory costs.

Future minimum lease payments at September 30, 2019, were approximately:

2020	\$ 208,000
2021	170,000
2022	22,000
2023	22,000
Future minimum lease payments	\$ 422,000

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2019

Note 10: Net Patient Service Revenue

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

- **Medicare** – The Authority is reimbursed based on a cost reimbursement methodology for inpatient and outpatient services provided to Medicare patients as a CAH. The Authority is reimbursed 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, 2017.
- **Medicaid** – The Authority is reimbursed for services rendered to patients covered by the state Medicaid program and 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.
- **Other** – Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Approximately 50% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended September 30, 2019. 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.

Note 11: Charity Care

The cost of charity care provided under the Authority's charity care policy was approximately \$107,000 for 2019. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges from the Authority's most recently filed cost report.

Note 12: Defined Contribution Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees who have more than 1,000 hours of service and are at least 21 years of age. 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% and 2%, respectively, for 2019. Contributions actually

The Weatherford Hospital Authority

Notes to Financial Statements

September 30, 2019

made by plan members and the Authority aggregated approximately \$224,000 and \$103,000, respectively, during 2019.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in Authority contributions based on elapsed time of credible service with the Authority.

Note 13: Related-Party Transactions

The accompanying financial statements of the Authority include contributions received from Weatherford Regional Hospital Foundation (the Foundation) in the amount of \$65,996 for the year ended September 30, 2019. The Foundation is a not-for-profit organization that raises funds to secure and expend financial aid for the operation and maintenance of the Authority. The Foundation is not included in the accompanying financial statements.

The Authority has a working relationship with SSM Health Care of Oklahoma, Inc., an Oklahoma nonprofit corporation that owns and operates St. Anthony Hospital (the Manager). On April 1, 2018, the Authority entered into a contract with the Manager to provide management services to the Authority beginning April 1, 2018, over a three-year term. The Manager provides the Authority with an executive team consisting of the chief executive officer, chief financial officer, chief nursing officer and human resources director on a full-time basis. The Authority reimburses the Manager for compensation, including salaries and employee benefits, for the executive team plus a 3% markup. The Authority also pays the Manager a Consumer Price Index-adjusted management fee ranging from \$15,000 to \$30,000 per month based on profitability. Fees totaling approximately \$508,000 and \$180,000 were paid for executive team compensation and monthly management fees, respectively, during the year ended September 30, 2019. At September 30, 2019, the Authority owed the Manager approximately \$324,000 in management fees and other costs.

Note 14: Contingencies

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims, if any, are described in *Note 8*.

General Litigation

The Authority is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. 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. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheet, change in net position and cash flows of the Authority. Events could occur that would cause this estimate to change materially in the near term.

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

Note 15: Condensed Combining Information

The following table includes condensed combining balance sheet information for the Authority and WRHI, its blended component unit, as of September 30, 2019:

	Authority	WRHI	Eliminations	Total
Assets				
Current assets	\$ 5,628,296	\$ -	\$ -	\$ 5,628,296
Capital assets	8,476,305	-	-	8,476,305
Other assets	853,796	480,000	-	1,333,796
	<u>14,958,397</u>	<u>480,000</u>	<u>-</u>	<u>15,438,397</u>
Total assets	\$ 14,958,397	\$ 480,000	\$ -	\$ 15,438,397
Liabilities				
Current liabilities	\$ 2,890,056	\$ 288,317	\$ -	\$ 3,178,373
Long-term debt, less current maturities	152,176	9,459,484	-	9,611,660
	<u>3,042,232</u>	<u>9,747,801</u>	<u>-</u>	<u>12,790,033</u>
Total liabilities	3,042,232	9,747,801	-	12,790,033
Net position				
Net investment in capital assets	7,920,178	(9,747,801)	-	(1,827,623)
Restricted	348,438	480,000	-	828,438
Unrestricted	3,647,549	-	-	3,647,549
	<u>11,916,165</u>	<u>(9,267,801)</u>	<u>-</u>	<u>2,648,364</u>
Total net position	11,916,165	(9,267,801)	-	2,648,364
Total liabilities and net position	\$ 14,958,397	\$ 480,000	\$ -	\$ 15,438,397

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

The following table includes condensed combining statement of revenues, expenses and change in net position information for the Authority and WRHI, its blended component unit, for the year ended September 30, 2019:

	Authority	WRHI	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ 17,036,801	\$ -	\$ -	\$ 17,036,801
Other operating revenue	160,402	-	-	160,402
Total operating revenues	<u>17,197,203</u>	<u>-</u>	<u>-</u>	<u>17,197,203</u>
Operating expenses				
Other operating expenses	16,486,885	-	-	16,486,885
Depreciation	1,024,148	33,893	-	1,058,041
Total operating expenses	<u>17,511,033</u>	<u>33,893</u>	<u>-</u>	<u>17,544,926</u>
Operating loss	(313,830)	(33,893)	-	(347,723)
Nonoperating expenses	<u>(3,403)</u>	<u>(237,053)</u>	<u>-</u>	<u>(240,456)</u>
Deficiency of revenues over expenses	(317,233)	(270,946)	-	(588,179)
Capital contributions/appropriations	208,419	-	-	208,419
Transfers	<u>(513,520)</u>	<u>513,520</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(622,334)</u>	<u>242,574</u>	<u>-</u>	<u>(379,760)</u>
Net position, beginning of year, as previously stated	3,062,169	244,870	-	3,307,039
Adjustment applicable to prior years	<u>9,476,330</u>	<u>(9,755,245)</u>	<u>-</u>	<u>(278,915)</u>
Net position, beginning of year, as restated	<u>12,538,499</u>	<u>(9,510,375)</u>	<u>-</u>	<u>3,028,124</u>
Net position, end of year	<u>\$ 11,916,165</u>	<u>\$ (9,267,801)</u>	<u>\$ -</u>	<u>\$ 2,648,364</u>

The Weatherford Hospital Authority
Notes to Financial Statements
September 30, 2019

The following table includes condensed combining statement of cash flows information for the Authority and WRHI, its blended component unit, for the year ended September 30, 2019:

	<u>Authority</u>	<u>WRHI</u>	<u>Eliminations</u>	<u>Total</u>
Net cash provided by operating activities	\$ 522,505	\$ -	\$ -	\$ 522,505
Net cash used in noncapital financing activities	(18,441)	-	-	(18,441)
Net cash used in capital and related financing activities	(959,683)	(4,560)	-	(964,243)
Net cash used in investing activities	<u>(139,197)</u>	<u>-</u>	<u>-</u>	<u>(139,197)</u>
Net change in cash and cash equivalents	(594,816)	(4,560)	-	(599,376)
Cash and cash equivalents, beginning of year, as restated	<u>1,861,272</u>	<u>484,560</u>	<u>-</u>	<u>2,345,832</u>
Cash and cash equivalents, end of year	<u>\$ 1,266,456</u>	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 1,746,456</u>

Note 16: Restatement of Prior Year Financial Statements

Beginning of the year net position has been restated for impairment of a construction project that was abandoned in that period. This restatement reduced the previously reported 2018 change in net position by \$278,915.

Beginning of the year net position in the condensed combining information in *Note 15* has been restated to correct the presentation of certain intercompany lease transactions. This restatement had no impact on the 2018 combined change in net position.

The beginning balance of cash and cash equivalents on the accompanying statement of cash flows has been restated to reclassify a certificate of deposit with a maturity of more than 90 days out of cash and cash equivalents. This restatement had no impact on the 2018 change in net position.

The beginning balance of construction in progress and equipment was restated to reclassify equipment out of construction in progress and into equipment in the beginning balance of *Note 4*. This restatement had no impact on the 2018 change in net position.

Note 17: Subsequent Event

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen that may negatively affect the financial position, results of operations and cash flows of the Authority. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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

Independent Auditor's Report

Board of Trustees
The Weatherford Hospital Authority
Weatherford, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Weatherford Hospital Authority (the Authority), which comprise the balance sheet as of September 30, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2020. Our report contained *Emphasis of Matter* and *Other Matter* paragraphs regarding a restatement of the 2018 financial statements and omission of the management's discussion and analysis, which is required supplementary information.

Internal Control over Financial Reporting

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

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 entity'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 or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-01 and 2019-02, that we consider to be material weaknesses.

Board of Trustees
The Weatherford Hospital Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Responses to the Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
April 3, 2020

The Weatherford Hospital Authority
Schedule of Findings and Responses
Year Ended September 30, 2019

Reference Number	Finding
2019-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Authority’s chief financial officer has incompatible duties in the cash inflows, cash outflows and payroll transactions cycles.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the cash inflows, cash outflows and payroll transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost-beneficial within the next year.</p>

The Weatherford Hospital Authority
Schedule of Findings and Responses
Year Ended September 30, 2019

Reference Number	Finding
2019-02	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal controls to promote accurate recording and classification of accounting transactions.</p> <p>Condition – Management’s procedures for recording and classifying transactions and preparing general ledger reconciliations did not prevent inaccurate recording of transactions.</p> <p>Effect – Two material journal entries, including one restatement of prior period financial statements, related to impairment of capital assets were required to correct misstatements not identified or corrected by management. Material corrections to prior period amounts were also required to accurately present intercompany transactions, cash and cash equivalents and capital asset classifications. Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Recording and monitoring procedures in the internal control over financial reporting process were not effective to identify impairment indicators.</p> <p>Recommendation – Management should ensure controls are adequate to properly record accounting entries, including evaluation of impairment of capital assets upon triggering events and review of statement of cash flows and financial statement disclosures drafted by other parties.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to evaluate the current internal controls over the recording and classification of accounting transactions.</p>