Management's Discussion and Analysis
and Financial Statements
September 30, 2010 and 2009

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, 2010 and 2009, 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, 2010 and 2009, 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.

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 discussion and analysis of the financial performance of Jefferson County Healthcare Authority (Authority) provides an overview of the Authority's financial activities and balances for the years ended September 30, 2010 and 2009. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's patients accounts receivable, net, increased $33,613 in 2010 and $58,438 in 2009.
- Allowance for bad debts increased by $172,000 in 2010. The allowance for bad debt increased by $163,000 in 2009.
- The Authority's estimated due to third party increased by $136,126 in 2010 and $51,823 in 2009.
- The Authority reported operating losses in both 2010 of $388,148 and 2009 of $481,839.

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 $76,175 or 48% in 2010 and by $164,609 or 2,504% in 2009, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2010	2009	2008
Assets			
Patient accounts receivable, net	$ 286,401	$ 252,788	$ 194,350
Other current assets	330,093	305,043	321,200
Capital assets, net	139,404	190,615	232,886
Total assets	$ 755,898	$ 748,446	$ 748,436
Liabilities			
Long term debt and notes payable	$ 167,883	$ 188,262	$ 253,220
Other current and noncurrent liabilities	822,225	718,219	488,642
Total liabilities	990,108	906,481	741,862
Net Assets			
Invested in capital assets, net of related debt	30,562	74,362	110,492
Unrestricted	(264,772)	(232,397)	(103,918)
Total net assets	(234,210)	(158,035)	6,574
Total liabilities and net assets	$ 755,898	$ 748,446	$ 748,436

Operating Results and Changes in the Authority's Net Assets

In 2010, the Authority's net assets decreased by $76,175 or 48% as shown in Table 2. The decrease is made up of several different components and represents a decrease in unrestricted net assets of $32,375 compared with the decrease in unrestricted net assets for 2009 of $128,479.

Table 2: Operating Results and Changes in Net Assets

	2010	2009	2008
Operating Revenues			
Net patient service revenue	$ 2,732,634	$ 2,666,057	$ 2,327,961
Other operating revenues	20,889	16,966	15,104
Total operating revenues	2,753,523	2,683,023	2,343,065
Operating Expenses			
Nursing services	852,407	919,429	807,768
Other professional services	1,213,127	1,180,641	1,074,842
General services	282,699	281,272	263,467
Administrative services	742,227	730,494	699,932
Depreciation and amortization	51,211	53,026	59,380
Total operating expenses	3,141,671	3,164,862	2,905,389
Operating Loss	(388,148)	(481,839)	(562,324)
Nonoperating Revenues			
County appropriations-unrestricted	307,000	286,883	277,104
Other nonoperating revenues and expenses, net	4,973	30,347	3,114
Total nonoperating revenues	311,973	317,230	280,218
Capital Grants and Gifts	-	-	9,578
Increase (Decrease) in Net Assets	$ (76,175)	$ (164,609)	$ (272,528)

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 2010 decreased by $93,691 or 19% and $80,485 or 14% in 2009 the primary components of the decreased operating loss are:

- An increase in Medicare days from 575 to 652 or by 77 days in 2010 and decrease of 121 days in 2009.
- Patient days decreased from 508 to 458 or by 50 days in 2010 versus a increase of 64 days in 2009.
- A decrease in operating expenses of $23,191 or 1% in 2010 and an increase of $259,473 or 9% in 2009.

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 2010 compared to 2009 by $20,117 or 7%. The county appropriations increased in 2009 compared to 2008 by $9,779 or 4%.

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 2010, the Authority had $139,404 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2010, the Authority purchased no new property or capital assets. In 2009, the Authority purchased capital assets costing $10,755.

Debt

At year-end, the Authority had $167,883 in outstanding current and long-term debt. This is a decrease of $20,379 or 11% 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.

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 118,957	$ 91,718
Short-term investments	41,119	41,119
Accounts receivables		
Patients, net of estimated uncollectibles of approximately $1,840,000 in 2010 and $1,668,000 in 2009	286,401	252,788
Sales tax	78,378	73,624
Other	968	998
Supplies	77,895	82,783
Prepaids	12,776	14,801
Total current assets	616,494	557,831
Capital Assets, Net	139,404	190,615
Total assets	$ 755,898	$ 748,446
Liabilities and Net Assets		
Current Liabilities		
Notes payable	$ 48,041	$ 47,913
Current maturities of long-term debt	20,291	32,917
Accounts payable	490,055	533,555
Accrued liabilities	119,221	107,841
Estimated third-party payor settlements	212,949	76,823
Total current liabilities	890,557	799,049
Long-Term Debt, Less Current Maturities	99,551	107,432
Total liabilities	990,108	906,481
Net Assets (Deficit)		
Invested in capital assets net of related debt	30,562	74,362
Unrestricted	(264,772)	(232,397)
Total net assets (deficit)	(234,210)	(158,035)
Total liabilities and net assets	$ 755,898	$ 748,446

	2010	2009
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $312,306 in 2010 and $327,804 in 2009)	$ 2,732,634	$ 2,666,057
Other revenue	20,889	16,966
Total operating revenues	2,753,523	2,683,023
Operating Expenses		
Nursing services	852,407	919,429
Other professional services	1,213,127	1,180,641
General services	282,699	281,272
Administrative services	742,227	730,494
Depreciation	51,211	53,026
Total operating expenses	3,141,671	3,164,862
Operating Loss	(388,148)	(481,839)
Nonoperating Income (Loss)		
Investment income	831	1,467
Interest expense	(8,618)	(9,564)
Noncapital grants and contributions	12,760	38,444
County appropriation	307,000	286,883
Total nonoperating income	311,973	317,230
Decrease in Net Assets	(76,175)	(164,609)
Net Assets, Beginning of the Year	(158,035)	6,574
Net Assets, End of Year	$ (234,210)	$ (158,035)

	2010	2009
Operating Activities		
Receipts from and on behalf of patients	$ 2,835,147	$ 2,659,442
Payments to suppliers and contractors	(1,303,353)	(1,177,786)
Payments to employees	(1,719,350)	(1,742,689)
Other receipts and payments, net	20,919	17,056
Net Cash Used in Operating Activities	(166,637)	(243,977)
Noncapital Related Financing Activities		
County appropriations received	302,246	290,019
Noncapital grants and gifts	12,760	38,444
Principal paid on notes payable	(92,836)	(29,575)
Interest paid on notes payable	(4,047)	(4,993)
Net Cash Provided by Noncapital Financing Activities	218,123	293,895
Capital and Capital Related Financing Activities		
Principal paid on long-term debt	(20,507)	(49,726)
Interest paid on notes payable	(4,571)	(4,571)
Purchase of capital assets	-	(10,755)
Net Cash Used in Capital and Capital Related Financing Activities	(25,078)	(65,052)
Investing Activities		
Purchase of investments	-	(11,119)
Interest on investments	831	1,467
Net Cash Provided by (Used in) Investing Activities	831	(9,652)
Net Increase (Decrease) in Cash and Cash Equivalents	27,239	(24,786)
Cash and Cash Equivalents, Beginning of Year	91,718	116,504
Cash and Cash Equivalents, End of Year	$ 118,957	$ 91,718

	2010	2009
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	$ (388,148)	$ (481,839)
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for depreciation	51,211	53,026
Provision for bad debt	312,306	327,804
Changes in assets and liabilities		
Patient account receivables	(345,919)	(386,242)
Other	30	90
Supplies	4,888	(17,122)
Prepaids	94,989	30,729
Accounts payable	(43,500)	211,722
Accrued liabilities	11,380	(33,968)
Estimated third-party payor settlements	136,126	51,823
Net Cash Used in Operating Activities	$ (166,637)	$ (243,977)

	2010	2009
Supplemental Disclosure of Cash Flow Information		
Refinancing of short-term note payable	$ 30,000	$ 30,000
Refinancing of long-term note payable	$ 22,025	$ -
Insurance premiums financed	$ 92,964	$ 14,343

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 10% of its financial support from county appropriations related to sales tax in 2010 and 9% in 2009. 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 2009 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 $11,882 and $18,587 for the years ended September 30, 2010 and 2009, 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, 2010 and 2009, were $9,000 and $16,000, 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 68% and 15%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2010, and 65% and 14%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2009.

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, 2010 and 2009, increased approximately $122,000 and $105,000 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, 2010 and 2009 is as follows:

	2010	2009
Total patient service revenue	$ 4,013,069	$ 3,608,387
Contractual adjustments		
Medicare	(382,063)	(345,326)
Medicaid	(282,480)	(175,880)
Other	(303,586)	(93,320)
Total contractual adjustments	(968,129)	(614,526)
Provision for bad debts	(312,306)	(327,804)
Net patient service revenue	$ 2,732,634	$ 2,666,057

Note 4 - Capital Assets

Capital assets additions, retirements, and balances for the years ended September 30, 2010 and 2009, are as follows:

	Balance October 1, 2009	Additions	Disposals	Balance September 30, 2010
Land improvements	$ 27,978	$ -	$ -	$ 27,978
Buildings and Improvements	957,719	-	-	957,719
Equipment	1,062,726	-	-	1,062,726
Total cost	2,048,423	-	-	2,048,423
Less accumulated depreciation for:				
Land improvements	20,924	648	-	21,572
Buildings and improvements	836,925	36,289	-	873,214
Equipment	999,959	14,274	-	1,014,233
Total accumulated depreciation	1,857,808	51,211	-	1,909,019
Capital Assets, net	$ 190,615	$ (51,211)	$ -	$ 139,404

	Balance October 1, 2008	Additions	Disposals	Balance September 30, 2009
Land improvements	$ 27,978	$ -	$ -	$ 27,978
Buildings and Improvements	957,719	-	-	957,719
Equipment	1,051,971	10,755	-	1,062,726
Total cost	2,037,668	10,755	-	2,048,423
Less accumulated depreciation for:				
Land improvements	20,282	642	-	20,924
Buildings and improvements	798,098	38,827	-	836,925
Equipment	986,402	13,557	-	999,959
Total accumulated depreciation	1,804,782	53,026	-	1,857,808
Capital Assets, net	$ 232,886	$ (42,271)	$ -	$ 190,615

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, 2010 and 2009, the Authority had bank balances as follows:

	2010	2009
Total Bank Balance		
Insured (FDIC)	$ 214,033	$ 186,310
Total Carrying Value		
Cash and cash equivalents	$ 118,957	$ 91,718
Short-term investments	41,119	41,119
	$ 160,076	$ 132,837

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, 2010 and 2009, 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, 2010 and 2009:

		September 30, 2010				
		Beginning Balance	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	17,913	17,031	16,903	18,041	18,041
Note payable insurance premiums	C	-	75,933	75,933	-	-
Total short-term notes payable		47,913	122,964	122,836	48,041	48,041
Long-term notes payable						
Note payable to a bank	D	90,954	-	4,112	86,842	3,293
Note payable to a bank	E	12,521	-	1,521	11,000	11,000
Note payable to a bank	F	11,575	-	11,575	-	-
Note payable to a bank	G	25,299	22,025	25,324	22,000	5,998
Total long-term notes payable		140,349	22,025	42,532	119,842	20,291
Total notes payable		$ 188,262	$ 144,989	$ 165,368	$ 167,883	$ 68,332

		September 30, 2009				
		Beginning Balance	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	18,164	14,343	14,594	17,913	17,913
Note payable insurance premiums	C	14,980	-	14,980	-	-
Total short-term notes payable		63,144	44,343	59,574	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	29,496	-	17,921	11,575	11,575
Note payable to a bank	G	30,176	-	4,877	25,299	5,908
Total long-term notes payable		190,076	-	49,727	140,349	32,917
Total notes payable		$ 253,220	$ 44,343	$ 109,301	$ 188,262	$ 80,830

The terms and due dates of the Authority's debt, at September 30, 2010, are as follows:

A. 3 percent note, due September 21, 2011, secured by savings account. Renewed on September 21, 2012.
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, 2010, 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. Refinanced with monthly installments of $596 starting October 21, 2010 and ending September 21, 2015. (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
2011	$ 68,332	$ 9,427
2012	9,919	7,404
2013	13,505	6,693
	4,195	5,971
	4,549	5,618
	67,383	28,959
Total	$ 167,883	$ 64,072

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, 2010 and 2009, 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, 2010 and 2009, for all operating leases is $38,242 and $30,364, respectively.

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

Year Ending September 30,	Operating Leases
2011	$ 27,577
2012	4,508
2013	3,472
2014	2,436
2015	1,218
Total minimum lease payments	$ 39,211

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, 2010 and 2009, is as follows:

	2010	2009
Medicare	11%	12%
Medicaid	5%	6%
Commercial insurance	5%	7%
Patients (self pay)	79%	75%
	100%	100%

Note 9 - Related Party Transactions

The Authority recognized $307,000 and $286,883 in sales tax proceeds from Jefferson County for the years ending September 30, 2010 and 2009. The Authority has a receivable from the county for sales tax proceeds in the amount of $78,378 and $73,624 for the years ending September 30, 2010 and 2009.

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, 2010, 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%.

Supplementary Information
September 30, 2010 and 2009

Jefferson County Healthcare Authority

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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	2010		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	$ 340,377	$ 15,905	$ 356,282
Swing bed	157,320	-	157,320
	497,697	15,905	513,602
Other Nursing Services			
Central service supplies	24,129	20,314	44,443
Emergency services	16,340	576,074	592,414
	40,469	596,388	636,857
Other Professional Services			
Clinics	-	158,696	158,696
Electrocardiography	14,428	54,832	69,260
Laboratory	184,332	601,002	785,334
Pharmacy	431,569	341,545	773,114
Physical therapy	13,147	86,282	99,429
Radiology	136,053	551,346	687,399
Respiratory therapy	284,715	16,545	301,260
	1,064,244	1,810,248	2,874,492
	$ 1,602,410	$ 2,422,541	4,024,951
Charity care			11,882
Total patient service revenue			4,013,069
Reductions from Revenue			
Medicare			382,063
Medicaid			282,480
Other			303,586
Total contractual adjustments			968,129
Provision for Bad Debts			312,306
Net Patient Service Revenue			$ 2,732,634

2009		
Inpatient	Outpatient	Total
$ 318,415	$ 25,177	$ 343,592
175,950	-	175,950
494,365	25,177	519,542
14,121	18,755	32,876
12,570	502,714	515,284
26,691	521,469	548,160
-	121,766	121,766
16,549	23,108	39,657
173,904	594,142	768,046
424,890	141,917	566,807
17,588	88,804	106,392
136,312	463,615	599,927
333,793	22,884	356,677
1,103,036	1,456,236	2,559,272
$ 1,624,092	$ 2,002,882	3,626,974
		18,587
		3,608,387
		345,326
		175,880
		93,320
		614,526
		327,804
		$ 2,666,057

	2010	2009
Other Revenue		
Cafeteria	$ 7,016	$ 6,746
Medical records	262	137
Miscellaneous	7,855	9,104
Vendor discounts	5,756	979
Total Other Revenue	$ 20,889	$ 16,966

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	2010		
	Salaries	Other	Total
Daily Patient Services			
Medical and surgical	$ 542,987	$ 52,949	$ 595,936
Central services and supply	451	28,946	29,397
Emergency services	189,729	37,345	227,074
	733,167	119,240	852,407
Other Professional Services			
Clinics	195,947	116,566	312,513
Electrocardiology	-	15,912	15,912
Laboratory	152,227	163,282	315,509
Pharmacy	39,935	181,713	221,648
Physical therapy	69,099	5,839	74,938
Radiology	128,251	111,603	239,854
Respiratory therapy	15,607	17,146	32,753
	601,066	612,061	1,213,127
General Services			
Dietary	43,912	49,537	93,449
Housekeeping	18,434	9,686	28,120
Laundry and linen	-	15,460	15,460
Medical records	53,825	21,918	75,743
Plant operations	5,173	64,754	69,927
	121,344	161,355	282,699
Administrative Services			
Administrative and office	270,772	136,391	407,163
Employee Benefits	-	238,181	238,181
Insurance	-	96,883	96,883
	270,772	471,455	742,227
Depreciation Expense	-	51,211	51,211
Total Expenses	$ 1,726,349	$ 1,415,322	$ 3,141,671

2009		
Salaries	Other	Total
$ 514,197	$ 74,147	$ 588,344
439	25,779	26,218
185,047	119,820	304,867
699,683	219,746	919,429
180,375	166,124	346,499
-	4,401	4,401
159,435	172,681	332,116
39,618	111,142	150,760
70,026	6,059	76,085
123,921	111,027	234,948
18,830	17,002	35,832
592,205	588,436	1,180,641
41,142	55,702	96,844
18,044	7,781	25,825
-	13,462	13,462
52,601	17,588	70,189
6,036	68,916	74,952
117,823	163,449	281,272
279,959	152,602	432,561
-	211,391	211,391
-	86,542	86,542
279,959	450,535	730,494
-	53,026	53,026
$ 1,689,670	$ 1,475,192	$ 3,164,862

EideBailly
CPAs & BUSINESS ADVISORS

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, 2010, 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 2010-1 through 2010-3.

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 2010-4 through 2010-9.

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

2010-01 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

2010-02 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

2010-04 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 $1,698,000 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 that 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.

2010-05 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 file with the Oklahoma Secretary of State.

Conclusion: Response accepted.

2010-06 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.

2010-07 Outstanding Checks

Condition: During the current year, the Authority had several checks outstanding dated over one year.

Criteria: Oklahoma law requires that checks written over one year ago be remitted to the state as unclaimed property.

Effect: This resulted in an understatement of cash balances.

Cause: The Authority does not remit outstanding checks over one year to the state of Oklahoma as unclaimed property.

Auditor's Recommendation: It is recommended that the Authority routinely review outstanding checks and remit checks over 1 year to the state.

Management Response: Management will perform a review to ensure outstanding checks over 1 year are being routinely remitted to the state of Oklahoma.

Conclusion: Response accepted.

2010-08 Accrued Vacation

Condition: During the current year, the Authority had employees accrue vacation hours over the stated policy.

Criteria: The Authority has established a vacation accrual policy to limit vacation accrual that could potentially allow an employee to accumulate a very large amount of hours that would need to be paid upon employee's retirement or leave.

Effect: This resulted in an overstatement of accrued liabilities.

Cause: Certain employees had accrued vacation hours over the accrued vacation policy.

Auditor's Recommendation: It is recommended management monitor the vacation hours accrued.

Management Response: Management will review the accrued vacation hours for compliance and adjust the amounts accordingly.

Conclusion: Response accepted.

2010-09 Inventory Count

Condition: During the current year, the Authority had an inventory count performed after year end and count sheets were not timely provided to the accounting department for timely reconciliation.

Criteria: The purpose of the physical inventory is to determine the actual quantity of inventory on hand at any given point in time.

Effect: This resulted in an understatement of inventory balances.

Cause: The inventory count was performed after year end. Also, the count sheets were not timely provided to accounting.

Auditor's Recommendation: It is recommended that the Authority implement a policy to ensure inventory counts are provided to the accounting department in a timely manner.

Management Response: The Authority will implement a policy where inventory will be taken before year end and the count sheet will be timely provided to the accounting department.

Conclusion: Response accepted.