

Waynoka Mental Health Authority

Financial Statements

(Prepared on the Modified Cash Basis)

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



WAYNOKA MENTAL HEALTH AUTHORITY

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Waynoka Mental Health Authority

We have audited the accompanying statements of net assets—modified cash basis of the Waynoka Mental Health Authority (the “Authority”), a component unit of the City of Waynoka, Oklahoma, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets—modified cash basis and cash flows—modified cash basis 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 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.

As described in Note 1, the financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Authority, as of June 30, 2011 and 2010, and the modified cash basis changes in its net assets and its cash flows for the years then ended in conformity with the basis of accounting described in Note 1.

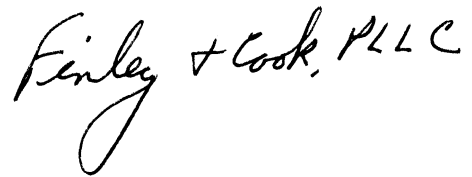
Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental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

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Handwritten signature in cursive script that reads "Fenley + Cook, PLLC".

Shawnee, Oklahoma
February 8, 2012

WAYNOKA MENTAL HEALTH AUTHORITY

STATEMENTS OF NET ASSETS—MODIFIED CASH BASIS

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 146,655	132,884
Interest-bearing deposits	<u>54,477</u>	<u>54,231</u>
Total current assets	<u>201,132</u>	<u>187,115</u>
Noncurrent assets:		
Restricted cash and cash equivalents	4,921	4,078
Capital assets, net of depreciation	<u>272,843</u>	<u>240,031</u>
Total noncurrent assets	<u>277,764</u>	<u>244,109</u>
Total assets	<u>\$ 478,896</u>	<u>431,224</u>
Liabilities and Net Assets		
Current liabilities:		
Withholdings payable	\$ 504	1,917
Note payable to the USDA—current portion (see Note 5)	<u>2,317</u>	<u>2,225</u>
Total current liabilities	<u>2,821</u>	<u>4,142</u>
Noncurrent liabilities:		
Note payable to the USDA—long-term portion (see Note 5)	<u>76,780</u>	<u>79,090</u>
Total noncurrent liabilities	<u>76,780</u>	<u>79,090</u>
Total liabilities	<u>79,601</u>	<u>83,232</u>
Net assets:		
Invested in capital assets, net of related debt	193,746	158,716
Restricted	4,921	4,078
Unrestricted	<u>200,628</u>	<u>185,198</u>
Total net assets	<u>399,295</u>	<u>347,992</u>
Total liabilities and net assets	<u>\$ 478,896</u>	<u>431,224</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

WAYNOKA MENTAL HEALTH AUTHORITY

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS—MODIFIED CASH BASIS**

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Operating revenues:		
Grants	\$ 1,058,019	1,051,477
Food stamps	41,745	36,444
Other receipts	73	2,291
Total operating revenues	1,099,837	1,090,212
Operating expenses:		
Salaries and payroll taxes	773,486	722,375
Professional fees	26,941	24,289
Insurance	38,448	35,099
Advertising	5,015	2,508
Lease	6,819	5,937
Consulting and contract labor	4,674	5,898
Food expense	58,451	57,251
Treatment materials	16,614	10,119
Supplies	21,319	26,855
Dues and subscriptions	3,584	2,036
Postage and freight	1,705	2,171
Drug tests	5,365	3,896
Travel and training	20,201	14,695
Maintenance and repairs	49,657	44,504
Vehicle expense	11,890	7,721
Utilities	40,749	40,582
Other	1,475	185
Depreciation	37,042	35,474
Total operating expenses	1,123,435	1,041,595
Operating (loss) income	(23,598)	48,617
Non-operating revenues (expenses):		
Interest income	351	1,510
Interest expense	(3,885)	(4,921)
Net non-operating expenses	(3,534)	(3,411)
Changes in net assets before contributions	(27,132)	45,206
Contributions	33,435	26,260
In-kind donation	45,000	-
Changes in net assets	51,303	71,466
Net assets, beginning of year	347,992	276,526
Net assets, end of year	\$ 399,295	347,992

See Independent Auditors' Report.
See accompanying notes to financial statements.

WAYNOKA MENTAL HEALTH AUTHORITY

STATEMENTS OF CASH FLOWS—MODIFIED CASH BASIS

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Cash flows from operating activities:		
Cash received from grants and contracts	\$ 1,058,019	1,051,477
Cash paid for salaries and payroll taxes	(774,899)	(725,970)
Cash paid to suppliers	(312,907)	(283,746)
Cash received for food stamps	41,745	36,444
Other receipts	73	2,291
Net cash provided by operating activities	12,031	80,496
Cash flows from noncapital financing activities:		
Contributions	33,435	26,260
Net cash provided by noncapital financing activities	33,435	26,260
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(24,854)	(22,715)
Payment of principal on FMNB loan	-	(25,000)
Payment of principal on USDA loan	(2,218)	(2,124)
Payment of interest on USDA loan	(3,885)	(4,921)
Net cash used in capital and related financing activities	(30,957)	(54,760)
Cash flows from investing activities:		
Interest income	351	1,510
Increase in interest-bearing deposits	(246)	(4,231)
Net cash provided by (used in) investing activities	105	(2,721)
Net increase in cash and cash equivalents	14,614	49,275
Cash and cash equivalents at beginning of year	136,962	87,687
Cash and cash equivalents at end of year	\$ 151,576	136,962
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	\$ (23,598)	48,617
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	37,042	35,474
Change in assets and liabilities:		
Decrease in withholdings payable	(1,413)	(3,595)
Net cash provided by operating activities	\$ 12,031	80,496

See Independent Auditors' Report.
See accompanying notes to financial statements.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Waynoka Mental Health Authority (the "Authority") is a component unit of the City of Waynoka, Oklahoma (the "City") and should be included in the City's financial statements as an enterprise fund. Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

Presently the Authority owns the Northwest Substance Treatment Center (the "Center"). The Center has a separate Board of Directors and management.

The financial statements presented represent those of the Authority only. The financial statements of the City are not included within these financial statements. The City's financial statements can be obtained from its respective administrative office.

The Authority was created by a trust indenture dated July 7, 1997, for the use and benefit of the City for the public purposes and functions set forth under the provisions of Title 60 Oklahoma Statutes, Sections 176, et seq., as amended and supplemented by other applicable statutes of the State of Oklahoma.

The Authority was created to promote economic development within and without the corporate limits of the City by the provision of mental health and substance abuse services and programs and to provide additional employment which will benefit and strengthen the economy of the city of Waynoka and the state of Oklahoma. To accomplish this purpose, the Authority shall provide a residential substance abuse facility committed to providing quality treatment to pregnant women and women with dependent children, and to such other persons with such other mental health and substance abuse problems as the Authority may determine should be provided. The programs to be offered at such facility shall include, but not be limited to, Moral Recognition Therapy, Parenting Counseling, Sexually Transmitted Disease Counseling, Incest Survivors Counseling, Co-Dependency Counseling, Problem Solving Counseling, Relapse Prevention Counseling, Substance Abuse Education and Counseling, and such other mental health and substance abuse programs and services as may be deemed necessary to provide. Such programs and services may be provided through individual, family, and/or group counseling.

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Reporting Entity, Continued

The Authority may also provide mental health and substance abuse services to its clients through half-way houses, outpatient home-based case management, and after-care programs and services. In accomplishing said purpose, the Authority shall take such actions as it may deem necessary to fulfill the purpose as hereinabove stated, so long as such actions are consistent with state and federal statutes and constitutional limitations.

The governing body of the Authority is the Board of Trustees, composed of members appointed by the Mayor and City Council of the City, based upon the recommendation of the Chairman and Trustees of the Authority. There shall be no more than seven (7) Trustees of the Authority. The Chairman of the Trustees shall preside at all meetings and perform other duties designated by the Trustees. A Secretary shall be appointed by the Chairman and Trustees. The Secretary shall keep minutes of all meetings of the Trustees and shall maintain complete and accurate records of all their financial transactions.

Measurement Focus and Basis of Accounting

The financial statements have been prepared in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The financial statements of the Authority utilize the economic resources measurement focus. The accounting objective of the economic resources measurement focus is the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with the Authority’s activities are reported.

See Independent Auditors’ Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Measurement Focus and Basis of Accounting, Continued

Basis of Accounting

The financial statements are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets, and liabilities resulting from cash transactions, adjusted for modifications that have substantial support in accounting principles generally accepted in the United States. These modifications include adjustments for the following balances arising from the following transactions:

- Capital assets purchased or donated and the depreciation of those assets, where applicable
- Long-term debt
- Other cash-based payables

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, accrued revenue and receivables, and revenue received from gifts-in-kind) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Cash and Cash Equivalents

Cash consists of cash on-hand and demand deposit accounts.

Cash and cash equivalents per the statements of cash flows—modified cash basis were comprised of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Current cash and cash equivalents	\$ 146,655	132,884
Restricted cash and cash equivalents	<u>4,921</u>	<u>4,078</u>
	<u>\$ 151,576</u>	<u>136,962</u>

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Interest-Bearing Deposits

As of June 30, 2011 and 2010, interest-bearing deposits consisted of a certificate of deposit with a financial institution amounting to \$54,477 and \$54,231, respectively. The certificate of deposit matures on December 17, 2011, and the interest rate was 1.45% as of June 30, 2011.

Capital Assets

Capital assets arising from cash transactions or donations are accounted for as assets in the statements of net assets—modified cash basis. All capital assets are valued at historical cost, estimated historical cost if actual is unavailable, or fair value at the time of donation. Capital assets acquired by the Authority are considered to be owned by the Authority. Presently the Authority capitalizes, at cost, all expenditures for capital assets in excess of \$250.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the statements of revenues, expenses, and changes in net assets—modified cash basis, with accumulated depreciation reflected in the statements of net assets—modified cash basis. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The estimated useful lives by type of asset are as follows:

Buildings and improvements	20 to 27 years
Furniture and equipment	5 to 7 years
Vehicles	5 to 7 years

Withholding Payable

Amounts that are withheld from employees' earnings for federal and state withholding and insurance that have not been paid at year-end are recognized as a liability by the Authority.

Notes Payable

All notes payable arising from cash transactions to be repaid are reported as a liability.

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Equity Classification

Equity is classified as a net asset and displayed in one of the following three components:

- a. Invested in capital assets, net of related debt—consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- b. Restricted net assets—consist of net assets with constraints placed on the use either by (1) external groups such as creditors, grantees, or contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Revenues and Expenses

Operating revenues and expenses result from providing services and producing and delivering goods and/or services. The Authority receives the majority of its operating revenue through grant and contract support from the Oklahoma Department of Mental Health and Substance Abuse Services and the U.S. Department of Housing and Urban Development (see Note 6). Other operating revenue the Authority receives includes food stamp funds, WIC supplements, and reimbursements and refunds. Non-operating revenue the Authority receives includes contributions and interest. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Authority requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense and the estimated value of property contributed); accordingly, actual results could differ from those estimates.

See Independent Auditors’ Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Insure Oklahoma

The Authority participates in the Insure Oklahoma program which provides Oklahoma employers subsidies for health insurance. The Authority treats the payments from Insure Oklahoma as reimbursements of insurance premiums paid to offset insurance expense. Total reimbursements for 2011 and 2010 approximated \$16,600 and \$62,000, respectively.

Date of Management's Subsequent Events Evaluation

Management of the Authority has evaluated subsequent events through February 8, 2012, the date which the financial statements were available to be issued.

(2) CASH AND INVESTMENTS

Custodial Credit Risk

As of June 30, 2011 and 2010, the Authority had deposits in financial institutions, reported as components of cash and cash equivalents, with a bank balance of \$153,016 and \$73,905, respectively. The Authority had depository insurance on amounts up to \$250,000. As of June 30, 2011 and 2010, no deposits were exposed to custodial credit risk.

Investments

The Authority had no investments as of June 30, 2011 or 2010.

(3) RESTRICTED NET ASSETS

As of June 30, 2011 and 2010, the amount reported as restricted net assets of \$4,921 and \$4,078 respectively, was composed of cash restricted for payments of long-term debt as required by the debt agreement.

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS

Capital asset activity, resulting from cash transactions and donations, for the fiscal years ended June 30, 2011 and 2010, was as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2011</u>
Capital assets:			
Land	\$ -	750	750
Buildings	-	44,250	44,250
Leasehold improvements	166,960	-	166,960
Furniture and equipment	191,232	24,854	216,086
Vehicles	49,699	-	49,699
	<u>407,891</u>	<u>69,854</u>	<u>477,745</u>
Less accumulated depreciation:			
Buildings	-	819	819
Leasehold improvements	46,380	6,184	52,564
Furniture and equipment	93,870	23,866	117,736
Vehicles	27,610	6,173	33,783
	<u>167,860</u>	<u>37,042</u>	<u>204,902</u>
Capital assets, net	<u>\$ 240,031</u>	<u>32,812</u>	<u>272,843</u>

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CAPITAL ASSETS, CONTINUED

	<u>Balance</u> <u>June 30, 2009</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2010</u>
Capital assets:			
Leasehold improvements	\$ 173,720	(6,760)	166,960
Furniture and equipment	161,757	29,475	191,232
Vehicles	49,699	-	49,699
	<u>385,176</u>	<u>22,715</u>	<u>407,891</u>
Less accumulated depreciation:			
Leasehold improvements	40,317	6,063	46,380
Furniture and equipment	71,749	22,121	93,870
Vehicles	20,320	7,290	27,610
	<u>132,386</u>	<u>35,474</u>	<u>167,860</u>
Capital assets, net	<u>\$ 252,790</u>	<u>(12,759)</u>	<u>240,031</u>

(5) NOTE PAYABLE

At June 30, 2011 and 2010, the Authority had a note payable to the United States Department of Agriculture (USDA) dated July 18, 2002.

The USDA loan was for the use of providing a mental health treatment and clinic facility and to pay associated costs for the issuance of the loan. The loan is payable in monthly installments. Payments are \$486 per month, including principal and interest at 4.5%. The loan matures in 2032. The loan is collateralized with the building and improvements made.

The following is a summary of the note payable transactions of the Authority for the years ended June 30:

	<u>USDA Loan Payable</u>	
	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 81,315	83,439
Repayments	<u>(2,218)</u>	<u>(2,124)</u>
Balance, end of year	<u>\$ 79,097</u>	<u>81,315</u>

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) NOTE PAYABLE, CONTINUED

The annual debt service requirements for retirement of the USDA loan principal and payment of interest are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,318	3,514	5,832
2013	2,434	3,398	5,832
2014	2,545	3,287	5,832
2015	2,662	3,170	5,832
2016	2,776	3,056	5,832
2017–2021	15,955	13,205	29,160
2022–2026	19,974	9,186	29,160
2027–2031	25,005	4,155	29,160
2032	<u>5,428</u>	<u>121</u>	<u>5,549</u>
	<u>\$ 79,097</u>	<u>43,092</u>	<u>122,189</u>

Interest expense paid on the note payable during the current fiscal year totaled \$3,885.

In accordance with the USDA loan agreement, the Authority is required to set aside \$5,832 (approximately one year’s debt service) into a separate cash account. No additional deposits to the account are required except to replace any withdrawals. As of June 30, 2011, the reserve account had a balance of \$4,921, which resulted in a deficiency of \$911.

See Independent Auditors’ Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) SUMMARY OF GRANTS/CONTRACT FUNDING

Grant funding for the year ended June 30, 2011, was derived from the following:

<u>Funding Source</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Prior Year Recognized Support</u>	<u>Current Year Recognized Support</u>	<u>Total Grant Remaining</u>
Oklahoma Department of Mental Health and Substance Abuse Services:					
Substance Abuse and Prevention Block Grant	7/1/09 to 6/30/10	\$ 835,275	765,665	69,610	-
Substance Abuse and Prevention Block Grant	7/1/10 to 6/30/11	835,275	-	763,890	71,385
U.S. Department of Housing and Urban Development:					
2009 Supportive Housing Program Grant	3/31/10 to 3/31/11	224,440	37,407	187,033	-
2010 Supportive Housing Program Grant	3/31/11 to 3/31/12	224,440	-	<u>37,486</u>	<u>186,954</u>
Total grant funding				<u>\$ 1,058,019</u>	<u>258,339</u>

(7) EMPLOYEE BENEFIT PLAN

As of February 1, 2002, the Authority adopted a cafeteria plan (the "Plan"), within the context of Section 125 of the Internal Revenue Code, for the benefit of eligible employees. All employees of the Authority are eligible to participate in the Plan the first day of the month following 30 days of employment.

Benefits offered under the Plan include group medical coverage, vision care coverage, short-term disability income, cancer insurance, group dental coverage, group term life insurance, intensive care insurance, accident insurance, hospital indemnity insurance, and specified health event. The maximum amount of pre-tax premiums a participant can contribute is the aggregate cost of the applicable benefit plans or policies selected minus any nonelective contribution made by the employer.

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The Authority maintains insurance coverage for these risks.

(9) COMMITMENTS AND CONTINGENCIES

Litigation

The nature of the Authority's business may result in claims and litigation alleging that the Authority is liable for damages arising from the conduct of its employees or others. In the opinion of management, there are no pending legal proceedings that would have a material effect on the financial position or results of operations of the Authority.

During 2009, the administrator of the estate of a former employee filed a claim against the Authority for wrongful termination and other allegations. In the opinion of management, any resulting litigation will not have a material effect on the financial position or results of operations of the Authority.

Leases

During the normal course of business, the Authority has entered into various equipment leases. The minimum annual charges on the leases are approximately \$5,900, with additional charges based on usage. During fiscal year 2011 and 2010, the expenses related to these leases approximated \$6,800 and \$5,900, respectively.

Grants

In the normal course of operations, the Authority receives grant funds from various federal and state agencies. The grant programs are subject to audit by the agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. In management's opinion, any liability for reimbursement which may arise as the result of these audits is not believed to be material.

See Independent Auditors' Report.

WAYNOKA MENTAL HEALTH AUTHORITY

REPORTS AND SCHEDULES REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133

WAYNOKA MENTAL HEALTH AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—MODIFIED CASH BASIS

Year Ended June 30, 2011

<u>Federal Grantor/Program Through Grantor Program Title</u>	<u>Federal CFDA #</u>	<u>Grant Revenues</u>	<u>Grant Expenditures</u>
<i>U.S. Department of Health and Human Services</i>			
<i>Pass-through the Oklahoma Department of Mental Health and Substance Abuse Services:</i>			
<i>Substance Abuse and Prevention Block Grant</i>	93.959	\$ 833,500	833,500
<i>Total U.S. Department of Health and Human Services</i>		<u>833,500</u>	<u>833,500</u>
 <i>U.S. Department of Housing and Urban Development</i> ⁽¹⁾			
2009 Supportive Housing Program Grant	14.235	187,033	187,033
2010 Supportive Housing Program Grant	14.235	<u>37,486</u>	<u>37,486</u>
<i>Total U.S. Department of Housing and Urban Development</i>		<u>224,519</u>	<u>224,519</u>
 TOTAL FEDERAL AWARD PROGRAMS		 <u>\$ 1,058,019</u>	 <u>1,058,019</u>

⁽¹⁾ Monies received from the Substance Abuse and Prevention Block Grant were used to satisfy the matching requirement of this grant.

Other Notes:

The Schedule of Expenditures of Federal Awards has been prepared on the modified cash basis of accounting.

See Independent Auditors' Report.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Waynoka Mental Health Authority

We have audited the financial statements of the Waynoka Mental Health Authority (the “Authority”), a component unit of the City of Waynoka, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated February 8, 2012. Our report includes an explanatory paragraph noting that the financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report also includes an explanatory paragraph noting that management’s discussion and analysis was not included in the report. We conducted our audit in accordance with auditing standards generally accepted in the United States 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

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

(Continued)

**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, CONTINUED**

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate letter dated February 8, 2012.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
February 8, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Waynoka Mental Health Authority

Compliance

We have audited the compliance of the Waynoka Mental Health Authority (the “Authority”), a component unit of the City of Waynoka, Oklahoma, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Authority’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority’s management. Our responsibility is to express an opinion on the Authority’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority’s compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority’s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over compliance.

(Continued)

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

Internal Control Over Compliance, Continued

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Finley + Cook, PLLC

Shawnee, Oklahoma
February 8, 2012

WAYNOKA MENTAL HEALTH AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2011

SECTION I—SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Noncompliance material to financial statements noted?

Yes None Noted

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Type of auditors’ report issued on compliance for the major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

<u>Federal CFDA#</u>	<u>Name of Federal Program</u>
14.235	Supportive Housing Program Grant
93.959	Substance Abuse and Prevention Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

Auditee qualified as low-risk auditee?

Yes No

WAYNOKA MENTAL HEALTH AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

June 30, 2011

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT

None noted.

**SECTION III—FINDINGS AND QUESTIONED COSTS—
MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None noted.

WAYNOKA MENTAL HEALTH AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2011

FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Material Weaknesses

Finding 2010-01

Internal control procedures surrounding the balancing and review of accounts (cash, capital assets, other receipts/contributions, etc.) on a timely basis are not sufficient. Management does not have adequate internal control procedures in place to ensure that all account balances are correctly recorded as part of the year-end closing process for the preparation of financial statements. Due to the lack of internal control procedures, several adjusting entries were posted by Finley & Cook, PLLC to the Authority's trial balance. For management to facilitate more timely and accurate preparation of monthly and year-end financial statements, we recommend that the Authority provide training to employees to include, but not be limited to:

- The Authority's accounting system.
- Preparation of reconciliations and supporting schedules for individual account balances and transaction classes.
- Preparation of monthly and annual financial statements.

The use of a CPA to assist the Authority in its monthly accounting is strongly recommended.

We also recommend that the Authority develop formal accounting policies and procedures to assist employees in preparing monthly reconciliations of account balances and preparing financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

Management's Response

The use of a CPA to assist the Authority in its monthly accounting has been implemented. K. Forell & Associates was retained in January 2011 for the purpose of performing monthly reconciliations of account balances, preparing financial statements, providing technical assistance with QuickBooks software, training of management staff in basic accounting practices, and assisting with development of accounting policies.

2011 Follow-up

The Authority began utilizing the assistance of K. Forell & Associates during 2011 for the purpose of performing monthly reconciliations of account balances, preparing financial statements, providing technical assistance with QuickBooks software, training of management staff in basic accounting practices, and assisting with development of accounting policies. These procedures have assisted in the elimination of the material weaknesses noted above.

WAYNOKA MENTAL HEALTH AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

June 30, 2011

FINDINGS FOR THE YEAR ENDED JUNE 30, 2010, CONTINUED

Material Weaknesses, Continued

Finding 2010-02

During the year ended 2010, the Authority used debit cards to purchase items. The debit cards can also be used to withdraw cash from ATM's. During 2010, \$3,378 of cash was withdrawn from ATM's using the cards. Supporting documentation for only \$381 of the cash withdrawals was available. The Authority was aware of the ATM transactions and had taken steps to investigate the use of the debit cards to withdraw cash. The Authority only has two debit cards, but security over the cards was slack and a usage log was not maintained.

We have recommended the Authority maintain both cards in a secure place and that a usage log be implemented immediately. The usage log should require the date, time, and name of the individual requesting the card, along with a reason. The log should note the time the card was issued and when it was returned. The log should be signed by the user of the card and an employee authorized to issue the card, noting both the time issued and the time returned. Receipts should be given immediately to the accounting department for the use. The accounting department should note dates and times of any undocumented expenses. The employee who had the card during that time should make restitution immediately for any undocumented expenditures or the money should be withheld from their paychecks. This policy should be written and communicated to all employees before they are allowed to use the debit cards.

The Authority should continue their review and investigation and report the findings to the Board. There were no questioned costs as a result of this as the Authority had sufficient nonfederal monies to offset the undocumented expenses. In addition, the undocumented expenditures were not considered material to the overall financial position of the Authority. However, the lack of control is significant and is considered a material weakness to the internal control structure of the Authority.

Management's Response

The Authority now maintains both cards in a secure place. They are now located in a locking cabinet within the Executive Director's office. This locked cabinet can only be accessed by the Executive Director, Assistant Administrator, and Administrative Assistant. A usage log was implemented immediately. The usage log requires the date, time, and name of the individual requesting the card, along with a reason. The log is signed by the user of the card and an employee authorized to issue the card, noting both the time issued and the time returned. Receipts for the use are given immediately to the accounting department. The accounting department notes date and time of any undocumented expenses. The employee who had the card during that time must make restitution immediately for any undocumented expenditures or the money is withheld from their paychecks. This policy has been written and communicated to all employees before they are allowed to use the debit cards.

The Authority continues its review and investigation and will report findings to the Board.

WAYNOKA MENTAL HEALTH AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

June 30, 2011

FINDINGS FOR THE YEAR ENDED JUNE 30, 2010, CONTINUED

Finding 2010-02, Continued

2011 Follow-up

We noted that the procedures outlined in the management's response have been implemented and have eliminated the material weakness noted above.

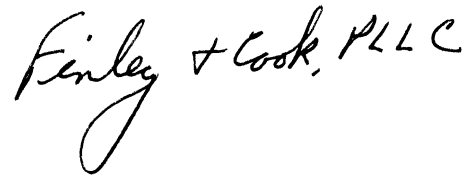
WAYNOKA MENTAL HEALTH AUTHORITY

ADDITIONAL INFORMATION

**INDEPENDENT AUDITORS' REPORT ON
ADDITIONAL INFORMATION**

Board of Trustees
Waynoka Mental Health Authority

We have audited the modified cash basis financial statements of the Waynoka Mental Health Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated February 8, 2012, which contained an unqualified opinion on those modified cash basis financial statements. Our audit was performed for the purpose of forming an opinion on the modified cash basis financial statements as a whole. The schedule of allocated expenses—modified cash basis is presented for the purposes of additional analysis and is not a required part of the modified cash basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis financial statements. The information, except for that portion labeled “unaudited” on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the modified cash basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the modified cash basis financial statements or to the modified cash basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information, except for that portion labeled “unaudited,” is fairly stated, in all material respects, in relation to the modified cash basis financial statements as a whole.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
February 8, 2012

WAYNOKA MENTAL HEALTH AUTHORITY

SCHEDULE OF ALLOCATED EXPENSES—MODIFIED CASH BASIS

June 30, 2011

	(Unaudited) Allocation*		<u>Total</u>
	<u>Administrative</u>	<u>Program</u>	
Salaries and payroll taxes	\$ 641,993	131,493	773,486
Professional fees	22,361	4,580	26,941
Insurance	31,912	6,536	38,448
Advertising	4,162	853	5,015
Lease	5,660	1,159	6,819
Consulting and contract labor	3,879	795	4,674
Food expense	48,514	9,937	58,451
Treatment materials	13,790	2,824	16,614
Supplies	17,695	3,624	21,319
Dues and subscriptions	2,975	609	3,584
Postage and freight	1,415	290	1,705
Drug tests	4,453	912	5,365
Travel and training	16,767	3,434	20,201
Maintenance and repairs	41,215	8,442	49,657
Vehicle expense	9,869	2,021	11,890
Utilities	33,822	6,927	40,749
Other	1,224	251	1,475
Depreciation	30,745	6,297	37,042
Total operating expenses	<u>\$ 932,451</u>	<u>190,984</u>	<u>1,123,435</u>

* Management allocated expenses between administrative costs and program costs based on function and payroll costs.

See Independent Auditors' Report on Additional Information.