Management's Discussion and Analysis
and Financial Statements
September 30, 2013 and 2012

Weatherford Hospital Authority

Independent Auditor's Report

Board of Trustees
Weatherford Hospital Authority
Weatherford, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Weatherford Hospital Authority (Authority) which comprise the balance sheet as of September 30, 2013, and the related statement of revenues, expenses and changes in net position and cash flows for the year then ended.

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 preform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Weatherford Hospital Authority as of September 30, 2013, and the results of its operations, changes in net position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of Weatherford Hospital Authority as of September 30, 2012 were audited by other auditors whose report dated January 25, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
January 31, 2014

Our discussion and analysis for Weatherford Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended September 30, 2013, 2012, and 2011. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position changed in each of the past 2 years with an $340,058 or 4% increase in 2013 and a $151,882 or 2% increase in 2012.
- The Authority reported operating income in 2013 of $677,100 and $529,665 in 2012. The operating income in 2013 increased by $147,435 or 28% over the income reported in 2012. Operating income in 2012 increased by $708,020 or 397% compared to 2011.
- Nonoperating expenses decreased by $3,087 or 1% in 2013 compared to 2012. Nonoperating expenses decreased in 2012 by $46,910 or 6.9% compared to 2011.

Using This Annual Report

The Authority's financial statements consist of three statements - Balance Sheet; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheets and Statements of Revenues, Expenses, and Changes in Net Position

Our analysis of the Authority's finances begins on page 7. One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

Statements of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheets on page 7. The Authority's net position increased in the two past years by $340,058 and by $151,882 with a 1% increase in 2013 and a 2% increase in 2012.

	2013	2012	2011
Assets			
Cash, cash equivalents, and short term certificates of deposit	$ 4,454,624	$ 3,948,187	$ 3,192,056
Restricted cash and investments	1,751,783	1,635,193	1,386,929
Patient accounts receivable, net	2,811,996	2,651,470	2,315,123
Other current assets	1,123,724	739,833	485,569
Capital assets, net	13,223,332	14,315,677	15,108,528
Other noncurrent assets	372,553	845,382	1,577,547
Total assets	$ 23,738,012	$ 24,135,742	$ 24,065,752
Liabilities			
Long-term debt	$ 11,132,209	$ 11,709,769	$ 12,107,038
Other current and noncurrent liabilities	2,601,450	2,761,678	2,446,292
Total liabilities	13,733,659	14,471,447	14,553,330
Net Position			
Net investment in capital assets	2,091,123	2,318,408	2,984,028
Restricted expendable	1,458,062	1,451,062	1,386,929
Unrestricted	6,455,168	5,894,825	5,141,465
Total net position	10,004,353	9,664,295	9,512,422
Total liabilities and net position	$ 23,738,012	$ 24,135,742	$ 24,065,752

Assets, Liabilities, and Net Position

A significant component of the change in the Authority's assets, liabilities, and net position is the change in other assets and capital assets. This was primarily due to the decrease in notes receivable which decreased $342,417 or 65%. Capital assets decreased by $1,092,345 or 8% from 2012.

Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenue			
Net patient service revenue	$ 18,560,822	$ 18,342,597	$ 15,987,487
Other revenue	731,981	232,314	930,093
Total operating revenue	19,292,803	18,574,911	16,917,580
Operating Expenses			
Salaries, wages, and employee benefits	9,113,356	8,598,501	7,998,184
Purchased services and professional fees	3,688,975	3,561,964	3,155,085
Depreciation and amortization	1,482,374	1,668,677	1,676,327
Supplies and other	4,330,998	4,216,104	4,266,339
Total operating expenses	18,615,703	18,045,246	17,095,935
Operating Income (Loss)	677,100	529,665	(178,355)
Nonoperating Revenues (Expenses)			
Investment income	59,591	40,597	50,586
Interest expense	(727,655)	(755,208)	(730,670)
Non capital grants and contributions	42,349	85,809	4,372
Total nonoperating expenses	(625,715)	(628,802)	(675,712)
Capital appropriations and contributions			
Capital appropriations-City of Weatherford	109,075	105,947	77,728
Capital gifts	179,598	145,063	52,718
	288,673	251,010	130,446
Change in Net Position	$ 340,058	$ 151,873	$ (723,621)

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally the operating income or loss is the difference between net patient service revenues and the expenses incurred to perform those services. The operating income for 2013 was $677,100. The operating income in 2013 increased by $147,435 compared to the 2012 operating income of $529,665. The primary component of the change in the operating income was the increase in operating revenue of $717,892 and the increase in salaries, wages, and benefits of $514,855 in addition purchased services and professional fees increased $127,011 and supplies and other expenses increased $ 114,894 whereas depreciation expense decreased $186,303.

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Authority when it was established. There was $542,485 of charity care provided in 2013 and $270,194 in 2012 based on charges foregone. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of, interest expense, non capital donations and investment income. The major change in nonoperating revenue is due to the decrease in interest expense which decreased in 2013 by $27,553 compared to 2012 and the decrease in non capital grants and contributions which decreased in 2013 by $43,460 compared to 2012. As a result of these factors, nonoperating expenses decreased by $3,087 in 2013 compared to the $46,910 decrease of nonoperating expenses in 2012.

The Authority's Cash Flows

The Authority's overall liquidity increased during the year with a net increase to cash and cash equivalents, of $488,325 when compared with 2012. Cash flows provided by operating activities decreased by $186,403 during 2013 when compared with 2012. This was due primarily to the increase in payments to employees. Cash used for non-capital financing activities decreased by $64,689 when compared with 2012. Cash used for capital and capital related financing activities decreased by $373,450 when compared with 2012. Cash used for investing activities decreased by $1,099,432 due to renewing certificates of deposits in 2013 compared to 2012.

Capital Assets and Debt Administration

At the end of 2013 and 2012, the Authority had $13,223,332 and $14,315,677 invested in net capital assets, as detailed in Note 4 to the financial statements.

Debt

At September 30, 2013, the Authority had $11,132,209 in outstanding long-term debt, a decrease of $577,560 from the prior year. For additional information regarding long-term debt, please see Note 7 to the financial statements.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Weatherford Hospital Authority, Administrator's Office, 3701 E. Main St., Weatherford, Oklahoma 73096.

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	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 2,919,687	$ 2,431,228
Short term certificates of deposits	1,534,937	1,516,959
Restricted cash and investments	429,203	429,337
Patient receivables, net of estimated uncollectibles of approximately $2,019,000 in 2013 and $2,328,000 in 2012	2,811,996	2,651,470
Estimated third-party payor settlements	297,899	-
Supplies	252,305	300,946
Prepaid expenses	215,229	197,522
Current portion of note receivable	358,291	241,365
Total current assets	8,819,547	7,768,827
Noncurrent Cash and Investments		
Restricted for future construction	293,721	184,131
Held by trustee for debt service	1,028,859	1,021,725
Total noncurrent cash and investments	1,322,580	1,205,856
Capital Assets		
Non-depreciable capital assets	1,151,916	1,151,916
Depreciable capital assets, net	12,071,416	13,163,761
Total capital assets, net	13,223,332	14,315,677
Other Assets		
Deferred financing cost, net	242,755	256,241
Notes receivable	129,798	589,141
Total other assets	372,553	845,382
Total assets	$ 23,738,012	$ 24,135,742

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Note payable to bank	$ 409,750	$ 419,750
Current maturities of long-term debt	368,721	585,955
Accounts payable	1,280,295	1,099,148
Accrued expenses	632,405	624,325
Accrued interest	279,000	287,500
Estimated third-party payor settlements	-	330,955
Total current liabilities	2,970,171	3,347,633
Long Term Debt, Net of Current Maturities	10,763,488	11,123,814
Total liabilities	13,733,659	14,471,447
Net Position		
Investment in capital assets, net of related debt	2,091,123	2,318,408
Restricted expendable for		
Debt service	1,164,341	1,266,931
Capital acquisitions	293,721	184,131
Unrestricted	6,455,168	5,894,825
Total net position	10,004,353	9,664,295
Total liabilities and net position	$ 23,738,012	$ 24,135,742

	2013	2012
Operating Revenue		
Patient service revenue, net of provision for bad debts of $2,539,129 in 2013 and $3,857,456 in 2012	18,560,822	18,342,597
Other revenue	731,981	232,314
Total operating revenue	19,292,803	18,574,911
Operating Expenses		
Salaries and wages	7,687,108	7,254,502
Employee benefits	1,426,248	1,343,999
Purchased services and professional fees	3,688,975	3,561,964
Supplies and other	4,330,998	4,216,104
Depreciation and amortization	1,482,374	1,668,677
Total operating expenses	18,615,703	18,045,246
Operating Income	677,100	529,665
Nonoperating Revenues (Expenses)		
Investment income	59,591	40,597
Interest expense	(727,655)	(755,208)
Non capital grants and contributions	42,349	85,809
Nonoperating revenues, net	(625,715)	(628,802)
Expenses in Excess of Revenues Before Capital Appropriations and Capital Gifts	51,385	(99,137)
Capital Appropriations - City of Weatherford	109,075	105,947
Capital Contributions	179,598	145,063
Increase in Net Position	340,058	151,873
Net Position, Beginning of the Year	9,664,295	9,512,422
Net Position, End of Year	$ 10,004,353	$ 9,664,295

	2013	2012
Operating Activities		
Receipts from or on behalf of patients	$ 17,771,442	$ 17,717,205
Other receipts	731,981	374,781
Payments to suppliers	(7,465,514)	(7,471,563)
Payments to employees	(9,105,237)	(8,501,348)
Net Cash from by Operating Activities	1,932,672	2,119,075
Non Capital Related Financing Activities		
Payments on short term bank note	(10,000)	-
Interest paid on short term bank note	(34,586)	(23,357)
Non capital contributions and donations	42,349	85,809
Net Cash from (used for) Non Capital Financing Activities	(2,237)	62,452
Capital and Capital Related Financing Activities		
Capital contributions	179,598	145,063
Sales tax restricted to capital acquisitions	109,075	105,947
Principal payments on debt obligations	(577,560)	(469,001)
Interest paid on debt obligations	(701,569)	(727,619)
Purchase of capital assets	(376,543)	(794,839)
Net Cash used for Capital and Capital Related Financing Activities	(1,366,999)	(1,740,449)
Investing Activities		
Investment income	59,591	40,597
Purchase of investments	(134,702)	(1,215,140)
Net Cash from (used for) by Investing Activities	(75,111)	(1,174,543)
Net Increase (Decrease) in Cash and Cash Equivalents	488,325	(733,465)
Cash and Cash Equivalents, Beginning of Year	2,860,565	3,594,030
Cash and Cash Equivalents, End of Year	$ 3,348,890	$ 2,860,565

	2013	2012
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	$ 2,919,687	$ 2,431,228
Cash limited as to use	429,203	429,337
Total Cash and Cash Equivalents	$ 3,348,890	$ 2,860,565

	2013	2012
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating income	$ 677,100	$ 529,665
Adjustments to reconcile change in operating loss to net cash provided by operating activities		
Depreciation and amortization	1,482,374	1,668,677
Provision for bad debts	2,783,847	3,845,547
Changes in assets and liabilities		
Receivables	(2,944,373)	(4,039,427)
Supplies	48,641	(21,330)
Prepaid expenses	(17,707)	(179,443)
Estimated due to third-party payor settlements	(628,854)	(289,045)
Accounts payable and accrued expenses	531,644	604,431
Net Cash Provided by Operating Activities	$ 1,932,672	$ 2,119,075
Supplemental Non Cash Operating, Investing and Financing Activities		
Debt forgiveness on physician loans	$ 342,417	$ 142,467
Assets purchased under other financing arrangements	$ -	$ 67,500

Note 1 - Principal Activity and Significant Accounting Policies

Reporting Entity

The Weatherford Hospital Authority (Authority) was created by a Trust Indenture dated July 30, 1968, as a public trust for the benefit of the City of Weatherford, Oklahoma and the surrounding area. The Authority is an agency of the State of Oklahoma and is empowered to acquire land and to acquire, construct, finance and lease buildings, equipment and related facilities for health care purposes. The Authority operates Weatherford Regional Hospital, a critical access hospital operating 25 beds in its acute care facility.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, sales taxes, investment income and interest on capital assets-related debt are included in non operating 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 is available.

The Authority adopted the provisions of *GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34; GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements; and GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2013.

Income Taxes

As an essential government function, the Authority is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. At September 30, 2013 and 2012, cash equivalents consisted of money market mutual funds and certificates of deposit.

Designated and Restricted Assets

Designated investments include assets set aside by the board of Trustees for future capital improvements, over which the board retains control and may at its discretion, subsequently use for other purposes. Restricted investments include assets restricted under debt agreements. Designated or restricted investments that are available for obligations classified as current liabilities are reported in current assets.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets acquisitions in excess of $5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	10 years
Buildings and improvements	5-40 years
Equipment	3-25 years

Notes Receivable

The Authority issues notes to physicians as part of its recruitment process. Notes are repayable over a minimum of a one-year period to a maximum of a ten-year period and are issued at current interest rates ranging from 5% to 5.25%. 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, 2013 and 2012, notes receivable from physicians totaled $488,089 and $830,506.

Deferred Financing Cost and Bond Discount Cost

Bond issuance costs are amortized over the period the obligation is outstanding using the straight-line method. As of September 30, 2013 and 2012, accumulated amortization was $53,944 and $40,458, respectively. Total amortization expense of the loan issuance costs was $13,486 for each of the years ended September 30, 2013 and 2012.

Bond discount costs are amortized over the period the obligation is outstanding using the straight-line method. As of September 30, 2013 and 2012, accumulated amortization was $13,629 and $9,350 respectively. Total interest expense of the bond discount costs was $4,279 for each of the years ended September 30, 2013 and 2012.

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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 Position

Net position is presented in the following three components:

Net Investment in Capital Assets – Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Restricted, Expendable for Capital Acquisitions – Restricted, expendable has been restricted to capital acquisitions.

Restricted, Expendable for Debt Service – Restricted, expendable has been restricted to debt service payments.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted for debt service.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the year ended September 30, 2013, the Authority recorded $561,872 related to the Medicare program and recorded $-0- related to the Medicaid program in other operating revenue for meaningful use incentives. The Authority did not record EHR incentives during the year ending September 30, 2012.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the State of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

The Authority received SHOPP payments totaling approximately $802,000 and $513,000 for the years ended September 30, 2013 and 2012, which is included in net patient service revenue.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately $542,000 and $270,000 for the years ended September 30, 2013 and 2012. Total direct and indirect costs related to these foregone charges were approximately $256,000 and $117,000 at September 30, 2013 and 2012, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Authority's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues, Operating expenses are all expenses incurred to provide health care services, other than financing costs. Sales Tax Revenue

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

Grants and Contributions

From time to time, the Authority receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose is reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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

Reclassifications

Reclassifications have been made to the September 30, 2012 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services at cost plus 1%, less sequestration adjustments, with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended September 30, 2011. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to patients covered by the state Medicaid program are reimbursed on a prospectively determined per diem rate or established fee.

Other: The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 37% and 16% of the Authority's net patient service revenue for the year ended September 30, 2013 and 36% and 15% for the year ended September 30, 2012. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the year ended September 30, 2013 increased approximately $283,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient service revenue and contractual adjustments for the years ended September 30, 2013 and 2012 is as follows:

	2013	2012
Total patient service revenue	$ 40,793,140	$ 43,184,869
Contractual adjustments		
Medicare	(11,869,466)	(12,115,073)
Medicaid	(647,657)	(634,986)
Other	(7,176,066)	(8,234,748)
Total contractual adjustments	(19,693,189)	(20,984,807)
Provision for bad debts	(2,539,129)	(3,857,465)
Net patient service revenue	$ 18,560,822	$ 18,342,597

Note 3 - Deposits, Investments, and Investment Income

Deposits
State statutes authorize the Authority to invest its excess cash balances generally in time deposits, open accounts, certificates of deposit or certain repurchase agreements of commercial banks or trust companies, state or generally charted savings and loan associations or generally charted savings banks having offices in the state and in certain circumstances, specified United States Treasury obligations.

Custodial Credit Risk
Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority has a general investment policy to minimize custodial credit risk. State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. At September 30, 2013 and 2012, the Authority had $0 and $771,730 exposed to custodial credit risk.

Interest Rate Risk
Weatherford Hospital Authority's investment policy does not contain a provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Summary of Carrying Amounts
The bank balances of the Authority's deposits and investments are included in the balance sheets at September 30, 2013 and 2012:

	2013	2012
Total bank balance		
Insured (FDIC)	$ 1,090,597	$ 2,880,012
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	5,114,275	1,464,767
Uninsured	-	771,730
Total	$ 6,204,872	$ 5,116,509

The carrying amounts of the Authority's deposits and investments as of September 30, 2013 and 2012 as follows:

	2013	2012
Carrying amounts		
Deposits	$ 3,348,890	$ 2,860,565
Investments	2,857,517	2,722,815
	$ 6,206,407	$ 5,583,380

	2013	2012
Included in the following balance sheet captions		
Cash and cash equivalents	$ 2,919,687	$ 2,431,228
Short-term certificates of deposit	1,534,937	1,516,959
Current portion restricted under bond indenture agreements	429,203	429,337
Non current cash and investments		
Restricted for future construction	293,721	184,131
Restricted under bond indenture agreements	1,028,859	1,021,725
	$ 6,206,407	$ 5,583,380

Investment Income

Investment income and gains and losses on cash equivalents, investments and notes receivable consist of the following for years ended September 30, 2013 and 2012:

	2013	2012
Interest income	$ 59,591	$ 40,597

Note 4 - Capital Assets

Capital assets additions, disposal or transfers, and balances for the year ended September 30, 2013 are as follows:

	Balance September 30, 2012	Additions and Transfers	Disposals	Balance September 30, 2013
Capital assets not being depreciated				
Land	$ 873,001	$ -	$ -	$ 873,001
Construction in progress	278,915	-		278,915
Total capital assets not being depreciated	1,151,916	-	-	1,151,916
Capital assets being depreciated				
Land improvements	130,685	-	-	130,685
Building and improvements	15,781,945	-	-	15,781,945
Equipment	9,311,505	376,543	-	9,688,048
	25,224,135	376,543	-	25,600,678
Less accumulated depreciation for:				
Land improvements	(69,392)	(9,316)	-	(78,708)
Building and improvements	(5,240,981)	(850,733)	-	(6,091,714)
Equipment	(6,750,001)	(608,839)	-	(7,358,840)
Total accumulated depreciation	(12,060,374)	(1,468,888)	-	(13,529,262)
Total capital assets being depreciated, net	13,163,761	(1,092,345)	-	12,071,416
Total capital assets, net	$ 14,315,677	$ (1,092,345)	$ -	$ 13,223,332

Capital assets additions, disposal or transfers, and balances for the year ended September 30, 2012are as follows:

	Balance September 30, 2011	Additions and Transfers	Disposals	Balance September 30, 2012
Capital assets not being depreciated				
Land	$ 873,001	$ -	$ -	$ 873,001
Construction in progress	278,915	-		278,915
Total capital assets not being depreciated	1,151,916	-	-	1,151,916
Capital assets being depreciated				
Land improvements	130,685	-	-	130,685
Building and improvements	15,781,945	-	-	15,781,945
Equipment	8,449,165	862,340	-	9,311,505
Total capital assets being depreciated	24,361,795	862,340	-	25,224,135
Less accumulated depreciation for:				
Land improvements	(60,852)	(8,540)	-	(69,392)
Building and improvements	(4,399,646)	(841,335)	-	(5,240,981)
Equipment	(5,944,684)	(805,317)	-	(6,750,001)
Total accumulated depreciation	(10,405,182)	(1,655,192)	-	(12,060,374)
Total capital assets being depreciated, net	13,956,613	(792,852)	-	13,163,761
Total capital assets, net	$ 15,108,529	$ (792,852)	$ -	$ 14,315,677

Construction in progress at September 30, 2013, represents an addition of a surgery suite and rehab and professional building. The estimated cost to complete this project is $6,250,000, with construction commitments of $4,002,700 as of September 30, 2013, which will be financed with sales tax proceeds.

Note 5 - Leases

The Authority is obligated under leases for equipment that are accounted for as capital leases. Capital lease obligations at September 30, 2013 are payable in 60 monthly installments of $1,326 including interest imputed at 6.7%. The lease is collateralized by equipment. The capitalized lease assets consist of:

	2013	2012
Major movable equipment	67,500	2,190,451
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(14,464)	(1,771,082)
	$ 53,036	$ 419,369

The Authority leases certain equipment under noncancelable long-term lease agreements. The rental expense for all operating leases was $513,055 and $574,236 for the years ended September 30, 2013 and 2012. Minimum future lease payments for capital and operating leases are as follows:

Years Ending June 30,	Capital Leases	Operating Leases
2014	$ 15,916	$ 304,693
2015	15,916	273,449
2016	15,916	231,876
2017	7,639	157,179
2018	-	-
Total minimum lease payments	55,387	$ 967,197
Less interest	(6,154)	
Present value of minimum lease payments	$ 49,233	

Note 6 - Line of Credit

During 2011, the Authority obtained a $500,000 revolving line of credit. The line of credit has been renewed through February of 2014. No draws were made during the years ended September 30, 2013 and 2012 and principal payments of $10,000 and $0 were made during 2013 and 2012, respectively. At September 30, 2013 and 2012, there was $409,750 and $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% (5.5% at September 30, 2013) and is payable monthly.

Note 7 - Long-Term Debt

Long-term debt consists of:

	Balance 9/30/12	Additions	Reductions	Balance 9/30/13	Current Portion
Bonds payable:					
Revenue bonds, Series 2006	$ 11,500,000	$ -	$ (340,000)	$ 11,160,000	$ 360,000
Bond discount	(81,303)	-	4,279	(77,024)	(4,279)
Total bonds payable	11,418,697	-	(335,721)	11,082,976	355,721
Capitalized lease obligation	291,072	-	(241,839)	49,233	13,000
Total long-term debt	$ 11,709,769	$ -	$ (577,560)	$ 11,132,209	$ 368,721

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Current Portion
Long-term debt:					
Revenue bonds,					
Series 2006	$ 11,500,000	$ -	$ -	$ 11,500,000	$ 340,000
Bond discount	(85,535)	-	4,232	(81,303)	4,232
Total bonds payable	11,414,465	-	4,232	11,418,697	344,232
Capitalized lease obligation	692,573	67,500	(469,001)	291,072	241,723
Total long-term debt	$ 12,107,038	$ 67,500	$ (464,769)	$ 11,709,769	$ 585,955

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at September 30, 2013 and 2012 are as follows:

Revenue Bonds, Series 2006

The Weatherford Hospital Authority Revenue Bonds, Series 2006 (Bonds) in the original amount of $11,500,000 and sold at a discount of $105,793 are dated May 1, 2006, which bear interest at 6%. 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 bond discount is being amortized over the life of the bonds.

The Bond Indenture Agreements require that certain funds be established with the trustee. Accordingly, these funds are included as asset held by trustee for debt service in the accompanying 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, restrictions on incurrence of additional debt, maintaining minimum days cash on hand, maintaining maximum aged receivables and payables of no more than a specified amount of days and maintaining a current ratio as defined by the Indenture. The Authority was in compliance with all covenants as of September 30, 2013.

Scheduled principal and interest repayments on long-term debt are as follows:

	Long-Term Debt		
Year Ending June 30,	Principal	Interest	Total
2014	$ 360,000	$ 669,600	$ 1,029,600
2015	385,000	648,000	1,033,000
2016	405,000	624,900	1,029,900
2017	430,000	600,600	1,030,600
2018	455,000	574,800	1,029,800
2019-2031	9,125,000	4,272,600	13,397,600
Total	$ 11,160,000	$ 7,390,500	$ 18,550,500

Note 8 - Retirement Plan

Defined Contribution Plan

The Authority adopted a defined contribution 403(b) Savings Plan (Plan) covering substantially all employees who have over 1,000 hours of service and are at least 21 years of age.

The Plan allows for eligible employees to contribute a percentage of pre-tax annual compensation as defined in the Plan. The Authority makes a discretionary matching percentage on the participant's eligible contributions for the Plan year. The Authority may also make an optional profit sharing contribution subject to certain limitations imposed by the Internal Revenue Service.

Participants are immediately vested in their voluntary contribution plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100% vested after three years of service. The discretionary contributions to the Plan were approximately $120,000 and $110,000 for the years ended September 30, 2013 and 2012.

Note 9 - Restricted Net Position

At September 30, 2013 and 2012, restricted expendable net position is available for the following purposes:

	2013	2012
Debt service	$ 1,164,341	$ 1,266,931
Capital acquisitions	293,721	184,131
	$ 1,458,062	$ 1,451,062

Note 10 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2013 and 2012 was as follows:

	2013	2012
Medicare	37%	24%
Medicaid	9%	14%
Other third-party payors	24%	27%
Patients	30%	35%
	100%	100%

Note 11 - Contingencies

Malpractice Insurance

The Authority has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claim experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

Litigation, Claims and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of task under its various programs. In the opinion of management, the ultimate settlement of litigation, claims and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 12 - Related Parties

During the years ended September 30, 2013 and 2012, the Authority received contributions from the Weatherford Hospital Foundation in the amount of $179,598 and $145,063.

Note 13 - Subsequent Events

The Authority has evaluated subsequent events through January 31, 2014, the date which the financial statements were available to be issued.

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

Board of Trustees
Weatherford Hospital Authority
Weatherford, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Weatherford Hospital Authority, which comprise the statement of net position as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2014

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 opinions 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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We consider the deficiencies 2013-A and 2013-B described in the accompanying Schedule of Findings and Responses, to be significant deficiencies.

Compliance and Other Matters

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

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Eide Bailly LLP

Oklahoma City, Oklahoma
January 31, 2014

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Significant Deficiency:

2013-A Preparation of Financial Statements

Statement of Condition –The Authority does not currently have the necessary process in place to prepare a full set of financial statements, including related disclosures, and provide an internal control structure to properly prevent and detect misstatements.

Criteria – Internal control over financial reporting was reviewed in accordance with AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit.*

Effect of Condition – The design of internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The deficiency may cause misstatements to the financial statements which would not be prevented or detected by Authority's internal control.

Cause – The deficiency is partially due to the limited resources in the financial reporting process resulting from budgetary constraints.

Recommendation – While we recognize that the cost to provide a staffing structure sufficient to prepare and review financial statements and regular continuing accounting education may exceed the benefit of preparing complete financial statements, it is important that you are aware of this deficiency. Management and the Board's review of internally prepared financial reports is the best means of preventing and detecting errors and irregularities. In addition, Management should conduct a review of current policies and practices to ensure all items are properly included and accounted for in the financial statements.

Response – Management has informed us that the significant deficiency related to preparation of the financial statements and accompanying notes to the financial statements will not be corrected as management believes that it is not possible to implement a cost effective solution at this time. Management and the Board will continue to review internally prepared financial reports. Management has reviewed internal reporting policies and practices to ensure all material items are properly reported in the financial statements.

2013-B Cost Report Settlement Estimate

Statement of Condition – During the current year the Authority did not estimate the financial effect of the Medicare cost report settlement for the current year.

Criteria – Internal control over financial reporting was reviewed in accordance with AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit.*

Effect of Condition – This resulted in an adjusting journal entry to record the current year settlement.

Cause – The deficiency is partially due to the limited resources in the financial reporting process resulting from budgetary constraints.

Recommendation – Develop procedures to ensure interim cost reports are thoroughly reviewed and changes in operations are communicated to the consultants.

Response – Management has informed us that they have utilized outside consultants to prepare interim cost reports used for the estimate, which is a process they will continue, in addition they will conduct a detail review of the estimate.