



Management's Discussion and Analysis  
And Financial Statements  
June 30, 2012 and 2011

# **Cordell Hospital Authority**

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## Independent Auditor's Report

Board of Trustees  
Cordell Hospital Authority  
Cordell, Oklahoma

We have audited the accompanying balance sheets of Cordell Hospital Authority as of June 30, 2012 and 2011, 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. These 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 provided 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 Cordell Hospital Authority as of June 30, 2012 and 2011, and the results of its operations and its 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 November 19, 2012, on our consideration of Cordell Hospital Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit.

Management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
November 19, 2012

## **Introduction**

Our discussion and analysis of Cordell Hospital Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the years ended June 30, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

## **Financial Highlights**

Current assets increased in 2012 by \$2,426,064 or 46% and increased in 2011 by \$1,381,142 or 56%.

Total liabilities increased in 2012 by \$602,630 or 120% and decreased in 2011 by \$92,736 or 16%.

The Authority's net assets increased in 2012 by \$1,785,831 or 22% and increased in 2011 by \$1,181,768 or 17%.

The Authority reported an operating loss in 2012 of \$176,552 and an operating loss in 2011 of \$761,553. During 2012, operating loss decreased by \$585,001 or 77% and decreased by \$133,277 or 15% in 2011.

Other operating revenue increased by \$239,018 or 381% in 2012 and increased by \$765,044 or 66% in 2011.

Operating expenses increased in 2012 by \$20,094 or .5% and \$10,883 or 21% in 2011.

## **Using This Annual Report**

The Authority's financial statements consist of three statements - a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement 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 Sheet and Statement 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 Sheet and the Statement 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 all restricted and unrestricted 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 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 Statement of Cash Flows**

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

**The Authority's Net Assets**

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net assets increased by \$1,785,831 or 22% in 2012 and increased by \$1,181,768 or 17% in 2011 as shown below in Table 1.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
Current assets	\$ 7,728,811	\$ 5,302,747	\$ 3,921,605
Capital assets, net	742,475	872,146	1,081,142
Other assets	<u>2,619,540</u>	<u>2,527,472</u>	<u>2,610,586</u>
Total assets	<u>\$ 11,090,826</u>	<u>\$ 8,702,365</u>	<u>\$ 7,613,333</u>
<b>Liabilities</b>			
Other current and noncurrent liabilities	<u>\$ 1,102,848</u>	<u>\$ 500,218</u>	<u>\$ 592,954</u>
Total liabilities	<u>1,102,848</u>	<u>500,218</u>	<u>592,954</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	568,591	598,675	711,459
Unrestricted	<u>9,419,387</u>	<u>7,603,472</u>	<u>6,308,920</u>
Total net assets	<u>9,987,978</u>	<u>8,202,147</u>	<u>7,020,379</u>
Total liabilities and net assets	<u>\$ 11,090,826</u>	<u>\$ 8,702,365</u>	<u>\$ 7,613,333</u>

**Operating Results and Changes in Net Assets**

In 2012 the Authority's net assets increased by \$1,785,831 as shown below in Table 2. The 2012 net asset increase represents an increase of 22% as compared with the increase in net assets for 2011 of \$1,181,768 or 17%.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 3,380,564	\$ 3,014,487	\$ 2,710,751
Other operating revenue	<u>301,736</u>	<u>62,718</u>	<u>51,835</u>
Total operating revenues	<u>3,682,300</u>	<u>3,077,205</u>	<u>2,762,586</u>
<b>Operating Expenses</b>			
Nursing services	1,049,333	1,001,413	945,051
Other professional services	840,797	821,574	758,726
General services	421,889	417,960	392,858
Administrative services	1,342,626	1,372,136	1,311,079
Depreciation	<u>204,207</u>	<u>225,675</u>	<u>250,103</u>
Total operating expenses	<u>3,858,852</u>	<u>3,838,758</u>	<u>3,657,817</u>
Operating loss	<u>(176,552)</u>	<u>(761,553)</u>	<u>(895,231)</u>
<b>Nonoperating Revenues</b>			
Investment income	419,164	209,897	259,664
Interest	(7,948)	(11,324)	(14,604)
Noncapital grants and contributions	7,504	8,700	9,101
Intergovernmental transfers (sales tax from county)	<u>1,543,663</u>	<u>1,736,048</u>	<u>923,517</u>
Total nonoperating revenues	<u>1,962,383</u>	<u>1,943,321</u>	<u>1,177,678</u>
Increase in net assets	<u>\$ 1,785,831</u>	<u>\$ 1,181,768</u>	<u>\$ 282,447</u>

**Operating Income**

The first component of the overall change in the Authority's net assets is its operating income (loss) - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past three years the Authority has had operating losses.

The operating loss for 2012 decreased by \$585,001 or 77% as compared to the increase of \$133,277 or 15% in 2011. The primary component of the decreasing operating loss is:

An increase in net patient service revenue of \$366,077 or 12% in 2012 and an increase of \$303,736 or 11% in 2011 as well as an increase in operating expenses of \$20,094 or 1% in 2012 and \$180,941 or 5% in 2011.

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions, investment income county sales tax and interest expense. The investment income increased \$209,267 or 100% in 2012 as compared to the decrease of \$49,767 or 19% in 2011. Intergovernmental transfer (county sale tax) decreased \$192,385 or 11% in 2012 and increased \$812,531 or 88% in 2011.

### **The Authority's Cash Flows**

Changes in the Authority's cash flows are consistent with changes in operating income and non-operating revenues and expenses as discussed earlier, with one exception. Cash flows provided by operating activities increased slightly more than operating losses in 2012 due to increases in the Authority's collections on accounts receivable and other income.

### **Capital Assets**

The Authority had \$742,475 invested in capital assets at the end of 2012 and \$872,146 at the end of 2011, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets costing \$74,536 in 2012 and \$16,679 in 2011.

### **Contacting the Authority's Financial Management**

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-832-3339.

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	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 685,675	\$ 982,820
Short term investments	6,297,697	3,510,255
Receivables		
Patients, net of estimated uncollectibles of approximately \$216,000 in 2012 and \$365,000 in 2011	325,943	312,749
Other	17,516	12,896
Estimated third-party settlements	-	47,885
Due from County	204,959	255,396
Accrued interest receivable	56,775	47,464
Supplies	104,104	96,659
Prepays	36,142	36,623
	<u>7,728,811</u>	<u>5,302,747</u>
<b>Total current assets</b>		
	<u>742,475</u>	<u>872,146</u>
<b>Capital Assets, Net</b>		
	<u>742,475</u>	<u>872,146</u>
<b>Other Assets</b>		
Long term investments	302,139	302,980
Investment in government bonds	2,317,401	2,224,492
	<u>2,619,540</u>	<u>2,527,472</u>
<b>Total other assets</b>		
	<u>2,619,540</u>	<u>2,527,472</u>
<b>Total assets</b>	<u>\$ 11,090,826</u>	<u>\$ 8,702,365</u>

See Notes to Financial Statements

Cordell Hospital Authority  
Balance Sheets  
June 30, 2012 and 2011

	2012	2011
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 103,123	\$ 99,587
Accounts payable	72,731	54,832
Accrued expenses	138,545	171,915
Estimated third-party settlements	717,688	-
Total current liabilities	1,032,087	326,334
 Long-Term Debt, Less Current Maturities	 70,761	 173,884
Total liabilities	1,102,848	500,218
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	568,591	598,675
Unrestricted	9,419,387	7,603,472
Total net assets	9,987,978	8,202,147
Total liabilities and net assets	\$ 11,090,826	\$ 8,702,365

Cordell Hospital Authority  
 Statements of Revenues, Expenses and Changes in Net Assets  
 Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for bad debt of \$252,940 in 2012 and \$167,523 in 2011	\$ 3,380,564	\$ 3,014,487
Other revenue	301,736	62,718
Total operating revenues	3,682,300	3,077,205
Operating Expenses		
Nursing services	1,049,333	1,001,413
Other professional services	840,797	821,574
General services	421,889	417,960
Administrative services	1,342,626	1,372,136
Provision for depreciation	204,207	225,675
Total operating expenses	3,858,852	3,838,758
Operating Loss	(176,552)	(761,553)
Nonoperating Revenues		
Investment income	419,164	209,897
Interest expense	(7,948)	(11,324)
Noncapital grants and contributions	7,504	8,700
Intergovernmental transfers (sales tax from County)	1,543,663	1,736,048
Total nonoperating revenues	1,962,383	1,943,321
Revenue in Excess of Expenses and Increase in Net Assets	1,785,831	1,181,768
Net Assets, Beginning of Year	8,202,147	7,020,379
Net Assets, End of Year	\$ 9,987,978	\$ 8,202,147

Cordell Hospital Authority  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 4,132,943	\$ 3,099,344
Payments to suppliers and contractors	(1,829,833)	(1,904,114)
Payments to employees	(1,847,247)	(1,711,374)
Other receipts	99,576	(46,108)
	555,439	(562,252)
Net Cash provided by (used for) Operating Activities		
Noncapital Related Financing Activities		
Sales tax revenue received	1,594,100	1,736,048
Noncapital grants and contributions	7,504	8,700
	1,601,604	1,744,748
Net Cash provided by Noncapital Related Financing Activities		
Capital and Related Financing Activities		
Principal payments on long-term debt	(99,587)	(96,212)
Interest paid on long-term debt	(7,948)	(11,324)
Purchase of property and equipment	(74,536)	(16,679)
	(182,071)	(124,215)
Net Cash used for Capital and Related Financing Activities		
Investing Activities		
Purchases of investments	(2,908,545)	(4,155,245)
Proceeds from sale of investments	424,115	2,696,554
Interest on investments received	212,313	189,088
	(2,272,117)	(1,269,603)
Net Cash used for Investing Activities		
Net Decrease in Cash	(297,145)	(211,322)
Cash, Beginning of Year	982,820	1,194,142
Cash, End of Year	\$ 685,675	\$ 982,820

Cordell Hospital Authority  
 Statements of Cash Flows  
 Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	\$ (176,552)	\$ (761,553)
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	204,207	225,675
Provision for bad debts	252,940	167,523
Unrealized gain on investments	(197,540)	(20,809)
Changes in assets and liabilities		
Accounts receivable	(266,134)	(256,031)
Other receivables	(4,620)	(979)
Supplies	(7,445)	(2,053)
Prepays	481	(3,828)
Other assets	-	(87,038)
Accounts payable	17,899	(823)
Other accrued	(33,370)	4,299
Estimated third-party payor settlements	765,573	173,365
Reconciliation of Operating Loss to Net Cash Provided by (used for) Operating Activities	\$ 555,439	\$ (562,252)

## **Note 1 - Organization and Significant Accounting Policies**

### **Reporting Entity**

Cordell Hospital Authority (the Authority) is a public trust created under the laws of the State of Oklahoma. The Authority entered into a lease agreement with the City of New Cordell (the City), which expires January 17, 2019, for the hospital facilities and equipment. The governing body of the City appoints the Board of Trustee members of the Authority and the City is beneficiary of the trust.

### **Accounting Standards**

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

### **Cash and Cash Equivalents**

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

### **Short-term Investments**

Short-term investments include certificates of deposit, U.S. Treasury securities, and government backed mutual funds with an original maturity of three to twelve months.

### **Patient Receivables**

Patient receivables are uncollateralized customer and third-party payor obligations. The Authority does not charge interest on outstanding 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 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 valued at the lower of cost (first-in, first-out method) or market.

### Capital Assets

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

Land improvements	2 - 15 years
Buildings	15 - 40 years
Building improvements	5 - 20 years
Major moveable equipment	5 - 10 years

### Investments and Investment Income

Investments consist of certificates of deposit, municipal bonds and government securities and mutual funds invested in government securities. Investments are measured at fair value in the balance sheet. Investment income is included in revenues in excess of expenses before capital grants, contributions, and restricted contributions unless the income or loss is restricted by donor or law.

### Net Assets

Net assets in the Hospital are classified in the following two components:

Net Assets Invested in Capital Assets Net of Related Debt - Invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted Net Assets - Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

### 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.

### **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.

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

### **Revenues in Excess of Expenses**

Revenues in excess of expenses excludes transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

### **Charity Care**

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately \$17,474 and \$8,422 for the years ended June 30, 2012 and 2011. Total direct and indirect costs related to these foregone charges were \$13,000 and \$8,000 at June 30, 2012 and 2011, based on an average ratios of cost to gross charges.

### **Advertising Costs**

The Authority expenses advertising costs as incurred.

### **Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS), (2) the Medicare share, and (3) a transition factor applicable to that payment year. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum payment, subject to a final adjustment on the cost report.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. As the entire Medicare EHR incentive payment is received in a lump sum for critical access hospitals and the Authority must annually attest to increasingly stringent meaningful use criteria, the Medicare EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue over a specified time period. Medicaid EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

### **Supplemental Hospital Offset Payment Program Act**

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital. As a critical access hospital, the Authority is not required to make payments into the program. The Authority records receipts as a reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

During 2012, the Authority received funds from the Oklahoma Hospital Association totaling \$44,894.

### **Grants and Contributions**

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

### **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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Reclassification**

Reclassifications have been made to the June 30, 2011 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

### **Note 2 - Net Patient Service Revenue**

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

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services at reimbursable 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 the year ended June 30, 2010. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge, or other established rates with no retrospective adjustments. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Hospital's Medicare cost report, or rates as established by the Medicaid program.

Other carriers: The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider 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 5% of the Authority's net patient service revenue for the year ended June 30, 2012 and 65% and 4% for the year ended June 30, 2011. 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 June 30, 2012 and 2011 increased approximately \$255,000 and \$0 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 years ended June 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Total Patient Service Revenue	\$ 4,351,878	\$ 3,820,856
Contractual adjustments		
Medicare	(253,891)	(144,190)
Medicaid	(127,725)	(211,775)
Other	(336,758)	(282,881)
Provision for bad debts	<u>(252,940)</u>	<u>(167,523)</u>
Total reductions from revenue	<u>(971,314)</u>	<u>(806,369)</u>
Net Patient Service Revenue	<u>\$ 3,380,564</u>	<u>\$ 3,014,487</u>

### Note 3 - Deposits and Investments

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 June 30, 2012 and 2011, the Authority had bank balances as follows:

	<u>2012</u>	<u>2011</u>
Total Bank Balance -		
Insured (FDIC)	\$ 1,583,586	\$ 2,294,829
Collateralized with securities held by the Authority's agent in the Authority's name	<u>1,486,133</u>	<u>1,044,958</u>
	<u>\$ 3,069,719</u>	<u>\$ 3,339,787</u>
Total Carrying Value -		
Cash and cash equivalents	\$ 685,675	\$ 982,820
Certificates of deposit	<u>2,286,888</u>	<u>2,278,343</u>
	<u>\$ 2,972,563</u>	<u>\$ 3,261,163</u>

**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. The Authority secures cash deposits and mutual funds in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2012 and 2011, there were no deposits in excess of federally insured limits and/or collateralized with governmental securities.

**Short-term Investments**

Short-term investments include investments with an original maturity date between three and twelve months. Short-term investments are stated at fair value and include the following at June 30, 2012 and 2011:

	2012	2011
Certificates of deposit	\$ 1,984,749	\$ 1,975,363
Investment in government mutual funds	4,312,948	1,534,892
	\$ 6,297,697	\$ 3,510,255

**Long-term Investments**

Long-term investments include the following at June 30, 2012 and 2011:

	2012	2011
Certificates of deposit	\$ 302,139	\$ 302,980
Investment in government bonds	2,317,401	2,224,492
	\$ 2,619,540	\$ 2,527,472

**Investment Income**

Investment income consists of the following for the years ended June 30, 2012 and 2011:

	2012	2011
Income		
Interest and dividend income and realized gains	\$ 221,624	\$ 189,088
Unrealized gain on mutual funds invested in governmental obligations	197,540	20,809
	\$ 419,164	\$ 209,897



**Note 5 - Commitments**

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense in June 30, 2012 and 2011 for all operating leases was \$5,254 and \$5,254. Future minimum operating lease payments are as follows:

2013	\$	6,353
2014		6,151
2015		6,151
2016		6,151
2017		2,708
		27,514
Total minimum lease payments	\$	27,514

**Note 6 - Long-Term Debt**

A summary of long-term debt, including capital lease obligations as of June 30, 2012 and 2011, follows:

	Beginning Balance	June 30, 2012			Current Portion
		Additions	Deductions	Ending Balance	
Capital lease obligations	\$ 273,471	\$ -	\$ 99,587	\$ 173,884	\$ 103,123
	Beginning Balance	June 30, 2011			Current Portion
		Additions	Deductions	Ending Balance	
Capital lease obligations	\$ 369,683	\$ -	\$ 96,212	\$ 273,471	\$ 99,587

Scheduled payments on capital lease obligations as follows:

2013	\$	107,535
2014		71,690
		179,225
Less interest on capital leases		5,341
		\$ 173,884

**Note 7 - Profit Sharing Plan**

The Authority participates in a 403(b) Deferred Compensation Plan covering all employees who are at least 18 years of age, generally work twenty or more hours per week, and have completed six months of services with the Authority. The Authority, at its option, may contribute to the Plan. During 2012 and 2011, the Authority paid or accrued contributions of \$269,553 and \$328,316, respectively, which is included in administrative services.

**Note 8 - Related Party Transactions**

The Authority is a Public Trust with the City of New Cordell designated as the beneficiary of the trust. The Authority purchased utility services from the City of New Cordell in the amounts of \$46,328 and \$45,746 for the years ended June 30, 2012 and 2011, respectively.

The Cordell Memorial Hospital Foundation (the Foundation) was established to promote projects which advance the quality of medical care for the patients of Cordell Memorial Hospital. The Foundation created an endowment fund to which private citizens and businesses may make monetary or in-kind contributions. They manage funds, accept applications for, and dispense grants to fund high quality medical equipment, improve existing patient services or implement patient services that are not already provided for in the established hospital budget.

The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Authority in amounts and in periods determined by the Foundation's Board of Directors. No transfers were made between the Authority and the Foundation during the years ended June 30, 2012 and 2011.

The County collects and retains sales tax collected for the benefit of the Authority. Amounts are disbursed from the County upon receipt of approved purchase orders from the Authority. The remainder is retained by the County until the Authority forwards approved purchase orders. The Authority receives rent from the Washita County Health Department. During the years ended June 30, 2012 and 2011, the total rent received was \$16,800 and \$16,800.

**Note 9 - Concentration of Credit Risk**

The Authority is located in New Cordell, Oklahoma. The Authority grants credit without collateral to its patients, many of who are residents and are insured under third-party payor agreements. The mix of net patient accounts receivable at June 30, 2012 and 2011, was as follows:

	2012	2011
Medicare and Medicaid	40%	55%
Commercial Insurance	28%	23%
Patients (self pay)	32%	22%
	100%	100%

### **Note 10 - Contingencies**

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 million per claim and an annual aggregate limit of \$3,000,000 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. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims cost, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual had been made. It is reasonably possible that this estimate could change materially in the near term.

### **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 - Electronic Health Record Incentive Payments**

During the year ended June 30, 2012, the Hospital received \$250,000 as a lump sum incentive payment related to Medicaid EHR from the Oklahoma Health Care Authority. At the time the lump sum payment was received, the Authority recognized revenue for the entire amount, which is reported in other operating revenues in the accompanying financial statements.

### **Note 12 - Sales Tax Revenue**

The voters of Washita County approved to extend the .5 percent sale tax for the benefit of Cordell Hospital Authority. The sales tax extension is for a five year period beginning October 1, 2009. The Authority received approximately 27 percent and 35 percent of its financial support from a .5% county sales tax in 2012 and 2011, respectively. Revenue from sales tax is recognized in the year the tax is earned.

### **Note 13 - Subsequent Events**

The Authority has evaluated subsequent events through November 19, 2012, the date which the financial statements were available to be issued.



Supplementary Information  
June 30, 2012 and 2011

## **Cordell Hospital Authority**

## Independent Auditor's Report on Supplementary Information

Board of Trustees  
Cordell Hospital Authority  
New Cordell, Oklahoma

We have audited the financial statements of Cordell Memorial Hospital as of and for the years then ended June 30, 2012 and 2011 and our report thereon dated November 19, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient revenue and schedules of other operating revenue are presented for purposes of additional analysis and are 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Eide Bailly LLP*

Oklahoma City, Oklahoma  
November 19, 2012

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	2012		Total
	Inpatient	Outpatient	
Daily Patient Services			
Medical and surgical	\$ 557,830	\$ 6,826	\$ 564,656
Other Nursing Services			
Central services and supply	208,287	31,562	239,849
Emergency services	29,918	620,429	650,347
	238,205	651,991	890,196
Other Professional Services			
Ambulance	-	215,479	215,479
Blood	30,950	9,078	40,028
CT scan	121,026	194,278	315,304
Electrocardiology	55,660	60,580	116,240
Laboratory	466,129	672,931	1,139,060
Pharmacy	558,839	91,582	650,421
Physical therapy	13,344	-	13,344
Radiology	70,224	128,485	198,709
Respiratory therapy	123,318	9,316	132,634
Telemedicine	-	350	350
Ultrasound	47,229	45,702	92,931
	1,486,719	1,427,781	2,914,500
	\$ 2,282,754	\$ 2,086,598	4,369,352
Charity Care			(17,474)
Total patient service revenue			4,351,878
Reductions from Revenue			
Contractual adjustments			
Medicare			253,891
Medicaid			127,725
Other			336,758
Provision for bad debts			252,940
Total reductions from revenue			971,314
Net patient service revenue			\$ 3,380,564

Cordell Hospital Authority  
Schedules of Net Patient Service Revenues  
Years Ended June 30, 2012 and 2011

Inpatient	2011 Outpatient	Total
\$ 386,250	\$ 12,321	\$ 398,571
170,699	31,889	202,588
29,585	562,905	592,490
200,284	594,794	795,078
-	169,931	169,931
34,302	5,658	39,960
185,914	172,443	358,357
48,620	43,780	92,400
433,445	639,245	1,072,690
447,449	83,283	530,732
10,245	-	10,245
69,131	116,808	185,939
91,657	8,240	99,897
-	100	100
47,453	27,925	75,378
1,368,216	1,267,413	2,635,629
\$ 1,954,750	\$ 1,874,528	3,829,278
		(8,422)
		3,820,856
		144,190
		211,775
		282,881
		167,523
		806,369
		\$ 3,014,487

Cordell Hospital Authority  
Schedules of Other Operating Revenue  
Years Ended June 30, 2012 and 2011

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	2012	2011
Other Revenue		
Ambulance subsidy income	\$ 18,581	\$ 18,456
Cafeteria	9,163	7,341
Clinic rent - Physicians expense reimbursement	33,898	32,117
Medicaid EMR incentive	225,000	-
Lifeline services	1,180	1,730
Medical records fees	213	272
Miscellaneous	10,249	969
Purchase discounts	427	433
Rent	3,025	1,400
Total other revenue	\$ 301,736	\$ 62,718

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	2012		Total
	Salaries	Other	
<b>Nursing Services</b>			
Medical and surgical	\$ 601,633	\$ 8,167	\$ 609,800
Central services and supply	1,457	22,299	23,756
Emergency services	115,837	299,940	415,777
	<u>718,927</u>	<u>330,406</u>	<u>1,049,333</u>
<b>Other Professional Services</b>			
Ambulance	137,099	6,106	143,205
Blood	-	11,340	11,340
CT scan	2,654	63,468	66,122
Electrocardiology	15,198	2,783	17,981
Laboratory	168,733	188,431	357,164
Pharmacy	52,915	67,457	120,372
Physical therapy	480	4,915	5,395
Radiology	56,598	19,367	75,965
Respiratory therapy	14,799	681	15,480
Telemedicine	1,563	223	1,786
Ultrasound	-	25,987	25,987
	<u>450,039</u>	<u>390,758</u>	<u>840,797</u>
<b>General Services</b>			
Dietary	88,463	43,342	131,805
Housekeeping	110,899	12,861	123,760
Laundry and linen	11,076	618	11,694
Medical records	51,686	20,065	71,751
Plant engineering	5,198	77,681	82,879
	<u>267,322</u>	<u>154,567</u>	<u>421,889</u>
<b>Administrative Services</b>			
Administrative and general	377,589	205,464	583,053
Employee benefits	-	759,573	759,573
	<u>377,589</u>	<u>965,037</u>	<u>1,342,626</u>
<b>Provision for Depreciation</b>	-	204,207	204,207
<b>Total Expenses</b>	<u>\$ 1,813,877</u>	<u>\$ 2,044,975</u>	<u>\$ 3,858,852</u>

Cordell Hospital Authority  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011

		2011	
Salaries	Other	Total	
\$ 579,367	\$ 14,012	\$ 593,379	
1,067	19,706	20,773	
110,532	276,729	387,261	
<u>690,966</u>	<u>310,447</u>	<u>1,001,413</u>	
127,546	14,189	141,735	
-	5,854	5,854	
3,318	65,752	69,070	
29,400	293	29,693	
141,956	196,384	338,340	
55,434	70,446	125,880	
471	4,325	4,796	
54,417	17,080	71,497	
13,235	324	13,559	
-	-	-	
-	21,150	21,150	
<u>425,777</u>	<u>395,797</u>	<u>821,574</u>	
78,292	42,797	121,089	
110,859	7,782	118,641	
9,733	1,515	11,248	
49,034	29,363	78,397	
1,471	87,114	88,585	
<u>249,389</u>	<u>168,571</u>	<u>417,960</u>	
349,541	192,349	541,890	
-	830,246	830,246	
<u>349,541</u>	<u>1,022,595</u>	<u>1,372,136</u>	
-	225,675	225,675	
<u>\$ 1,715,673</u>	<u>\$ 2,123,085</u>	<u>\$ 3,838,758</u>	



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***

Board of Trustees  
Cordell Hospital Authority  
New Cordell, Oklahoma

We have audited the financial statements of Cordell Hospital Authority, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. 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 Cordell Hospital Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cordell Hospital Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cordell Hospital Authority's internal control.

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 described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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. We identified no deficiencies we considered to be material weaknesses.

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. We consider the deficiency described in the accompany Schedule of Findings and Responses as item 2012-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cordell Hospital 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.

Cordell Hospital Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Cordell Hospital Authority's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma  
November 19, 2012

2012-1      Preparation of Financial Statements

Condition: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The Hospital does not have an 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 cost or other considerations.

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

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.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

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

Management's Response: The hospital board has taken into consideration that the expense of hiring additional accounting personnel would not justify the expense versus the benefit to the accurate reporting of the financial statements and feels that the cost does not justify the benefit.