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

Jefferson County Healthcare Authority

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

Report on the Financial Statements
We have audited the accompanying statements of net position of Jefferson County Healthcare Authority (Authority) as of September 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Healthcare Authority as of September 30, 2012 and 2011, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard
As described in Note 1 to the financial statements, the Authority early adopted the provisions of *Governmental Accounting Standards Board No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* As discussed in Note 1 to the financial statements, the Authority has presented the financial statements under the provisions of *Governmental Accounting Standards Board 63*. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2016 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* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
August 12, 2016

This discussion and analysis of the financial performance of Jefferson County Healthcare Authority (Authority) provides an overview of the Authority's financial activities and balances for the years ended September 30, 2012, 2011, and 2010. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's patient accounts receivable, net, decreased $11,441 or 4% in 2012 and increased $29,623 or 10% in 2011.
- Allowance for bad debts decreased by $161,000 or 8% in 2012 and increased by $119,000 or 6% in 2011.
- The Authority's receivable for estimated third party settlements decreased by $116,408 or 85% in 2012 and increased by $350,187 or 164% in 2011.
- The Authority reported operating income in 2012 of $30,430 and operating loss in 2011 of ($226,051).

Using This Annual Report

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

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

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 statements of net position and the statements of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statements of Cash Flows

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

The Authority's Net Position

The Authority's net position are the difference between its assets and liabilities reported in the statement of net position, the Authority's net position increased by $333,677 or 191% in 2012 and increased by $59,782 or 26% in 2011, as shown in Table 1.

Table 1: Statements of Net Position

	2012	2011	2010
Assets			
Current assets	$ 841,496	$ 954,335	$ 616,494
Capital assets, net	90,409	127,372	139,404
Total assets	$ 931,905	$ 1,081,707	$ 755,898
Liabilities			
Current liabilities	$ 678,440	$ 805,027	$ 890,557
Non current liabilities	94,216	451,108	99,551
Total liabilities	772,656	1,256,135	990,108
Net Position (Deficit)			
Net investment in capital assets	(24,885)	(5,592)	30,562
Unrestricted	184,134	(168,836)	(264,772)
Total net position (deficit)	159,249	(174,428)	(234,210)
Total liabilities and net position	$ 931,905	$ 1,081,707	$ 755,898

A significant component of the change in the Authority's assets is the decrease in current assets. Current assets decreased in 2012 by $112,839 or 12% compared to an increase of $337,841 or 55% in 2011. The receivable for estimated third party settlements decreased by $116,408 or 85% in 2012 and increased by $350,187 or 164% in 2011.

A significant component of the change in the Authority's liabilities is the decrease in non-current liabilities. Noncurrent liabilities decreased in 2012 by $356,892 or 79% compared to an increase of $351,557 or 353% in 2011. This is due to the Authority recognizing $325,000 in deferred Medicaid Electronic Health Record revenue in 2012.

Operating Results and Changes in the Authority's Net Position

The following table summarizes the Authority's revenues, expenses, and changes in net position for the years ended September 30:

Table 2: Statements of Revenues, Expenses, and Chanages in Net Position

	2012	2011	2010
Operating Revenues			
Net patient service revenue	$ 2,746,931	$ 2,903,525	$ 2,732,634
Other operating revenues	340,750	16,016	20,889
Total operating revenues	3,087,681	2,919,541	2,753,523
Operating Expenses			
Nursing services	853,221	841,545	852,407
Other professional services	1,167,147	1,160,778	1,213,127
General services	307,819	292,249	282,699
Administrative services	685,921	795,478	742,231
Depreciation	43,143	55,542	51,209
Total operating expenses	3,057,251	3,145,592	3,141,673
Operating Income (Loss)	30,430	(226,051)	(388,150)
Nonoperating Revenues			
County appropriations-unrestricted	311,124	285,248	307,000
Other nonoperating revenues and expenses, net	(7,877)	585	4,975
Total nonoperating revenues	303,247	285,833	311,975
Change in Net Position (Deficit)	$ 333,677	$ 59,782	$ (76,175)

Operating losses

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2012, the Authority recognized operating income due primarily from electronic health record incentive payments. The Authority reported operating losses for the past two years. The Authority was formed and is operated primarily to serve residents of Jefferson County, Oklahoma, and the surrounding area. The County of Jefferson, Oklahoma, levies sales and use tax and appropriates them to the Authority for the purpose of planning, financing, and construction associated with the Authority.

The operating income for 2012 increased by $256,481 or 113% where as the operating loss for 2012 decreased by $162,099 or 42% when compared with 2011. The primary components of the increased operating income are:

- Net patient service revenue decreased $156,594 or 5% in 2012 and increased $170,891 or 6% in 2011.
- Administrative services decreased $109,554 or 14% in 2012 and increased $53,247 or 7% in 2011.
- Other operating revenue increased $324,734 or 2028% in 2012 and decreased $4,873 or 23% in 2011.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of appropriations from Jefferson County, Oklahoma and investment income and interest expense. The county appropriations increased in 2012 compared to 2011 by $25,876 or 9% and decreased in 2011 compared to 2010 by $21,752 or 7%. Interest expense increased $5,919 or 1% in 2012 compared to 2011 by $2,263 or 26%.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents of $53,537 when compared with 2011 which increased $27,239 when compared with 2010. Cash flows used for operating activities decreased by $12,895 during 2012 when compared with 2011 which decreased $58,819 when compared with 2010. Cash from noncapital financing activities increased $24,253 when compared with 2011 which increased $61,159 when compared with 2010. Cash used for capital and capital related financing activities increased $175,753 when compared to 2011 which increased $121,155 when compared with 2010.

Capital Assets

In 2012, the Authority purchased $6,180 of capital assets and had $90,409 invested in capital assets, net of accumulated depreciation, at the end of 2012 as detailed in Note 4, to the financial statements. In 2011, the Authority purchased $43,510 of capital assets and had $127,372 invested in capital assets, net of accumulated depreciation, at the end of 2011.

Debt

The Authority incurred no additional debt in 2012 and the Authority had total long term debt of $204,453 at the end of 2012. In 2011 the Authority incurred $186,669 in additional debt and had $269,575 of long-term debt at the end of 2011.

Contacting the Authority's Financial Management

This financial report is designated to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jefferson County Healthcare Authority, PO Box 90, Waurika, Oklahoma.

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 234,953	$ 291,490
Certificates of deposit	20,000	20,000
Accounts receivables		
Patients, net of estimated uncollectibles of approximately $1,784,000 in 2012 and $1,959,000 in 2011	304,583	316,024
Sales tax	82,708	75,523
Estimated third-party payor settlements	20,830	137,238
Other	69,265	572
Supplies	90,275	97,117
Prepaids	18,882	16,371
Total current assets	841,496	954,335
Capital Assets, Net	90,409	127,372
Total assets	$ 931,905	$ 1,081,707
Liabilities and Net Position		
Current Liabilities		
Notes payable	$ 30,000	$ 30,000
Current maturities of long-term debt	110,237	143,467
Accounts payable	403,623	504,404
Accrued liabilities	134,580	127,156
Total current liabilities	678,440	805,027
Unearned Revenue - Electronic Health Record Incentives	-	325,000
Long-Term Debt, Less Current Maturities	94,216	126,108
Total liabilities	772,656	1,256,135
Net Position (Deficit)		
Net investment in capital assets	(24,885)	(5,592)
Unrestricted	184,134	(168,836)
Total net position (deficit)	159,249	(174,428)
Total liabilities and net position	$ 931,905	$ 1,081,707

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $166,536 in 2012 and $278,568 in 2011	$ 2,746,931	$ 2,903,525
Other revenue	340,750	16,016
Total operating revenues	3,087,681	2,919,541
Operating Expenses		
Nursing services	853,221	841,545
Other professional services	1,167,147	1,160,778
General services	307,819	292,249
Administrative services	685,921	795,478
Depreciation	43,143	55,542
Total operating expenses	3,057,251	3,145,592
Operating Income (Loss)	30,430	(226,051)
Nonoperating Revenues (Expenses)		
Investment income	409	1,511
Interest expense	(16,800)	(10,881)
Noncapital grants and contributions	8,514	9,955
County appropriation	311,124	285,248
Net nonoperating revenue (expenses)	303,247	285,833
Change in Net Position	333,677	59,782
Net Position, Beginning of the Year	(174,428)	(234,210)
Net Position, End of Year	$ 159,249	$ (174,428)

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 2,874,780	$ 2,523,715
Payments to suppliers and contractors	(1,395,337)	(1,315,473)
Payments to employees	(1,707,797)	(1,775,110)
Other receipts and payments, net	(52,943)	341,412
Net Cash used for Operating Activities	(281,297)	(225,456)
Noncapital Financing Activities		
County appropriations received	303,939	288,103
Noncapital grants and gifts	8,514	9,955
Principal paid on notes payable	-	(18,041)
Interest paid on notes payable	(8,426)	(735)
Net Cash from Noncapital Financing Activities	304,027	279,282
Capital and Capital Related Financing Activities		
Principal paid on long-term debt	(65,122)	(36,936)
Interest paid on notes payable	(8,374)	(10,146)
Proceeds from the long term debt	-	148,159
Purchase of capital assets	(6,180)	(5,000)
Net Cash from (used for) Capital and Capital Related Financing Activities	(79,676)	96,077
Investing Activities		
Redemption of certificate of deposits	-	21,119
Interest on certificate of deposits	409	1,511
Net Cash from Investing Activities	409	22,630
Net Change in Cash and Cash Equivalents	(56,537)	172,533
Cash and Cash Equivalents, Beginning of Year	291,490	118,957
Cash and Cash Equivalents, End of Year	$ 234,953	$ 291,490

	2012	2011
Reconciliation of Operating Income (Loss) to Net Cash used for Operating Activities		
Operating income (loss)	$ 30,430	$ (226,051)
Adjustments to reconcile operating income (loss) to net cash used for operating activities		
Depreciation	43,143	55,542
Provision for bad debts	166,536	278,568
Changes in assets and liabilities		
Patient account receivables	(155,095)	(308,191)
Other receivables	(68,693)	396
Supplies	6,842	(19,222)
Prepaids	(2,511)	(3,595)
Accounts payable	(100,781)	14,349
Accrued liabilities	7,424	7,935
Estimated third-party payor settlements	116,408	(350,187)
Unearned revenue	(325,000)	325,000
Net Cash used for Operating Activities	$ (281,297)	$ (225,456)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Capital assets purchased under capital lease	$ -	$ 38,510

Note 1 - Organization and Significant Accounting Policies

The financial statements of the Jefferson County Healthcare Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

The Authority is a rural hospital, located in Waurika, Oklahoma. The Authority is critical access facility with 25 beds and rural health clinic services. The Authority is a public trust under the provisions of Title 60 Oklahoma Statutes. The Authority's primary purpose is to provide short-term acute care services for the citizens of Jefferson County, Oklahoma, and the surrounding area.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and Authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of the organization's governing body and (1) the ability of the Authority impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

> *Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets or the related debt obligations related to those assets or debt obligations.
>
> *Restricted, expendable for capital acquisition* consists of assets whose use is restricted for a specific purpose.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

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

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

Supplies

Supplies are valued at the lower of cost (first-in, first-out method) or market and are expensed when used.

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

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 statements of net position date plus an additional amount for compensation - related payments such as social security and Medicare taxes computed using rates in effect at that date.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

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.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately $16,000 and $7,000 for the years ended September 30, 2012 and 2011. Total direct and indirect costs related to these foregone charges were approximately $13,000 and $5,000 at September 30, 2012 and 2011, based on an average ratio of cost to gross charges.

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 Medicare 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) and (2) the Medicare share. 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, subject to a final adjustment on the cost report.

As the entire 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 EHR incentive payment is first recognized as an unearned revenue with a ratable recognition of revenue over a specified time period or in the year the criteria are met. 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.

During the year ended September 30, 2011, the Authority received $325,000 as a lump sum incentive payment related to Medicaid EHR. At the time the lump sum payment was received, the Authority recorded unearned revenue, a liability, for the entire amount. During 2012, the Hospital recognized $325,000 in revenue once it was determined the criteria was met..

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 generated 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.

The Authority records receipts to contractual adjustments. The Authority received $75,676 and $0 during the years ended September 30, 2012 and 2011.

Future changes in law or regulation at the federal or state level could adversely affect or eliminate SHOPP.

Sales Tax

Effective October 1, 1999, the citizens of Jefferson County, Oklahoma, approved a 1% sales tax for the support of the Authority for a period of five years. The sales tax was renewed for an additional three five year periods and will expire September 30, 2019. The Authority received approximately 10% of its financial support from county appropriations related to sales tax in 2012 and 9% in 2011. Revenue from county appropriations is recognized in the year in which the sales taxes are earned.

Grants and Contributions

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

Early Adoption of New Accounting Standard

The Authority early adopted the provisions of GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.* The effect on the financial statements was to change the Balance Sheet to the Statement of Net Position and change the residual account Net Assets to Net Position. The adoption of the new standard did not result in any changes to operating indicators or residual account balances.

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 under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). Clinical services are paid on a cost basis or fixed fee schedule. The Authority's Medicare cost reports have been audited by the MAC through the year ended September 30, 2012.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge or established fee schedules.

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

Concentration of gross charges by major payor were as follows for the years ended September 30, 2012 and 2011:

	2012	2011
Medicare	57%	53%
Medicaid	16%	16%
Commercial insurance	19%	23%
Patients	8%	8%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended September 30, 2012 and 2011 increased approximately $0 and $122,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

Note 3 - Deposits

The carrying amounts of deposits as of September 30, 2012 and 2011 are as follows:

	2012	2011
Carrying Value		
Cash and deposits	$ 254,953	$ 311,490

Deposits are reported in the following statement of net position captions:

	2012	2011
Cash and cash equivalents	$ 234,953	$ 291,490
Certificate of deposits	20,000	20,000
Total	$ 254,953	$ 311,490

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

The Authority's deposits in banks at September 30, 2012 and 2011 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy does not provide specific maturity limits in certificates of deposits to manage exposure to fair value losses arising from changing interest rates.

Concentration of Credit Risk

The Authority does not have a formally adopted investment policy for managing concentration of credit risk.

Investment Income

Investment income, primarily interest income, for the years ended September 30, 2012 and 2011 was $409 and $1,511.

Note 4 - Capital Assets

Capital asset additions, retirements, transfers and balances for the year ended September 30, 2012 are as follows:

	Balance September 30, 2011	Additions	Retirements and Transfers	Balance September 30, 2012
Capital assets				
Land improvements	$ 27,978	$ -	$ -	$ 27,978
Buildings and Improvements	957,719	-	-	957,719
Equipment	1,106,236	6,180	(12,877)	1,099,539
Total capital assets	2,091,933	$ 6,180	$ (12,877)	2,085,236
Less accumulated depreciation:				
Land improvements	22,214	$ 643	$ -	22,857
Buildings and improvements	908,444	24,651	-	933,095
Equipment	1,033,903	17,849	(12,877)	1,038,875
Total accumulated depreciation	1,964,561	$ 43,143	$ (12,877)	1,994,827
Capital Assets, net	$ 127,372			$ 90,409

Capital asset additions, retirements, transfers and balances for the year ended September 30, 2011 are as follows:

	Balance September 30, 2010	Additions	Retirements and Transfers	Balance September 30, 2011
Capital assets				
Land improvements	$ 27,978	$ -	$ -	$ 27,978
Buildings and Improvements	957,719	-	-	957,719
Equipment	1,062,726	43,510	-	1,106,236
Total capital assets	2,048,423	$ 43,510	$ -	2,091,933
Less accumulated depreciation:				
Land improvements	21,572	$ 642	$ -	22,214
Buildings and improvements	873,214	35,230	-	908,444
Equipment	1,014,233	19,670	-	1,033,903
Total accumulated depreciation	1,909,019	$ 55,542	$ -	1,964,561
Capital Assets, net	$ 139,404			$ 127,372

Note 5 - Leases Obligations

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 September 30, 2012 and 2011 for all operating leases is $51,213 and $36,826. The capitalized leased assets consist of:

	2012	2011
Major Movable Equipment	$ 38,510	$ 38,510
Less Accumulated Amortization	(13,479)	(5,777)
	$ 25,031	$ 32,733

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

Year Ending September 30,	Operating Leases
2013	$ 32,872
2014	14,686
2015	1,218
Total minimum lease payments	$ 48,776

For further information on capital leases, see Note 6.

Note 6 - Notes Payable and Long-Term Debt

The following is a summary of notes payable at September 30, 2012 and 2011:

	Balance September 30, 2011	Additions	Payments	Balance September 30, 2012
Notes payable:				
Line of credit	$ 30,000	$ 30,000	$ (30,000)	$ 30,000

	Balance September 30, 2010	Additions	Payments	Balance September 30, 2011
Notes payable:				
Line of credit	$ 30,000	$ 30,000	$ (30,000)	$ 30,000

The terms and due date of the Authority's notes payable at September 30, 2012 is as follows:

- Revolving line of credit used for operations up to $30,000; unpaid principal and accrued interest due September 2013; interest rate of 2.35%; collateralized by savings account. Renewed on September 2013 with a new due date of April 2017.

A schedule of changes in the Authority's long-term debt for September 30, 2012 and 2011 is as follows:

	Balance September 30, 2011	Additions	Payments	Balance September 30, 2012	Amounts Due Within One Year
Long-term Debt:					
Note payable to a bank (A)	$ 82,381	$ -	$ (5,218)	$ 77,163	$ 3,792
Note payable to a bank (B)	4,567	-	(4,567)	-	-
Note payable to a bank (C)	16,584	-	(6,345)	10,239	10,239
Note payable to a bank (D)	42,885	-	(42,885)	-	-
Note payable to a bank (E)	89,159	-	-	89,159	89,159
Capital lease (F)	33,999	-	(6,107)	27,892	7,047
Total long-term debt	$ 269,575	$ -	$ (65,122)	$ 204,453	$ 110,237

	Balance September 30, 2010	Additions	Payments	Balance September 30, 2011	Amounts Due Within One Year
Long-term Debt:					
Note payable to a bank (A)	$ 86,842	$ -	$ (4,461)	$ 82,381	$ 3,229
Note payable to a bank (B)	11,000	-	(6,433)	4,567	4,567
Note payable to a bank (C)	22,000	-	(5,416)	16,584	6,368
Note payable to a bank (D)	-	59,000	(16,115)	42,885	34,036
Note payable to a bank (E)	-	89,159	-	89,159	89,159
Capital lease (F)	-	38,510	(4,511)	33,999	6,108
Total long-term debt	$ 119,842	$ 186,669	$ (36,936)	$ 269,575	$ 143,467

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

A. Variable rate note (4.5% at September 30, 2012), due on demand or equal payments maturing in May 2025, secured by real estate.
B. 6% note payable, monthly installments $3,504, and a balloon payment of $4,261 due June 21, 2012, secured by real estate.
C. 6% note payable, monthly installments of $597, due September 21, 2013, secured by equipment.
D. 6% note payable, monthly installments $2,970, due December 4, 2012, secured by real estate.
E. 6 percent note, due on demand or June 6, 2013, secured by real estate. Renewed at various times with a new due date of January 2016.
F. Capital lease, imputed interest 12.3%, monthly payments of $845, maturing in January 2016, secured by leased equipment.

Future payments of principal and interest payments on notes payable and capital lease obligations are as follows:

	Long-term Debt		Capital Lease Obligations	
Year Ending September 30,	Principal	Interest	Principal	Interest
2013	$ 103,190	$ 12,120	$ 7,047	$ 3,093
2014	4,112	6,055	8,000	2,140
2015	4,458	5,709	9,081	1,059
2016	4,818	5,349	3,764	88
2017	5,239	4,928	-	-
2018-2022	34,478	16,356	-	-
2023-2027	20,266	6,846	-	-
Total	$ 176,561	$ 57,363	$ 27,892	$ 6,380

On September 12, 2006, the Authority entered into an irrevocable letter of credit arrangement in the amount of $64,000 in exchange for entrance into a pooled liability insurance fund. The letter of credit terminated when the pooled insurance fund ceased operations in December 2013. As of September 30, 2012 and 2011, no funds had been drawn on the letter of credit.

Note 7 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2012 and 2011, was as follows:

	2012	2011
Medicare	8%	9%
Medicaid	4%	4%
Commercial insurance	5%	5%
Patients	83%	82%
	100%	100%

Note 8 - Sales Tax Proceeds

The Authority recognized $311,124 and $285,248 in sales tax proceeds from Jefferson County for the years ending September 30, 2012 and 2011. The Authority has a receivable from the county for sales tax proceeds in the amount of $82,708 and $75,523 for the years ending September 30, 2012 and 2011.

Note 9 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

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

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 10 - Subsequent Events

The Authority has evaluated subsequent events through August 16, 2016 the date which the financial statements were available to be issued.

The Authority signed a non-cancellable agreement to lease telemetry equipment in March 2013. The terms of the lease is for 60 equal payments of $1,130.

The Authority signed a non-cancellable agreement to lease software in June 2013. The terms of the lease is for 60 equal payments of $1,450.

The Authority signed a non-cancellable agreement to lease electronic health care software and computer equipment in August 2013. The terms of the lease is for 24 equal payments of $3,845.

The Authority received EHR remote access in August 2013. The cost associated with implementation of EHR software is approximately $830,000. The Authority recorded a trade payable for the amount outstanding. The Authority currently has access through June 30, 2016.

Supplementary Information
September 30, 2012 and 2011

Jefferson County Healthcare Authority

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

We have audited the financial statements of Jefferson County Healthcare Authority (Authority) as of and for the years ended September 30, 2012 and 2011, and our report thereon dated August 12, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient service revenue, other operating revenue, and operating expenses are presented for the 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 supplementary information has been subjected to the auditing procedures applied in the audits 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
August 12, 2016

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	2012		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	$ 454,167	$ 34,819	$ 488,986
Swing bed	254,520	-	254,520
	708,687	34,819	743,506
Other Nursing Services			
Central service supplies	21,030	25,161	46,191
Emergency services	14,745	563,286	578,031
	35,775	588,447	624,222
Other Professional Services			
Clinics	-	235,918	235,918
Electrocardiography	21,376	61,213	82,589
Laboratory	162,397	540,992	703,389
Pharmacy	424,995	123,685	548,680
Physical therapy	22,386	73,286	95,672
Radiology	88,887	413,409	502,296
Respiratory therapy	215,707	18,549	234,256
Sleep studies	47,700	-	47,700
	983,448	1,467,052	2,450,500
	$ 1,727,910	$ 2,090,318	3,818,228
Charity care			(15,547)
Total patient service revenue			3,802,681
Reductions from Revenue			
Contractual adjustments			(889,214)
Provision for bad debts			(166,536)
Total reductions from revenue			(1,055,750)
Net Patient Service Revenue			$ 2,746,931

2011		
Inpatient	Outpatient	Total
$ 418,101	$ 29,800	$ 447,901
153,885	-	153,885
571,986	29,800	601,786
24,818	26,832	51,650
16,565	570,525	587,090
41,383	597,357	638,740
-	251,491	251,491
18,606	72,550	91,156
189,634	546,024	735,658
460,861	315,075	775,936
10,804	77,521	88,325
104,704	506,343	611,047
278,475	18,821	297,296
-	-	-
1,063,084	1,787,825	2,850,909
$ 1,676,453	$ 2,414,982	4,091,435
		(6,827)
		4,084,608
		(902,515)
		(278,568)
		(1,181,083)
		$ 2,903,525

	2012	2011
Other Revenue		
Cafeteria	$ 6,437	$ 6,494
Government incentive for electronic health records	325,000	-
Medical records	270	279
Miscellaneous	4,384	9,036
Vendor discounts	4,659	207
Total Other Revenue	$ 340,750	$ 16,016

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	2012		
	Salaries	Other	Total
Daily Patient Services			
Medical and surgical	$ 553,137	$ 44,390	$ 597,527
Central services and supply	462	23,691	24,153
Emergency services	171,084	60,457	231,541
	724,683	128,538	853,221
Other Professional Services			
Clinics	209,952	133,013	342,965
Electrocardiology	-	19,480	19,480
Laboratory	147,809	190,686	338,495
Pharmacy	26,127	120,686	146,813
Physical therapy	64,577	5,743	70,320
Radiology	108,749	90,129	198,878
Respiratory therapy	13,475	23,096	36,571
Sleep studies	4,095	9,530	13,625
	574,784	592,363	1,167,147
General Services			
Dietary	58,220	53,196	111,416
Housekeeping	13,314	12,686	26,000
Laundry and linen	-	11,834	11,834
Medical records	61,443	21,450	82,893
Plant operations	6,989	68,687	75,676
	139,966	167,853	307,819
Administrative Services			
Administrative and office	275,020	161,718	436,738
Employee Benefits	-	235,227	235,227
Insurance	-	13,956	13,956
	275,020	410,901	685,921
Depreciation Expense	-	43,143	43,143
Total Expenses	$ 1,714,453	$ 1,342,798	$ 3,057,251

2011		
Salaries	Other	Total
$ 554,107	$ 48,189	$ 602,296
443	27,663	28,106
194,086	17,057	211,143
748,636	92,909	841,545
201,968	93,690	295,658
-	25,974	25,974
153,388	172,486	325,874
35,334	137,087	172,421
61,571	5,924	67,495
137,784	100,061	237,845
17,160	18,351	35,511
-	-	-
607,205	553,573	1,160,778
48,541	49,375	97,916
15,362	8,791	24,153
-	18,934	18,934
59,460	18,714	78,174
7,787	65,285	73,072
131,150	161,099	292,249
292,180	180,101	472,281
-	239,952	239,952
-	83,245	83,245
292,180	503,298	795,478
-	55,542	55,542
$ 1,779,171	$ 1,366,421	$ 3,145,592

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

The Board of Trustees
Jefferson County Healthcare Authority
Waurika, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Jefferson County Healthcare Authority (Authority) as of and for the year ended September 30, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 12, 2016.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Jefferson County Healthcare Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 consider the deficiencies described in the accompanying Schedule of Findings as items 2012-A through 2012-F 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 deficiencies described in the accompanying Schedule of Findings as items 2012-G and 2012-H to be significant deficiencies.

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

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

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

Eide Bailly LLP

Oklahoma City, Oklahoma
August 12, 2016

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2012-A Failure to Address Previously Identified Weaknesses

Criteria: An entity should make changes and implement processes to correct previous weakness and deficiencies identified.

Condition: Several identified significant deficiencies and material weaknesses identified in previous audits have not been corrected or addressed by management.

Cause: In some cases, the cause is a lack of available resources to properly address the identified weakness. In other cases, it is a lack of action on the part of management.

Effect: A material weakness is identified in the overall control environment of the Authority.

Auditor's Recommendation: We recognize that not all identified weaknesses are within the ability of the Authority to fully remedy. However, we believe it is imperative that management strive to address all identified comments brought to their attention. Addressing audit recommendations will result in a facility with stronger controls which could lead to a reduction in the number of audit adjustments and recommendations.

Management Response: The Authority does not have the resources to correct some of the findings. At the current time, it is not a priority to correct prior year findings; however consideration will be given to correct these recommendations going forward.

2012-B Material Audit Entries

Criteria: A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

Condition: During the course of our engagement, we proposed material audit adjustments to patient accounts receivables, estimated third party payor settlements, other assets, deferred revenue, long-term debt, and net position that would not have been identified as a result of the Authority's existing internal controls, and therefore, could have resulted in a material misstatement of the Authority's financial statements.

Cause: Material misstatements were not identified and corrected in a timely manner.

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

Auditor's Recommendation: It is recommended the Authority implement a system that provides adequate controls over recording transactions and identifying misstatements.

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

2012-C Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. We noted instances of accounts not being reconciled properly, and errors in estimates.

Cause: Policies and procedures are not in established to allow for a timely review of financial information.

Effect: Failure to periodically review account balances can result in errors on the interim financial statements and represents a weakness in internal control over financial reporting. Improper oversight of the accounting function allowed misstatements to occur. Also, the year-end financial report is prepared by the auditors, a party outside of the Authority. The outside party does not have constant contact with ongoing financial transactions that the internal staff has. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Authority management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

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

2012-D Segregation of Duties

Criteria: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

Condition: During the course of our engagement, we noted that the Authority has limited staff completing incompatible accounting functions due to the size of the Authority. We noted the following items:

- Journal entries are prepared and posted in the accounting system without review by someone other than the preparer. The chief financial officer may prepare and post journal entries without those entries being reviewed by another appropriate management-level employee. We recommend management implement a policy and procedure regarding documented review of journal entries by appropriate management level employee other than the preparer.

- Several business office employees have access to cash receipts and the ability to post payments and adjustments or the responsibility to prepare and send statements. The Chief Financial Officer also has these abilities as well as the responsibility for recording and monitoring these activities.
- The Chief Financial Officer may generate, issue and sign a payroll payment, the individual also has responsibility for recording payroll transactions and reconciling the underlying accounting records.
- An employee has incompatible duties in the purchasing, accounts payable and cash disbursement transaction cycle. The Chief Financial Officer may generate, issue and sign a check and also has responsibility for recording transactions and reconciling the underlying accounting records.

Cause: The Authority's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Effect: Inadequate segregation of duties could adversely affect the organizations ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions.

Auditor's Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

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

2012-E Cost Report Settlement

Criteria: Accountings standards require an entity to estimate the Medicare cost report settlement in order to fairly state the financial position as of year-end.

Condition: During the current year, the Authority did not record an estimate for the Medicare cost report settlement for the current year.

Cause: The current year cost report settlement was not estimated at year-end which resulted in adjusting journal entries to the financial statements.

Effect: An adjusting journal entry was necessary to properly state the current year settlement.

Auditor's Recommendation: We recommend the Authority consider interim cost reports, purchase software or develop an internal spread sheet to assist with the estimate.

Management Response: The Authority has the cost report completed after year-end by a CPA firm. The Authority's board has taken into consideration the purchase cost of the cost report estimation software or the professional fees for an interim cost report estimate versus the benefit to the accurate reporting of the Medicare cost report settlement and feels that the cost does not justify the benefit.

2012-F Accounts Receivables

Criteria: Accounts receivable should be presented net of estimated allowances. Allowances should be made for all payor types to properly reflect the expected cash payments to be received. The estimate should be based on historical trends for each payor class.

Condition: The following are items we noticed during our testing of accounts receivables:

- The Authority's accounts receivable detail contained approximately $1,822,000 in accounts which were over 120 days old.
- The accounts receivable detail included some negative balances indicating overpayments on patient accounts or posting errors.
- We reviewed the reconciliation of accounts receivable detail to the general ledger as part of our auditing procedures. We noted an immaterial unlocated difference between the detail accounts receivable listing and the general ledger account balance.
- Allowances for contractual and uncollectable should be reviewed at the end of each month based on historical trends for each payor class.

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

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

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

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

2012-G Title 60 Compliance

Condition: During the current year the Board of Trustees did not complete a Conflict of Interest disclosure form and file with the Oklahoma Secretary of State; file annual audited financial statements with the County; order an audit within 30 days of the close of each year and have the completed audit filed with the State Auditor 180 days after year end.

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

Cause: The conflict of interest forms, filings and audits were not compiled or filed on a timely basis this year.

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

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

Management Response: The Board of Trustees will obtain the proper forms to be completed and file with the Oklahoma Secretary of State and will work to obtain a waiver from the State Auditor for delinquent audit reports.

2012-H Outstanding Checks

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

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

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

Effect: The Authority is not in compliance with Oklahoma law.

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

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