Management's Discussion and Analysis
and Financial Statements
September 30, 2013 and 2012

Wagoner Hospital Authority

Independent Auditor's Report....1

Management's Discussion and Analysis....3

Financial Statements
- Balance Sheets....7
- Statements of Revenues, Expenses and Changes in Net Position....8
- Statements of Cash Flows....9
- Notes to Financial Statements....11

Independent Auditor's Report on Supplementary Information....23

Supplemental Information
- Schedules of Net Patient Service Revenue....24
- Schedules of Other Operating Revenue....25
- Schedules of Operating Expenses....26

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*....27

Schedule of Findings....29

Independent Auditor's Report

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Wagoner Hospital Authority (Authority), which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the 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 preform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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 Wagoner Hospital Authority as of September 30, 2013 and 2012, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2014 on our consideration of the Authority's internal control over financial reporting and 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* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 25, 2014

This discussion and analysis of the financial performance of Wagoner Hospital Authority (Authority) provides an overview of the Authority's financial activities and balances for the years ended September 30, 2013, 2012, and 2011. 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 total assets increased during the year by $1,785,737 or 16% in 2013, compared with an increase during 2012 of $3,480,204 or 47%.
- The Authority's total liabilities increased during the year by $1,172,338 or 20% in 2013, compared with an increase during 2012 of $1,110,630 or 23%.
- The Authority reported operating income in 2013 of $1,080,788 and operating income in 2012 of $2,506,929. Operating income decreased $1,426,141 or 57% from 2012 to 2013. Operating income increased $1,687,848 or 206% from 2011 to 2012.

Using This Annual Report

The Authority's financial statements consist of three statements - balance sheets; 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 Balance Sheet and Statement 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 balance sheets 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 Statement 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 is the difference between its assets and liabilities reported in the Balance Sheets and are reflected in Table 1. The Authority's net position increased by $613,399 or 12% in 2013, and increased by $2,369,574 or 91% in 2012.

Condensed Financial Statements

Table 1: Balance Sheets

	2013	2012	2011
Assets			
Current assets	$ 7,822,998	$ 6,667,934	$ 4,107,490
Capital assets, net	4,877,705	4,247,032	3,327,272
Total assets	$ 12,700,703	$ 10,914,966	$ 7,434,762
Liabilities			
Current liabilities	$ 4,150,691	$ 2,842,441	$ 1,915,656
Non current liabilities	2,976,437	3,112,349	2,928,504
Total liabilities	7,127,128	5,954,790	4,844,160
Net Position			
Net investment in capital assets	1,664,006	954,573	141,701
Unrestricted	3,909,569	4,005,603	2,448,901
Total net position	5,573,575	4,960,176	2,590,602
Total liabilities and net position	$ 12,700,703	$ 10,914,966	$ 7,434,762

A significant component of the change in the Authority's assets is the increase in current assets. Current assets increased in 2013 by $1,115,064 or 17% compared to $2,560,444 or 62% in 2012. Patient accounts receivable, net of allowances, increased $872,885 or 36% in 2013 compared to 2011 which increased $541,412 or 29%.

A significant component of the change in the Authority's liabilities is the increase in current liabilities. Current liabilities increased in 2013 by $1,308,250 or 46% compared to $926,785 or 48% in 2012. Estimated third-party settlements increased $515,460 or 37% in 2013 compared to 2011 which increased $683,000 or 97%. Accounts payable increased $476,271 or 64% in 2013 compared to 2011 which increased $194,863 or 35%.

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

	2013	2012	2011
Operating Revenues			
Net patient service revenue	$ 19,360,389	$ 18,048,270	$ 14,535,555
Other operating revenue	971,426	169,625	849,957
Total operating revenues	20,331,815	18,217,895	15,385,512
Operating Expenses			
Nursing services	3,285,778	3,001,256	3,093,567
Other professional services	9,037,539	6,456,967	5,886,042
General services	1,713,285	1,571,385	1,542,815
Administrative services	4,331,846	3,952,265	3,414,683
Depreciation	882,579	729,093	629,324
Total operating expenses	19,251,027	15,710,966	14,566,431
Operating income	1,080,788	2,506,929	819,081
Nonoperating Revenues (Expenses)			
Contribution	(345,000)	-	-
Investment income	13,130	11,099	885
Interest expense	(149,531)	(158,936)	(144,635)
Noncapital contributions	12,100	10,482	101,808
Gain on sale of assets	1,912	-	-
Total nonoperating revenues (expenses)	(467,389)	(137,355)	(41,942)
Increase in Net Position	613,399	2,369,574	777,139
Net Position, Beginning of Year	4,960,176	2,590,602	1,813,463
Net Position, End of Year	$ 5,573,575	$ 4,960,176	$ 2,590,602

Operating Income

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.

The operating income for 2013 decreased by $1,426,141 or 57% as compared to 2012 and increased in 2012 by $1,687,848 or 206% compared to 2011. The primary components of the decreased operating income are:

- An increase in net patient service revenue of $1,312,119 or 7% as compared to an increase in 2012 of $3,512,715 or 24%.

- An increase in other professional services of $2,580,572 or 40% as compared to an increase in 2012 of $570,925 or 10%.
- An increase in administrative services of $379,581 or 10% as compared to an increase in 2012 of $537,582 or 16%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of contribution and interest expense. Contribution expense increased $345,000 or 100%. There was no contribution expense in 2012 and 2011. Interest expense decreased $9,405 or 6% from 2012 to 2013, and increased $14,301 or 10% from 2011 to 2012.

The Authority's Cash Flows

The changes in the Authority's cash flows were due to:

- Net cash from operating activities decreased in 2013 by $1,640,256 and increased in 2012 by $1,948,101.
- Net cash used by capital and capital related financing activities increased in 2013 by $113,073 and increased in 2012 by $1,085,937.

Capital Assets

In 2013, the Authority purchased $1,513,252 of capital assets and had $4,877,705 invested in capital assets, net of accumulated depreciation, at the end of 2013 as detailed in Note 4, to the financial statements. In 2012, the Authority purchased $1,648,853 of capital assets and had $4,247,032 invested in capital assets, net of accumulated depreciation, at the end of 2012 as detailed in Note 4 to the financial statements.

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's administration by calling 918-485-1200.

(This page left blank intentionally.)

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 3,963,714	$ 3,844,834
Accounts receivable		
Patients, net of allowance for doubtful accounts of $2,021,000 in 2013 and $1,720,000 in 2012	3,311,628	2,438,743
Other	57,219	19,737
Security deposits	9,639	5,839
Supplies	414,226	319,857
Prepaid expenses	66,572	38,924
Total current assets	7,822,998	6,667,934
Capital Assets		
Land and construction in progress	651,494	375,284
Depreciable capital assets, net of accumulated depreciation	4,226,211	3,871,748
Total capital assets, net	4,877,705	4,247,032
Total assets	$ 12,700,703	$ 10,914,966

See Notes to Financial Statements

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 237,262	$ 180,110
Accounts payable	1,221,260	744,989
Accrued liabilities	791,709	532,342
Estimated third-party settlements	1,900,460	1,385,000
Total current liabilities	4,150,691	2,842,441
Long-Term Debt, net of current maturities	2,976,437	3,112,349
Total liabilities	7,127,128	5,954,790
Net Position		
Net investment in capital assets	1,664,006	954,573
Unrestricted	3,909,569	4,005,603
Total net position	5,573,575	4,960,176
Total liabilities and net position	$ 12,700,703	$ 10,914,966

	2013	2012
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $3,740,072 in 2013 and $3,412,322 in 2012	$ 19,360,389	$ 18,048,270
Other	971,426	169,625
Total operating revenues	20,331,815	18,217,895
Operating Expenses		
Nursing services	3,285,778	3,001,256
Other professional services	9,037,539	6,456,967
General services	1,713,285	1,571,385
Administrative services	4,331,846	3,952,265
Depreciation	882,579	729,093
Total operating expenses	19,251,027	15,710,966
Operating Income	1,080,788	2,506,929
Nonoperating Revenues (Expense)		
Contribution	(345,000)	-
Gain on sale of asset	1,912	-
Investment income	13,130	11,099
Interest expense	(149,531)	(158,936)
Noncapital contributions	12,100	10,482
Total nonoperating revenues (expenses)	(467,389)	(137,355)
Increase in Net Position	613,399	2,369,574
Net Position, Beginning of Year	4,960,176	2,590,602
Net Position, End of Year	$ 5,573,575	$ 4,960,176

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	$ 19,002,964	$ 18,189,858
Payments to suppliers and contractors	(9,786,183)	(7,585,335)
Payments to employees	(7,968,644)	(7,034,930)
Other receipts	933,944	252,744
Net Cash From Operating Activities	2,182,081	3,822,337
Noncapital and Related Financing Activities		
Contributions to city	(345,000)	-
Noncapital contributions	12,100	10,482
Net Cash From (Used for) Noncapital and Related Financing Activities	(332,900)	10,482
Capital and Related Financing Activities		
Principal payments on long-term debt	(219,694)	(216,930)
Interest payments on long-term debt	(149,531)	(158,936)
Deposit on equipment	(3,800)	(4,031)
Proceeds on sale of equipment	1,912	-
Purchase of capital assets	(1,372,318)	(1,250,461)
Net Cash Used for Capital and Related Financing Activities	(1,743,431)	(1,630,358)
Investing Activities		
Interest on investments	13,130	11,099
Net Change in Cash	118,880	2,213,560
Cash and Cash Equivalents, Beginning of Year	3,844,834	1,631,274
Cash and Cash Equivalents, End of Year	$ 3,963,714	$ 3,844,834

	2013	2012
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	$ 1,080,788	$ 2,506,929
Adjustments to reconcile operating income to net cash from operating activities		
Provision for depreciation and amortization	882,579	729,093
Provision for bad debts	3,740,072	3,412,322
Amortization of physician loans	-	88,144
Changes in assets and liabilities		
Accounts receivable	(4,612,957)	(3,953,734)
Other receivables	(37,482)	(5,025)
Supplies	(94,369)	(17,104)
Prepaid expenses	(27,648)	57,970
Accounts payable	476,271	194,863
Accrued liabilities	259,367	125,879
Estimated third-party payor settlements	515,460	683,000
Net Cash From Operating Activities	$ 2,182,081	$ 3,822,337
Supplemental Disclosure of Non Cash Financing Activities		
Capital assets purchased under capital leases	$ 140,934	$ 398,392
Deposit applied to lease payment	$ -	$ 74,574

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Wagoner Hospital Authority (Authority) is a 100-bed acute care hospital located in Wagoner, Oklahoma. The Authority is a public trust created under the laws of the State of Oklahoma, for the hospital facilities and equipment located in the city of Wagoner, Oklahoma. The city of Wagoner is beneficiary of the trust.

The Authority primarily earns revenues by providing inpatient, psychiatric inpatient, outpatient, and emergency care services to patients from Wagoner, Oklahoma and surrounding communities. The Authority opened a Wound Care clinic and Hyperbaric clinic during 2013. The clinics serve the Authority's service area.

Enterprise Fund Accounting

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

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Authority adopted the provisions of *GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No.14 and No.34*; *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2013.

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.

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

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

Capital Assets

Capital asset acquisitions in excess of $1,000 are capitalized and recorded at cost. Capital assets donated for Authority operations are recorded as additions to net position at fair value at the date of receipt. 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. Such amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

	Depreciable Life
Land improvements	10 years
Buildings and improvements	10 - 40 years
Major moveable equipment	3 - 15 years

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 Position

Net Position is reported in the following components:

Net Investment in Capital Assets - Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of net investment in capital assets or restricted.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR “meaningful use” criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the year ended September 30, 2013, the Authority recorded $794,949 related to the Medicare program in other operating revenue for meaningful use incentives. During the year ended September 30, 2012, the Authority did not record any amounts related to meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. The Authority demonstrated meaningful use and attested to the compliance requirements for the Medicare and Medicaid programs during 2012. As the Authority has continued to use EHR technology in a meaningful way under the Medicare program criteria, management has concluded there is reasonable assurance that the Authority will successfully demonstrate meaningful use for the full reporting period and earn a subsequent year incentive payment as well.

Amounts recognized represent management’s best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

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.

The Authority records payments to administrative services expenses and receipts from SHOPP 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.

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 $66,000 and $138,000 for the years ended September 30, 2013 and 2012. Total direct and indirect costs related to these foregone charges were approximately $26,000 and $56,000 at September 30, 2013 and 2012, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred $46,940 and $39,328 for advertising costs for the years ended September 30, 2013 and 2012.

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 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, other than financing costs, incurred to provide health care services.

Grants and Contributions

From time to time, the Authority receives 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 non-operating revenues and expenses.

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.

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: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which includes capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2011. Fiscal years ending September 30, 2008 through September 30, 2010 have not been audited.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 21% of the Authority's net patient service revenue for the year ended September 30, 2013, and 38% and 26% of the Authority's net patient service revenue for the year ended September 30, 2012. 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, 2013 and 2012, decreased approximately $140,000 and increased approximately $267,000 due to prior year retroactive adjustments in excess of amounts previously estimated and removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer 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 has accrued $136,292 and $0 for RAC liability as of September 30, 2013 and 2012. The estimate is based on historical amounts recouped by CMS for overpayments.

A summary of net patient service revenue for the years ended September 30, 2013 and 2012, is as follows:

	2013	2012
Total Patient Service Revenue	$ 46,362,880	$ 38,215,429
Contractual adjustments		
Medicare	(8,485,540)	(6,304,393)
Medicaid	(5,011,800)	(3,641,656)
Other	(9,765,079)	(6,808,788)
Total contractual adjustments	(23,262,419)	(16,754,837)
Provision for bad debts	(3,740,072)	(3,412,322)
Net Patient Service Revenue	$ 19,360,389	$ 18,048,270

Note 3 - Cash and Deposits

State statutes require public trusts to invest monies in direct obligations of the United States Government or in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit.

At September 30, 2013 and 2012, the Authority had bank balances as follows:

	2013	2012
Total Bank Balance		
Insured (FDIC)	$ 617,105	$ 679,745
Collateralized with an irrevocable letter of credit held by the Authority's agent in the Authority's name	3,675,665	3,492,900
	$ 4,292,770	$ 4,172,645
Total Carrying Value		
Cash and cash equivalents	$ 3,963,714	$ 3,844,834

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 in excess of $250,000 with an irrevocable letter of credit. State law requires all deposits of public funds to be collateralized; however the Authority does not have a formal policy for collateralizing cash deposits. As of September 30, 2013 and 2012, none of the Authority's bank balances were exposed to custodial credit risk. The Authority's cash balances are maintained in various bank deposit accounts.

Note 4 - Capital Assets

Capital asset activity for the year ended September 30, 2013, is as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Non-depreciable capital assets					
Land	$ 157,808	$ -	$ -	$ -	$ 157,808
Construction in process	217,476	381,671	(105,461)	-	493,686
Total non-depreciable capital assets	375,284	$ 381,671	$ (105,461)	$ -	651,494
Depreciable capital assets					
Land improvements	39,682	$ 1,550	$ -	$ -	41,232
Buildings and improvements	5,082,795	107,916	-	-	5,190,711
Major moveable equipment	10,463,993	1,022,115	105,461	52,292	11,539,277
Total depreciable capital assets	15,586,470	$ 1,131,581	$ 105,461	$ 52,292	16,771,220
Less accumulated depreciation					
Land improvements	25,291	$ 2,754	$ -	$ -	28,045
Buildings and improvements	3,191,202	151,961	-	-	3,343,163
Major moveable equipment	8,498,229	727,864	-	52,292	9,173,801
Total accumulated depreciation	11,714,722	$ 882,579	$ -	$ 52,292	12,545,009
Net depreciable capital assets	3,871,748				4,226,211
Capital assets, net	$ 4,247,032				$ 4,877,705

The majority of construction in progress at September 30, 2013, represents cost incurred for certified electronic health record software interface for local physicians with CPSI, patient room remodel and various other smaller projects. Total expected cost to complete the projects is approximately $300,000. The projects will be financed with internal funds. Completion of the certified electronic health record interface is expected in October 2013 through March 2014 and patient room remodel is January 2014.

Capital asset activity for the year ended September 30, 2012, is as follows:

	2012				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Non-depreciable capital assets					
Land	$ 157,808	$ -	$ -	$ -	$ 157,808
Construction in process	5,840	248,137	(36,501)	-	217,476
Total non-depreciable capital assets	163,648	$ 248,137	$ (36,501)	$ -	375,284
Depreciable capital assets					
Land improvements	37,782	$ 1,900	$ -	$ -	39,682
Buildings and improvements	5,045,090	15,607	22,098	-	5,082,795
Major moveable equipment	9,298,535	1,383,209	14,403	232,154	10,463,993
Total depreciable capital assets	14,381,407	$ 1,400,716	$ 36,501	$ 232,154	15,586,470
Less accumulated depreciation					
Land improvements	22,915	$ 2,376	$ -	$ -	25,291
Buildings and improvements	3,041,105	150,097	-	-	3,191,202
Major moveable equipment	8,153,763	576,620	-	232,154	8,498,229
Total accumulated depreciation	11,217,783	$ 729,093	$ -	$ 232,154	11,714,722
Net depreciable capital assets	3,163,624				3,871,748
Capital assets, net	$ 3,327,272				$ 4,247,032

Note 5 - Long-Term Debt

Long-term debt consists of:

		September 30, 2013			
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note Payable:					
First Bank and Trust (1)	$ 2,896,014	$ -	$ 103,357	$ 2,792,657	$ 109,320
Capitalized lease obligations (2)	396,445	140,934	116,337	421,042	127,942
Total long-term debt	$ 3,292,459	$ 140,934	$ 219,694	$ 3,213,699	$ 237,262

	September 30, 2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable:					
First Bank and Trust (1)	$ 2,994,922	$ -	$ 98,908	$ 2,896,014	$ 105,039
First Bank and Trust	397	-	397	-	-
Capitalized lease obligations (2)	190,252	398,392	192,199	396,445	75,071
Total long-term debt	$ 3,185,571	$ 398,392	$ 291,504	$ 3,292,459	$ 180,110

The terms and due dates of the Authority's long-term debt, including capital lease obligations, as of September 30, 2013 are as follows:

1. Note payable, variable interest (4.0% at September 30, 2013), maximum loan principal $3,000,000, due in monthly installments of $18,241 included interest, through September 2031 , collateralized by accounts receivable, supplies and capital assets. The original due date of the Note is September 12, 2016 management intends to refinance the balloon payment to September 2031. The maturity schedule below was prepared based on management’s intention to refinance.
2. Capital lease obligations, at varying rates of imputed interest from 4.05% to 8.78%, collateralized by leased equipment, with varying maturity dates from January 2015 through September 2016.

Scheduled principle and interest repayments on long-term debt and payments on capital lease obligations are as follows:

	Long-term Debt		Capital Lease Obligations	
Year Ending September 30,	Principal	Interest	Principal	Interest
2014	$ 109,320	$ 109,568	$ 127,942	$ 24,457
2015	113,774	105,115	129,762	16,949
2016	118,409	100,479	163,338	10,443
2017	123,233	95,655	-	-
2018	128,254	90,634	-	-
2019-2023	724,039	370,403	-	-
2024-2028	884,049	210,393	-	-
2029-2031	591,579	35,027	-	-
Total	$ 2,792,657	$ 1,117,274	$ 421,042	$ 51,849

Note 6 - Leases

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, 2013 and 2012, for all operating leases is $317,933 and $167,248. The capitalized leased assets consist of:

	2013	2012
Major movable equipment	$ 602,686	$ 462,648
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(268,031)	(92,868)
	$ 334,655	$ 369,780

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

Year Ending September 30,	Operating Leases
2014	$ 198,345
2015	155,384
2016	84,709
2017	66,459
2018	49,500
2019-2023	247,500
2024-2027	198,000
Total minimum lease payments	$ 999,897

Note 7 - Concentration 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, 2013 and 2012, was as follows:

	2013	2012
Medicare	20%	28%
Medicaid	19%	15%
Commercial insurance	36%	32%
Other and patient	25%	25%
	100%	100%

Note 8 - Pension Plan

The Authority has a defined contribution pension plan under which eligible employees can participate in the Plan after one year of employment with the Authority. Employer contributions of 50% of each participant's salary reduction contributions up to 6% are deposited with the plan trustee who invests the plan assets. Total pension plan expense for the years ended September 30, 2013, 2012, and 2011, was $31,907, $54,000, and $48,000.

Note 9 - Management Agreement

The Authority Board of Trustees has a management agreement with Quorum Health Resources LLC. This agreement is a defined service agreement for managing the day-to-day operations of the Authority through August 31, 2014. During the years ended September 30, 2013 and 2012, the Authority incurred fees to Quorum Health Resources, LLC for management services of $150,492 and $139,844.

Note 10 - Contingencies

Medical Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on an occurrence-basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claim experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 11 - Supplemental Hospital Offset Payment Program (SHOPP) Act

The Authority made SHOPP payments totaling $355,067 for the year ended September 30, 2013. In return, the Authority received $2,066,467. The Authority made SHOPP payments totaling $435,130 for the year ended September 30, 2012. In return, the Authority received $2,490,112.

Note 12 - Subsequent Event

The Authority has evaluated subsequent events through March 25, 2014, that date which the financial statements were available to be issued.

Supplementary Information
September 30, 2013 and 2012

Wagoner Hospital Authority

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

We have audited the financial statements of Wagoner Hospital Authority as of and for the years ended September 30, 2013 and 2012, and our report thereon dated March 25, 2014, 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 revenue, and 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
March 25, 2014

(This page left blank intentionally.)

	2013		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	$ 9,404,711	$ 220,721	$ 9,625,432
Other Nursing Services			
Central services and supply	-	13	13
Emergency services	663,273	2,914,583	3,577,856
	663,273	2,914,596	3,577,869
Other Professional Services			
Pulmonary rehab	-	54,127	54,127
Clinic	-	1,725,447	1,725,447
Laboratory	2,088,039	4,178,442	6,266,481
Observation	-	105,560	105,560
Operating room	3,404,964	3,822,980	7,227,944
Outpatient center	363	13,563	13,926
Pharmacy	3,131,519	1,118,475	4,249,994
Physical therapy	166,378	548	166,926
Psychiatric	1,284,594	704,729	1,989,323
Radiology	1,559,293	8,454,427	10,013,720
Respiratory therapy	873,875	269,532	1,143,407
Scopes	-	10,658	10,658
Sleep lab	-	258,138	258,138
	12,509,025	20,716,626	33,225,651
Charity Care			(66,072)
Gross Patient Services Revenue			46,362,880
Less Adjustments for			
Contractual Adjustments			
Medicare			8,485,540
Medicaid			5,011,800
Other			9,765,079
Provision for bad debts			3,740,072
Total contractual adjustments			27,002,491
Net Patient Service Revenue			$ 19,360,389

2012		
Inpatient	Outpatient	Total
$ 8,751,053	$ 257,605	$ 9,008,658
2,155	1,125	3,280
696,393	2,667,161	3,363,554
698,548	2,668,286	3,366,834
-	-	-
-	-	-
1,956,712	4,368,355	6,325,067
(308)	109,564	109,256
1,209,308	1,749,369	2,958,677
-	39,721	39,721
3,450,637	871,399	4,322,036
97,276	274	97,550
1,260,322	1,107,084	2,367,406
1,626,837	6,645,152	8,271,989
856,664	292,701	1,149,365
-	42,397	42,397
-	294,657	294,657
10,457,448	15,520,673	25,978,121
		(138,184)
		38,215,429
		6,304,393
		3,641,656
		6,808,788
		3,412,322
		20,167,159
		$ 18,048,270

	2013	2012
Other Revenue		
Rent	$ 84,918	$ 67,407
Vendor rebates	49,214	33,436
Cafeteria	24,043	28,483
Government incentive for electronic health records	794,949	-
Miscellaneous	18,302	40,299
Total other revenue	$ 971,426	$ 169,625

(This page left blank intentionally.)

	2013		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	$ 886,031	$ 777,295	$ 1,663,326
Central services and supply	90,728	30,116	120,844
Emergency services	903,470	598,138	1,501,608
	1,880,229	1,405,549	3,285,778
Other Professional Services			
Pulmonary rehab	-	15,223	15,223
Clinic	331,321	487,048	818,369
Laboratory	373,509	533,328	906,837
Operating room	1,026,197	1,294,243	2,320,440
Outpatient center	51,601	13,462	65,063
Pharmacy	151,531	422,046	573,577
Physical therapy	781	43,408	44,189
Psychiatric	1,653,328	785,511	2,438,839
Radiology	766,405	761,622	1,528,027
Respiratory therapy	184,295	92,830	277,125
Sleep lab	-	49,850	49,850
	4,538,968	4,498,571	9,037,539
General Services			
Dietary	201,327	257,623	458,950
Housekeeping	233,672	155,947	389,619
Medical records	197,526	121,379	318,905
Plant engineering	124,517	421,294	545,811
	757,042	956,243	1,713,285
Administrative Services			
Administrative and general	1,051,772	1,401,794	2,453,566
SHOPP assessment	-	355,067	355,067
Employee benefits	-	1,024,200	1,024,200
Insurance	-	499,013	499,013
	1,051,772	3,280,074	4,331,846
Provision for Depreciation and Amortization	-	882,579	882,579
Total Expenses	$ 8,228,011	$ 11,023,016	$ 19,251,027

2012		
Salaries	Other	Total
$ 863,427	$ 602,238	$ 1,465,665
79,610	37,648	117,258
827,140	591,193	1,418,333
1,770,177	1,231,079	3,001,256
-	-	-
-	-	-
341,808	503,410	845,218
853,080	579,452	1,432,532
44,697	7,484	52,181
147,591	397,204	544,795
860	25,894	26,754
1,635,108	613,179	2,248,287
510,480	498,985	1,009,465
193,062	69,873	262,935
-	34,800	34,800
3,726,686	2,730,281	6,456,967
196,626	257,157	453,783
199,153	140,487	339,640
173,061	113,771	286,832
118,321	372,809	491,130
687,161	884,224	1,571,385
976,785	1,343,745	2,320,530
-	435,130	435,130
-	926,669	926,669
-	269,936	269,936
976,785	2,975,480	3,952,265
-	729,093	729,093
$ 7,160,809	$ 8,550,157	$ 15,710,966

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*

Board of Trustees
Wagoner Hospital Authority
Wagoner, 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 Wagoner Hospital Authority (Authority), which comprise the balance sheet as of September 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Wagoner Hospital 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 opinion 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.

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies: 2013-A through 2013-C.

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
March 25, 2014

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2013-A Preparation of Financial Statements

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

Effect: The potential for misstatements to internally generated financial statements.

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

Auditor's Recommendation: It is recommended the Authority implement a system that allows 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.

2013-B Segregation of Duties

Condition and criteria: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Cause: A limited number of office personnel prevent a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

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. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. 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: Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

2013-C Credit Balances in Patient Accounts Receivable

Condition and criteria: An important control in accounts receivable is to monitor patient balances within the detail and determine the reasoning and proper course of action on credit balances. A large number of credit balances exist within patient accounts receivable.

Effect: A reclassification entry was made to record these credit balances (or negative receivables) as accounts payable for financial statement reporting purposes.

Cause: Credit balances within patient accounts receivable are not being reviewed on a normal basis.

Auditor's Recommendation: We recommend that management and business office staff continue to monitor the accounts receivable listing and determine the status of these accounts with credit balances. We also recommend that any credit balances be reviewed on a monthly basis so necessary action can be taken in regards to these accounts as soon as possible. This process will ensure the accuracy of the accounts receivable detail and strengthen internal controls over accounts receivable.

Management Response: Management will work to analyze these accounts and determine the proper course of action on the accounts.