Management's Discussion and Analysis
and Financial Statements
September 30, 2009 and 2008

Jefferson County Healthcare Authority

Independent Auditor's Report

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

We have audited the accompanying balance sheets of Jefferson County Healthcare Authority, as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Healthcare Authority, as of September 30, 2009 and 2008, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2013, on our consideration of Jefferson County Healthcare Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 29, 2013

This is management's discussion and analysis of the financial performance of Jefferson County Healthcare Authority (the Authority). It provides an overview of the Authority's financial activities for the years ended September 30, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's accounts receivable, net, increased $58,438 in 2009 and decreased $165,534 in 2008.
- Allowance for bad debts increased by $163,000 in 2009. The allowance for bad debt also increased by $2,000 in 2008.
- The Authority estimated due to third party increased by $51,823 in 2009 and decrease by $218,851 in 2008.
- The Authority reported operating losses in both 2009 of $481,839 and 2008 of $562,325.

Using This Annual Report

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

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

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 assets report information about the Authority's resources and its activities in a way that helps answer this question. These statements include assets and 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 aforementioned statements report the Authority's net assets and changes in them. You can think of the Authority's net assets - 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 assets 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.

The 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 operating, 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 the cash balance during the reporting period.

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheet, the Authority's net assets decreased by $164,609 or 2,504% in 2009 versus an decreased by $272,528 or 98% in 2008, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	$ 252,788	$ 194,350	$ 359,884
Other current assets	305,043	321,200	354,313
Capital assets, net	190,615	232,886	292,266
Total assets	$ 748,446	$ 748,436	$ 1,006,463
Liabilities			
Long term debt and notes payable	$ 188,262	$ 253,220	$ 178,428
Other current and noncurrent liabilities	718,219	488,642	548,933
Total liabilities	906,481	741,862	727,361
Net Assets			
Invested in capital assets, net of related debt	74,362	110,492	161,832
Expendable for capital acquisition	-	-	1,381
Unrestricted	(232,397)	(103,918)	115,889
Total net assets	(158,035)	6,574	279,102
Total liabilities and net assets	$ 748,446	$ 748,436	$ 1,006,463

Operating Results and Changes in the Authority's Net Assets

In 2009, the Authority's net assets decreased by $164,609 or 2,504% as shown in Table 2. The decrease is made up of several different components and represents a decrease in unrestricted net assets of $128,479 compared with the decrease in unrestricted net assets for 2008 of $219,807.

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenues			
Net patient service revenue	$ 2,666,057	$ 2,327,961	$ 2,322,450
Other operating revenues	16,966	15,104	14,546
Total operating revenues	2,683,023	2,343,065	2,336,996
Operating Expenses			
Nursing services	919,429	807,768	751,814
Other professional services	1,180,641	1,074,843	901,499
General services	281,272	263,467	243,324
Administrative services	730,494	699,932	589,881
Depreciation and amortization	53,026	59,380	64,891
Total operating expenses	3,164,862	2,905,390	2,551,409
Operating Loss	(481,839)	(562,325)	(214,413)
Nonoperating Revenues (Expenses)			
County appropriations-unrestricted	286,883	277,104	260,398
Other nonoperating revenues and expenses, net	30,347	3,114	7,077
Total nonoperating revenues (expenses)	317,230	280,218	267,475
Capital Grants and Gifts	-	9,578	19,124
(Decrease) Increase in Net Assets	$ (164,609)	$ (272,529)	$ 72,186

Operating losses

The first component of the overall change in the Authority's net assets is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported an operating loss. This is consistent with the Authority's recent operating history, as the Authority was formed and is operated primarily to serve residents of Jefferson County, Oklahoma, and the surrounding area. The County of Jefferson, Oklahoma, levies sales and use taxes and appropriates them to the Authority to provide additional resources to enable the Authority to serve lower income and other residents.

The operating loss for 2009 decreased by $80,486 or 14% versus an increase of $347,912 or 162% in 2008 the primary components of the operating loss are:

- A decrease in Medicare days from 696 to 575 or by 121 days in 2009 and increase of 60 days in 2008.
- Patient days increased from 444 to 508 or by 64 days in 2009 versus a decrease of 228 days in 2008.
- An increase in operating expenses of $259,472 or 9% in 2009 and an increase of $353,981 or 14% in 2008.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of appropriations from Jefferson County, Oklahoma and investment income and interest expense. The county appropriations increased in 2009 compared to 2008 by $9,779 or 4%. The county appropriations increased in 2008 compared to 2007 by $16,706 or 6%.

The Authority's Cash Flows

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

Capital Assets and Debt Administration

At the end of 2009, the Authority had $190,615 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2009, the Authority purchased capital assets costing $10,755. In 2008, the Authority purchased no new property or capital assets.

Debt

At year-end, the Authority had $188,262 in outstanding current and long-term debt. This is a decrease of $64,958 or 26% from the prior year.

Contacting the Authority's Financial Management

This financial report is designated 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 Jefferson County Healthcare Authority, PO Box 90, Waurika, Oklahoma.

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	$ 91,718	$ 116,504
Short-term investments	41,119	30,000
Accounts receivables		
Patients, net of estimated uncollectibles of approximately $1,668,000 in 2009 and $1,505,000 in 2008	252,788	194,350
Sales tax	73,624	76,760
Other	998	1,088
Supplies	82,783	65,661
Prepaids	14,801	31,187
Total current assets	557,831	515,550
Capital Assets, Net	190,615	232,886
Total assets	$ 748,446	$ 748,436
Liabilities and Net Assets		
Current Liabilities		
Notes payable	$ 47,913	$ 63,145
Current maturities of long-term debt	32,917	158,914
Accounts payable	533,555	321,833
Accrued liabilities	107,841	141,809
Estimated third-party payor settlements	76,823	25,000
Total current liabilities	799,049	710,701
Long-Term Debt, Less Current Maturities	107,432	31,161
Total liabilities	906,481	741,862
Net Assets (Deficit)		
Invested in capital assets net of related debt	74,362	110,492
Unrestricted	(232,397)	(103,918)
Total net assets (deficit)	(158,035)	6,574
Total liabilities and net assets	$ 748,446	$ 748,436

	2009	2008
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $327,804 in 2009 and $359,312 in 2008)	$ 2,666,057	$ 2,327,961
Other revenue	16,966	15,104
Total operating revenues	2,683,023	2,343,065
Operating Expenses		
Nursing services	919,429	807,768
Other professional services	1,180,641	1,074,843
General services	281,272	263,467
Administrative services	730,494	699,932
Depreciation	53,026	59,380
Total operating expenses	3,164,862	2,905,390
Operating Loss	(481,839)	(562,325)
Nonoperating Income (Loss)		
Investment income	1,467	1,554
Interest expense	(9,564)	(11,834)
Noncapital grants and contributions	38,444	13,394
County appropriation	286,883	277,104
Total nonoperating income	317,230	280,218
Excess of Expenses Before Capital Grants and Contributions	(164,609)	(282,107)
Capital Grants and Contributions	-	9,578
Decrease in Net Assets	(164,609)	(272,529)
Net Assets, Beginning of the Year	6,574	279,103
Net Assets, End of Year	$ (158,035)	$ 6,574

	2009	2008
Operating Activities		
Receipts from and on behalf of patients	$ 2,659,442	$ 2,274,644
Payments to suppliers and contractors	(1,177,786)	(1,154,915)
Payments to employees	(1,742,689)	(1,477,866)
Other receipts and payments, net	17,056	15,244
Net Cash Used in Operating Activities	(243,977)	(342,893)
Noncapital Related Financing Activities		
County appropriations received	290,019	265,235
Noncapital grants and gifts	38,444	13,394
Proceeds from notes payable	-	-
Principal paid on notes payable	(29,575)	(82,331)
Interest paid on notes payable	(4,993)	(7,263)
Net Cash Provided by Noncapital Financing Activities	293,895	189,035
Capital and Capital Related Financing Activities		
Capital grants and gifts received	-	9,578
Proceeds from long-term debt	-	95,000
Principal paid on long-term debt	(49,726)	(10,327)
Interest paid on notes payable	(4,571)	(4,571)
Purchase of capital assets	(10,755)	-
Net Cash (Used in) Provided by Capital and Capital Related Financing Activities	(65,052)	89,680
Investing Activities		
Purchase of investments	(11,119)	-
Interest on investments	1,467	1,554
Net Cash Provided by (Used in) Investing Activities	(9,652)	1,554
Net Decrease in Cash and Cash Equivalents	(24,786)	(62,624)
Cash and Cash Equivalents, Beginning of Year	116,504	179,128
Cash and Cash Equivalents, End of Year	$ 91,718	$ 116,504

	2009	2008
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	$ (481,839)	$ (562,324)
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for depreciation	53,026	59,380
Provision for bad debt	327,804	359,312
Changes in assets and liabilities		
Patient account receivables	(386,242)	(193,778)
Other	90	140
Supplies	(17,122)	-
Prepaids	30,729	54,668
Accounts payable	211,722	156,901
Accrued liabilities	(33,968)	1,659
Estimated third-party payor settlements	51,823	(218,851)
Net Cash Used in Operating Activities	$ (243,977)	$ (342,893)

	2009	2008
Supplemental Disclosure of Cash Flow Information		
Refinancing of short-term note payable	$ 30,000	$ 30,000
Insurance premiums financed	$ 14,343	$ 72,450

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

The Jefferson County Healthcare Authority (Authority) is a rural hospital, located in Waurika, Oklahoma. The Authority is a public trust under the provisions of Title 60 Oklahoma Statutes. The Authority's primary purpose is to provide short-term acute care services for the citizens of Jefferson County, Oklahoma, and the surrounding area.

Accounting Standards

The Authority uses enterprise fund accounting, where revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Based on the Government Accounting Standards Board ("GASB") Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Authority is accounted for similar to an enterprise fund. The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs (expenses, including depreciation) of providing goods and services to its users. An enterprise fund prepares operating statements using as its measurement focus the flow of economic resources. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis of accounting, under which revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Balances classified as operating revenues and expenses are those that comprise the Authority's principal ongoing operations. Since the Authority's operations are similar to those of any health care provider, most revenues and expenses are considered operating.

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments which have original maturities of three months or less to be cash equivalents.

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 asset acquisitions in excess of $5,000 are capitalized and are recorded at cost. Capital assets donated for Authority operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Land improvements	10-15 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Grants and Contributions

Revenues from contributions and grants (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions and grants may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Net Assets

The balance sheet displays the Authority's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories/components:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

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.

Operating Revenues and Expenses

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

Charity Care

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

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay 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; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, 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 two preceding years. The provision for estimated medical malpractice claims, if any, include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

County Appropriations

Effective October 1, 1999, the citizens of Jefferson County, Oklahoma, approved a 1% sales tax for the support of the Authority for a period of five years. The sales tax was renewed for an additional two five year periods and will expire September 30, 2014. The Authority received approximately 9% of its financial support from county appropriations related to sales tax in 2009 and 10% in 2008. Revenue from county appropriations is recognized in the year in which the sales taxes are earned.

Income taxes

The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

Reclassification

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase (decrease) in net assets.

Note 2 - Charity Care

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges forgone, based on established rates were approximately $18,587 and $40,080 for the years ended September 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon the Authority's overall cost-to-charge ratio calculation, for the years ended September 30, 2009 and 2008, were $16,000 and $35,000, respectively.

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

The Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

Note 3 - 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 one percent 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 September 30, 2010 as of March 29, 2013. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates for each day of hospitalization with no retrospective adjustment.

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 65% and 14%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2009, and 66% and 21%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2008.

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 years ended September 30, 2009 and 2008, increased approximately $105,000 and $170,000 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Authority may incur a liability for a claims overpayment at a future date. The Authority is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Authority's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Authority and CMS.

A summary of net patient service revenue for the year ended September 30, 2009 and 2008 is as follows:

	2009	2008
Total patient service revenue	$ 3,608,387	$ 3,272,236
Contractual adjustments		
Medicare	(345,326)	(479,453)
Medicaid	(175,880)	78,283
Other	(93,320)	(183,793)
Total contractual adjustments	(614,526)	(584,963)
Provision for bad debts	(327,804)	(359,312)
Net patient service revenue	$ 2,666,057	$ 2,327,961

Note 4 - Capital Assets

Capital assets additions, retirements, and balances for the years ended September 30, 2009 and 2008, are as follows:

	Balance October 1, 2008	Additions	Disposals	Balance September 30, 2009
Land improvements	$ 27,978	$ -	$ -	$ 27,978
Buildings and Improvements	957,719	-	-	957,719
Equipment	1,051,972	10,755	-	1,062,727
Total cost	2,037,669	10,755	-	2,048,424
Less accumulated depreciation for:				
Land improvements	20,282	642	-	20,924
Buildings and improvements	798,099	38,827	-	836,926
Equipment	986,402	13,557	-	999,959
Total accumulated depreciation	1,804,783	53,026	-	1,857,809
Capital Assets, net	$ 232,886	$ (42,271)	$ -	$ 190,615

	Balance October 1, 2007	Additions	Disposals	Balance September 30, 2008
Land improvements	$ 27,978	$ -	$ -	$ 27,978
Buildings and Improvements	957,719	-	-	957,719
Equipment	1,051,972	-	-	1,051,972
Total cost	2,037,669	-	-	2,037,669
Less accumulated depreciation for:				
Land improvements	19,640	642	-	20,282
Buildings and improvements	759,272	38,827	-	798,099
Equipment	966,491	19,911	-	986,402
Total accumulated depreciation	1,745,403	59,380	-	1,804,783
Capital Assets, net	$ 292,266	$ (59,380)	$ -	$ 232,886

Note 5 - Cash and Deposits

State statutes require public trusts to invest monies in direct obligations of the United States Government or in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. At September 30, 2009 and 2008, the Authority had bank balances as follows:

	2009	2008
Total Bank Balance		
Insured (FDIC)	$ 186,310	$ 166,323
Total Carrying Value		
Cash and cash equivalents	$ 91,718	$ 116,504
Short-term investments	41,119	30,000
	$ 132,837	$ 146,504

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

It is the Authority's practice to mainly invest in demand and time deposit accounts, U.S. Treasury bills and certificates of deposit. State law requires all deposits of public funds to be collateralized; however the Authority does not have a formal policy for collateralizing cash deposits. As of September 30, 2009 and 2008, none of the Authority's bank balances were exposed to custodial credit risk. The Authority's cash balances are maintained in various bank deposit accounts.

Note 6 - Notes Payable

The following is a summary of notes payable at September 30, 2009 and 2008:

		Beginning Balance	September 30, 2009 Additions	Deductions	Ending Balance	Current Portion
Short-term notes payable						
Note payable to a bank	A	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000
Note payable insurance premiums	B	18,165	14,343	14,595	17,913	17,913
Note payable insurance premiums	C	14,980	-	14,980	-	-
Total short-term notes payable		63,145	44,343	59,575	47,913	47,913
Long-term notes payable						
Note payable to a bank	D	92,218	-	1,264	90,954	2,913
Note payable to a bank	E	38,186	-	25,665	12,521	12,521
Note payable to a bank	F	29,495	-	17,920	11,575	11,575
Note payable to a bank	G	30,176	-	4,877	25,299	5,908
Total long-term notes payable		190,075	-	49,726	140,349	32,917
Total notes payable		$ 253,220	$ 44,343	$ 109,301	$ 188,262	$ 80,830

		Beginning Balance	September 30, 2008 Additions	Deductions	Ending Balance	Current Portion
Short-term notes payable						
Note payable to a bank	A	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000
Note payable insurance premiums	B	17,995	12,538	12,368	18,165	18,165
Note payable insurance premiums	C	-	59,912	44,932	14,980	14,980
Total short-term notes payable		47,995	102,450	87,300	63,145	63,145
Long-term notes payable						
Note payable to a bank	D	95,435	-	3,217	92,218	92,218
Note payable to a bank	E	-	60,000	21,814	38,186	38,186
Note payable to a bank	F	-	35,000	5,505	29,495	23,470
Note payable to a bank	G	34,999	-	4,823	30,176	5,041
Total long-term notes payable		130,434	95,000	35,359	190,075	158,915
Total notes payable		$ 178,429	$ 197,450	$ 122,659	$ 253,220	$ 222,060

The terms and due dates of the Authority's debt, at September 30, 2009, are as follows:

A. 3 percent note, due September 21, 2010, secured by savings account. Renewed on September 21, 2010.
B. 10.7 percent insurance financing, due within the year, uncollateralized.
C. 10.7 percent insurance financing, due within the year, uncollateralized.
D. Variable rate note, 8 percent at September 30, 2009, due on demand, secured by real estate. (A)
E. 6 percent note, monthly installments $3,504, and a balloon payment of $4,261 due November 1, 2009, secured by real estate. (A)
F. 6 percent note, monthly installments $2,040, due April 22, 2010, secured by real estate.
G. 5 percent note, monthly installments of $533 and a balloon payment of $23,647 due February 22, 2010, secured by equipment. (A)

(A) – Refinanced after year end. Refer to Note 11.

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

Year Ending September 30,	Principal	Interest
2010	$ 80,830	$ 10,086
2011	9,434	7,997
2012	10,068	7,363
2013	10,179	6,646
2014	4,028	6,138
Thereafter	73,723	37,265
Total	$ 188,262	$ 75,495

On September 12, 2006, the Authority entered into an irrevocable letter of credit arrangement in the amount of $64,000 in exchange for entrance into a pooled liability insurance fund. The letter of credit terminates October 12, 2010. As of September 30, 2009 and 2008, no funds had been drawn on the letter of credit.

Note 7 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Leases have been recorded as operating leases. Total lease expense in September 30, 2009 and 2008, for all operating leases is $30,364 and $25,691, respectively.

Minimum future lease payments for the operating leases are as follows:

Year Ending September 30,	Operating Leases
2010	$ 62,300
2011	23,069
Total minimum lease payments	$ 85,369

Note 8 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients. The mix of net patient accounts receivables as of September 30, 2009 and 2008, is as follows:

	2009	2008
Medicare	12%	12%
Medicaid	6%	5%
Commercial insurance	7%	8%
Patients (self pay)	75%	75%
	100%	100%

Note 9 - Related Party Transactions

The Authority recognized $286,883 and $277,104 in sales tax proceeds from Jefferson County for the years ending September 30, 2009 and 2008. The Authority has a receivable from the county for sales tax proceeds in the amount of $73,624 and $76,760 for the years ending September 30, 2009 and 2008.

Note 10 - Contingencies

Medical Malpractice Insurance

The Authority has malpractice 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 annual 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.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any 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 the 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 11 - Subsequent Event

The Authority has evaluated subsequent events and transactions occurring subsequent to September 30, 2009, through March 29, 2013, the date which the financial statements were available to be issued.

During this period, the 6 percent note due November 1, 2009 was refinanced on December 21, 2010, with 17 equal payments of $468 starting January 21, 2011 and ending June 21, 2012.

The Hospital received $325,000 for the implementation of Electronic Health Records.

The Hospital signed a note payable with a local bank in the amount of $59,000 with 6% due December 2012. The note was paid in full during the period between year-end and issuance of the financial report.

The Hospital signed an agreement to lease CR-PACS equipment. The terms of the lease is for 60 equal payments of $845.

The note payable due on demand was refinanced on June 6, 2011 with a fixed interest rate of 6%.

The 5 percent note due February 22, 2010 was refinanced on September 21, 2010, with 35 equal payments of $597 starting October 21, 2010 and ending September 21, 2013.

Supplementary Information
September 30, 2009 and 2008

Jefferson County Healthcare Authority

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient service revenue, other operating revenues, and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 29, 2013

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	2009		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	$ 318,415	$ 25,177	$ 343,592
Swing bed	175,950	-	175,950
	494,365	25,177	519,542
Other Nursing Services			
Central service supplies	14,121	18,755	32,876
Emergency services	12,570	502,714	515,284
	26,691	521,469	548,160
Other Professional Services			
Clinics	-	121,766	121,766
Electrocardiography	16,549	23,108	39,657
Laboratory	173,904	594,142	768,046
Pharmacy	424,890	141,917	566,807
Physical therapy	17,588	88,804	106,392
Radiology	136,312	463,615	599,927
Respiratory therapy	333,793	22,884	356,677
	1,103,036	1,456,236	2,559,272
	$ 1,624,092	$ 2,002,882	3,626,974
Charity care			18,587
Total patient service revenue			3,608,387
Reductions from Revenue			
Medicare			345,326
Medicaid			175,880
Other			93,320
Total contractual adjustments			614,526
Provision for Bad Debts			327,804
Net Patient Service Revenue			$ 2,666,057

2008		
Inpatient	Outpatient	Total
$ 370,618	$ 6,346	$ 376,964
152,490	-	152,490
523,108	6,346	529,454
23,530	15,623	39,153
12,940	336,639	349,579
36,470	352,262	388,732
-	119,121	119,121
35,309	34,119	69,428
229,088	515,688	744,776
398,150	97,004	495,154
12,435	64,109	76,544
144,844	421,655	566,499
307,902	14,706	322,608
1,127,728	1,266,402	2,394,130
$ 1,127,728	$ 1,266,402	2,394,130
		40,080
		3,272,236
		479,453
		(78,283)
		183,793
		584,963
		359,312
		$ 2,327,961

	2009	2008
Other Revenue		
Cafeteria	$ 6,746	$ 5,974
Medical records	137	221
Miscellaneous	9,104	8,403
Vendor discounts	979	506
Total Other Revenue	$ 16,966	$ 15,104

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	2009		
	Salaries	Other	Total
Daily Patient Services			
Medical and surgical	$ 514,197	$ 74,147	$ 588,344
Central services and supply	439	25,779	26,218
Emergency services	185,047	119,820	304,867
	699,683	219,746	919,429
Other Professional Services			
Clinics	180,375	166,124	346,499
Electrocardiology	-	4,401	4,401
Laboratory	159,435	172,681	332,116
Pharmacy	39,618	111,142	150,760
Physical therapy	70,026	6,059	76,085
Radiology	123,921	111,027	234,948
Respiratory therapy	18,830	17,002	35,832
	592,205	588,436	1,180,641
General Services			
Dietary	41,142	55,702	96,844
Housekeeping	18,044	7,781	25,825
Laundry and linen	-	13,462	13,462
Medical records	52,601	17,588	70,189
Plant operations	6,036	68,916	74,952
	117,823	163,449	281,272
Administrative Services			
Administrative and office	279,959	152,602	432,561
Employee Benefits	-	211,391	211,391
Insurance	-	86,542	86,542
	279,959	450,535	730,494
Depreciation Expense	-	53,026	53,026
Total Expenses	$ 1,689,670	$ 1,475,192	$ 3,164,862

2008		
Salaries	Other	Total
$ 432,457	$ 50,676	$ 483,133
415	24,850	25,265
177,886	121,484	299,370
610,758	197,010	807,768
155,175	166,862	322,037
-	9,632	9,632
147,898	148,222	296,120
37,252	129,208	166,460
59,231	6,847	66,078
92,186	94,563	186,749
13,755	14,012	27,767
505,497	569,346	1,074,843
39,701	44,321	84,022
16,371	7,196	23,567
-	14,524	14,524
50,480	19,235	69,715
8,685	62,954	71,639
115,237	148,230	263,467
250,861	190,975	441,836
-	185,115	185,115
-	72,981	72,981
250,861	449,071	699,932
-	59,380	59,380
$ 1,482,353	$ 1,423,037	$ 2,905,390

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*

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

We have audited the accompanying balance sheet of Jefferson County Healthcare Authority (Authority), as of September 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated March 29, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. The material weaknesses are described in the accompanying schedule of findings as items 2009-1 through 2009-3.

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. The significant deficiencies are described in the accompanying schedule of findings as items 2009-4 through 2009-6.

Compliance and Other Matters

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

Jefferson County Healthcare Authority’s response to the findings identifies in our audit is described in the accompanying schedule of findings. While we have expressed our conclusions on the Authority’s responses, we did not audit Jefferson County Healthcare Authority’s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, hospital officials, employees and constituents of Wagoner Hospital Authority and other parties to whom the Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 29, 2013

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2009-01 Preparation of Financial Statements

Condition: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Criteria: Statement on Auditing Standards (SAS) 115 requires the auditor to assess the Authority accounting staff's ability to apply Generally Accepted Accounting Principles (GAAP) on an ongoing basis.

Effect: We noted a material weakness in the Authority's internal controls over financial reporting and procedures related to the preparation of the financial statements.

Cause: The board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Auditor's Recommendation: It is recommended the Authority implement a system that allows the preparation of financial statements in accordance with GAAP.

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

Conclusion: Response accepted

2009-02 Segregation of Duties

Condition and Criteria: Proper segregation of duties is vital to any Authority. We noted the following items:

- Journal entries are prepared and posted in the accounting system without review by someone other than the preparer. The Chief Financial officer may prepare and post journal entries without those entries being reviewed by another appropriate management-level employee. We recommend management implement a policy and procedure regarding documented review of journal entries by appropriate management level employee other than the preparer.
- Several business office employees have access to cash receipts and the ability to post payments and adjustments or the responsibility to prepare and send statements. The Chief Financial Officer also has these abilities as well as the responsibility for recording and monitoring these activities.
- The Chief Financial Officer may generate, issue and sign a payroll payment, the individual also has responsibility for recording payroll transactions and reconciling the underlying accounting records.
- An employee has incompatible duties in the purchases, accounts payable and cash disbursement transaction cycle. The Chief Financial Officer may generate, issue and sign a check and also has responsibility for recording transactions and reconciling the underlying accounting records.

Effect: We noted a weakness in the segregation of duties related to the accounting functions.

Cause: The Chief Financial Officer performs several steps in the journal entry, cash receipts, cash disbursement and payroll functions.

Auditor's Recommendation: We recommend that management evaluate the cost and benefits of implementing further segregation of duties or monitoring or other compensating controls and implement those changes as deemed appropriate.

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. The Board of Trustees will continue to review the financial statements and related financial data of the Authority.

Conclusion: Response accepted

2010-03 Material Audit Entries

Condition and Criteria: During the audit, material audit adjustments were identified as a result of improper accounting and a lack of review.

Effect: Multiple audit adjustments were noted during the audit.

Cause: Proper review procedures are not in place to ensure that information is recorded according to generally accepted accounting principles.

Auditor's Recommendation: We recommend that appropriate review procedures be developed and implemented to verify that information is correctly captured and recorded in the general ledger. With accounting principles changing, we further recommend that individuals involved in the accounting process receive formal accounting education to enable them to maintain a current understanding of accounting procedures and principles.

Management Response: The Authority will implement a policy to review all accounts balances to review for consistency and reasonableness.

Conclusion: Response accepted

2009-04 Accounts Receivables

Condition and Criteria: Accounts receivable should be presented net of estimated allowances. Allowances should be made for all payor types to properly reflect the expected cash payments to be received. The estimate should be based on historical trends for each payor class. The following are items we noticed during our testing of accounts receivables:

- The Authority's accounts receivable detail contained approximately $1,550,000 in accounts which were over 120 days old.
- The accounts receivable detail included some negative balances indicating overpayments on patient accounts or posting errors.
- We reviewed the reconciliation of accounts receivable detail to the general ledger as part of our auditing procedures. We noted an immaterial unlocated difference between the detail accounts receivable listing and the general ledger account balance.
- Allowances for contractual and uncollectable should be reviewed at the end of each month based on historical trends for each payor class.

Effect: The Authority has a large amount of gross patient accounts receivable.

Cause: The Authority uses a collection service to assist with the collection of accounts receivable, however many of the accounts which were turned over to the collection service are not returned to the Authority once it has determined the accounts are uncollectible.

Auditor's Recommendation: We recommend the Authority establish an arrangement with the collection service to have uncollectible accounts returned for timely write off in the accounting system, and that management implement a policy requiring the date the account are returned be documented as part of the collection process. We recommend management research the negative balances and reclassify overpayments to a liability account to prevent understatement of current assets and liabilities. We recommend management reconcile the accounts receivable detail monthly.

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. The Board of Trustees will continue to review the financial statements and related financial data of the Authority.

Conclusion: Response accepted.

2009-05 Title 60 Compliance

Condition: During the current year the Board of Trustees did not complete a Conflict of Interest disclosure form and file with the Oklahoma Secretary of State; file annual audited financial statements with the County; and order an audit within 30 days of the close of each year.

Criteria: Per section 178.8(a) of Title 60, all transactions between trustees or associated firms, corporations, etc. or trustees immediate family or firm, corporation, etc. they are associated with, must be publicly disclosed, and all trustee interests must be disclosed unless the transaction is secured by competitive bid. The trust must compile a list of all conflicts of interest disclosed by trustees. This list is to be compiled semi-annually in June and December of each year on forms prescribed by the Oklahoma Secretary of State. Per section 180.1 of Title 60, the trust is to order an audit within 30 days of the close of each year. Audits must be certified by a CPA opinion. One copy is to be filed with the State Auditor. Per section 176(g) of Title 60, the trust must file annually with the County financial reports, budgets and results of audits.

Cause: These forms, filings and audits were not compiled or filed on a timely basis this year.

Effect: The Authority is not in compliance with Oklahoma Title 60 Trust Statutes.

Auditor's Recommendation: We recommend that the Authority obtain the required forms be completed and filed on a timely basis, order an audit within the stated time frame and file the audited financial statement with the State Auditor as stipulated by the Oklahoma Title 60 Trust Statutes.

Management Response: The Board of Trustees will obtain the proper forms to be completed and filed with the Oklahoma Secretary of State.

Conclusion: Response accepted.

2009-06 Cost Report Settlement

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

Criteria: The Authority has determined that there is no calculation that can be used to determine the estimated Medicare cost report settlement.

Effect: This resulted in an adjusting journal entry to record the current year settlement.

Cause: The Authority's accounting staff believed there was not a calculation to determine the estimated settlement.

Auditor's Recommendation: It is recommended that the Authority implement a system to calculate the Authority's cost report settlement.

Management Response: The Authority's board has taken into consideration the purchase cost of the cost report estimation software system or the professional fees for an interim cost report audit versus the benefit to the accurate reporting of the Medicare cost report settlement and feels that the cost does not justify the benefit.

Conclusion: Response accepted.