The Beaver County Hospital Authority

A Component Unit of Beaver County

Accountants' Reports and Financial Statements

June 30, 2011

CPAs & Advisors

The Beaver County Hospital Authority
A Component Unit of Beaver County
June 30, 2011

Contents

BKD LLP
CPAs & Advisors

Two Warren Place
6120 S. Yale Avenue, Suite 1400
Tulsa, OK 74136-4223
918.584.2900 Fax 918.584.2931 www.bkd.com

Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
The Beaver County Hospital Authority
Beaver, Oklahoma

We have audited the accompanying balance sheet of The Beaver County Hospital Authority (the Authority), a component unit of Beaver County, as of June 30, 2011, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Beaver County Hospital Authority as of June 30, 2011, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2012, 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying combining schedules, as listed in the table of contents, are presented for purposes of additional analysis of the basic financial statements rather than to present the financial position, changes in financial position and cash flows of the individual entities, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

August 31, 2012

The Beaver County Hospital Authority
A Component Unit of Beaver County
Balance Sheet
June 30, 2011

Assets

Current Assets	
Cash	$ 493,899
Restricted cash	108,683
Short-term certificate of deposit	99,500
Patient accounts receivable, net of allowance; $560,000	510,478
County appropriations receivable	179,608
Supplies	358,883
Prepaid expenses and other	7,683
Total current assets	1,758,734
Capital Assets, Net	728,662
Total assets	$ 2,487,396

Liabilities and Net Assets

Current Liabilities	
Current maturities of long-term debt	$ 89,343
Accounts payable	198,874
Accrued expenses	559,626
Estimated amounts due to third-party payers	225,000
Total current liabilities	1,072,843
Long-Term Debt	9,911
Total liabilities	1,082,754
Net Assets	
Invested in capital assets, net of related debt	728,662
Restricted – expendable for	
Capital acquisitions	20,246
Specific operating activities	88,437
Unrestricted	567,297
Total net assets	1,404,642
Total liabilities and net assets	$ 2,487,396

The Beaver County Hospital Authority
A Component Unit of Beaver County
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011

Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts; $102,326	$ 3,661,826
Other	1,858,912
Total operating revenues	5,520,738
Operating Expenses	
Salaries and wages	2,415,066
Employee benefits	737,179
Purchased services and professional fees	189,637
Supplies and other	2,984,109
Depreciation	96,675
Total operating expenses	6,422,666
Operating Loss	(901,928)
Nonoperating Revenues (Expenses)	
County appropriations – unrestricted	1,026,812
County appropriations – restricted	237,347
Investment income	9,369
Noncapital grants and gifts	42,097
Interest expense	(21,483)
Total nonoperating revenues (expenses)	1,294,142
Excess of Revenues over Expenses and Increase in Net Assets	392,214
Net Assets, Beginning of Year	1,012,428
Net Assets, End of Year	$ 1,404,642

The Beaver County Hospital Authority
A Component Unit of Beaver County
Statement of Cash Flows
Year Ended June 30, 2011

Operating Activities	
Receipts from and on behalf of patients	$ 3,896,875
Payments to suppliers and contractors	(3,201,163)
Payments to employees	(3,055,182)
Other receipts and payments, net	1,858,912
Net cash used in operating activities	(500,558)
Noncapital Financing Activities	
Noncapital grants and gifts	42,097
Interest paid on long-term debt	(20,413)
Proceeds from issuance of long-term debt	155,000
Principal paid on long-term debt	(328,075)
County appropriations received	1,136,446
Net cash provided by noncapital financing activities	985,055
Capital and Related Financing Activities	
Interest paid on long-term debt	(1,070)
Principal paid on long-term debt	(13,540)
Purchase of capital assets	(39,657)
Net cash used in capital and related financing activities	(54,267)
Investing Activities	
Purchase of short-term certificate of deposit	(99,500)
Proceeds from sale of short-term certificate of deposit	99,500
Interest income received	9,369
Net cash provided by investing activities	9,369
Increase in Cash	439,599
Cash, Beginning of Year	162,983
Cash, End of Year	$ 602,582
Reconciliation of Cash to the Balance Sheets	
Cash	$ 493,899
Restricted cash	108,683
	$ 602,582

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities

Operating loss	$	(901,928)
Depreciation		96,675
Changes in operating assets and liabilities		
Patient accounts receivable		(180,532)
Supplies, prepaid expenses and other		112,540
Estimated amounts due to third-party payers		415,581
Accounts payable and accrued expenses		(42,894)
Net cash used in operating activities	$	(500,558)

The Beaver County Hospital Authority
A Component Unit of Beaver County
Notes to Financial Statements
June 30, 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Beaver County Hospital Authority (the Authority) was created under a trust indenture dated June 5, 1989, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of the citizens of the town of Beaver, Oklahoma. The Authority is a component unit of Beaver County, Oklahoma, as the County Commissioners of Beaver County have the authority to appoint members to the Authority's Board of Trustees.

The Authority, located in Beaver, Oklahoma, is comprised of Beaver County Memorial Hospital (the Hospital) and Beaver County Nursing Home (the Nursing Home). The Hospital is a twenty-four bed general, short-term, Medicare-certified facility. The Nursing Home is a sixty-two bed residential living facility located in Beaver, Oklahoma. As part of the Hospital operations, the Authority also operates two rural health clinics located in Beaver and Turpin, Oklahoma, as well as a retail pharmacy located in the Authority.

The financial statements include the accounts of the Authority and Beaver County Emergency Medical Services, which is a blended component unit of the Authority, and included with the Hospital in the combining schedules.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011, the Authority had no cash equivalents.

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. Settled claims did not exceed this commercial coverage during any of the three preceding years.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts due from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	5–40 years
Buildings and improvements	5–40 years
Equipment	3–20 years

Compensated Absences

The Authority’s policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned, whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates 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 Assets

Net assets of the Authority are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As a governmental entity, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

County Appropriations

Effective February 1, 2011, the citizens of Beaver County, Oklahoma (the County), approved a 1% sales tax with an expiration date of April 1, 2017, to provide unrestricted appropriations to the Authority. The County collects the sales tax and remits it monthly to the Authority. Revenue from county appropriations is recognized in the year in which the sales tax is earned. The Authority received approximately 15% of its financial support from county appropriations related to sales taxes during the year ended June 30, 2011.

Effective February 10, 2009, the citizens of the County approved an ad valorem tax for two mills on the assessed valuation of taxable property situated in the County, for the purpose of continued funding and maintenance of the Beaver County Emergency Medical Service. Property taxes are assessed in October of each year and half of the assessed taxes are due December 31st with the other half due March 31st of the following year. These taxes become delinquent after January 1st and April 1st, respectively. Revenue from ad valorem tax is recognized in the year for which the ad valorem tax is levied. The Authority received approximately 4% of its financial support from ad valorem tax revenue during the year ending June 30, 2011.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Authority's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

In 2012, the Authority completed the first-year requirements under the Medicaid program and received an initial payment of approximately $150,000.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2010.

- **Medicaid** – The Authority is reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. Those payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 70% of the Authority's net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2011. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance or other acceptable collateral in specific amounts.

Pursuant to legislation enacted in 2010, the Federal Deposit Insurance Corporation (FDIC) will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. At June 30, 2011, the Authority's cash accounts did not exceed federally insured limits.

At June 30, 2011, none of the Authority's bank balances of $701,897 were exposed to custodial credit risk as being uninsured and uncollateralized.

Summary of Carrying Values

The carrying values of deposits shown above are included in the accompanying balance sheet as follows:

Carrying value		
Deposits	$	702,082
Included in the following balance sheet captions		
Cash	$	442,693
Restricted cash		159,889
Short-term certificate of deposit		99,500
	$	702,082

Investment Income

Investment income for the year ended June 30, 2011, consisted of interest.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2011, consisted of:

Medicare	$	282,574
Medicaid		78,327
Other third-party payers		98,980
Patients		610,597
		1,070,478
Less allowance for uncollectible amounts		560,000
	$	510,478

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2011, were:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 52,731	$ -	$ -	$ -	$ 52,731
Buildings and land improvements	2,625,627	33,894	-	(244,429)	2,415,092
Equipment	1,253,885	5,763	-	244,429	1,504,077
	3,932,243	39,657	-	-	3,971,900
Less accumulated depreciation					
Building and land improvements	2,024,553	51,865	-	-	2,076,418
Equipment	1,122,010	44,810	-	-	1,166,820
	3,146,563	96,675	-	-	3,243,238
Capital assets, net	$ 785,680	$ (57,018)	$ -	$ -	$ 728,662

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2011, consisted of:

Payable to suppliers and contractors	$ 198,874
Payable to employees (including payroll taxes and benefits)	559,626
Balance, end of year	$ 758,500

Note 7: Workers' Compensation Claims

The Authority is self-insured for costs associated with worker's compensation claims and purchases commercial insurance coverage for claims in excess of $350,000 up to $1,000,000 per occurrence. The Authority accrues the expense of the claims costs and plan administrative expense for actual claims and expenses incurred and estimates of claims costs which have been incurred but not yet reported based on recently settled claims, frequency of claims and other economic and social factors. The claims liability at June 30, 2011, was approximately $155,000, and is included in accrued expenses in the accompanying combined balance sheet. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

On June 25, 2009, the Oklahoma Worker's Compensation Court required the Authority to post collateral for self-insured claims in the form of a $200,000 line of credit with a bank in the event the Authority was unable to pay its claims. As of June 30, 2011, no amounts have been drawn on this collateral. Effective August 12, 2011, the required collateral amount was increased to $300,000.

Note 8: Medical Malpractice Claims

The Authority is a member of Cimarron Insurance Exchange, RRG (Reciprocal Risk Retention Group) (the RRG) approved by the state of Vermont to provide hospital professional and general liability coverage to its subscribers. The RRG was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. The RRG members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis.

The Authority has obtained letters of credit totaling $39,162 from a commercial bank to secure equity ownership in the RRG in accordance with the subscriber agreement set forth between the Authority and the RRG. As stated by the subscriber agreement, the beneficiary of the letters of credit is the Commissioner of Insurance of the State of Vermont. The commissioner has the authority to draw down on the letters of credit as needed to fund the RRG. As of June 30, 2011, there have been no draws on the letters of credit.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Long-Term Debt

The following is a summary of long-term obligation transactions for the Hospital for the year ended June 30, 2011:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank	$ 43,402	$ -	$ (18,955)	$ 24,447	$ 18,180
Line of credit	213,575	155,000	(309,120)	59,455	59,455
Capital lease obligations	28,892	-	(13,540)	15,352	11,708
	$ 285,869	$ 155,000	$ (341,615)	$ 99,254	$ 89,343

Note Payable to Bank

The note payable to bank is due November 2012, with principal and interest payable monthly at 4.4%. This note is secured by the clinic building and certain capital assets. The debt service requirements as of June 30, 2011, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	$ 18,955	$ 18,180	$ 775
2013	6,347	6,267	80
	$ 25,302	$ 24,447	$ 855

Line of Credit

The Authority has a $450,025 revolving line of credit expiring in May 2012. At June 30, 2011, $59,455 was borrowed against this line. The unpaid principal bears interest at prime rate plus 2.0% (5.25% at June 30, 2011) reset daily with both principal and interest due at maturity. The line of credit is collateralized by substantially all of the Authority's assets.

Subsequent to year-end, the Authority paid this line of credit in full.

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2011, totaled $60,240, net of accumulated depreciation of $47,188. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 4.4%, together with the present value of the future minimum lease payments as of June 30, 2011:

Year Ending June 30,	
2012	$ 13,540
2013	2,360
Total minimum lease payments	15,900
Less amount representing interest	548
Present value of future minimum lease payments	$ 15,352

Note 10: Charity Care and Other Community Benefits

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are approximately as follows:

	2011
Charity allowances	$ 31,000
Medicaid welfare	84,000
	$ 115,000

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments and community educational services.

Note 11: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 12: Retirement Plan

The Authority participates in the Oklahoma Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit plan established and administered by the State of Oklahoma, which also has the authority to amend the plan. Pension expense is recorded for the amount the Authority is contractually required to contribute for the year. The OPERS covers substantially all state employees as well as employees of participating counties and local agencies. The OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 Broadway Extension, Suite 400, Oklahoma City, Oklahoma, 73118-7484.

The retirement plan administered by OPERS is a defined benefit, contributory plan which covers participants with retirement, death and disability benefits. In 2011, participating county and local agencies are required to contribute a total of 20.0% of employees' salaries, of which employees must contribute between 3.5–8.5%. In 2011, Authority employees contributed 8.5% of compensation, with the Authority contributing the remaining 11.5%. Contribution rates for participating county and local participants are set by the Oklahoma legislature.

In 2011, contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 8.5% and 11.5%. Contributions actually made by plan members and the Authority aggregated approximately $148,000 and $200,000, respectively, during 2011.

Note 13: Current Economic Conditions

The current protracted economic decline continues to present health care providers with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Authority's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Authority's ability to maintain sufficient liquidity.

Note 14: Management Services Agreement

In May 2011, the Authority entered into a financial services agreement with NewLight Healthcare, LLC, for a period of one year with indefinite one-year renewals available until termination by either party.

Note 15: Subsequent Events

SHOPP Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2014. The SHOPP program is designed to assess certain Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

Critical access hospitals are excluded from paying an assessment fee but are still eligible to receive SHOPP funds. In March and April 2012, the Hospital received a total of $12,800 of SHOPP funds, which is expected to be the amount the Hospital is to receive annually under the program.

Supplementary Information

The Beaver County Hospital Authority
A Component Unit of Beaver County
Combining Schedule – Balance Sheet Information
June 30, 2011

	Beaver County Memorial Hospital	Beaver County Nursing Home	Subtotal	Eliminations	Total
Assets					
Current Assets					
Cash	$ 286,575	$ 207,324	$ 493,899	$ -	$ 493,899
Restricted cash	88,437	20,246	108,683	-	108,683
Short-term certificate of deposit	49,500	50,000	99,500	-	99,500
Patient accounts receivable, net of allowance of $560,000	405,575	104,903	510,478	-	510,478
County appropriations receivable	89,804	89,804	179,608	-	179,608
Supplies	339,698	19,185	358,883	-	358,883
Prepaid expenses and other	107,616	892	108,508	(100,825)	7,683
Total current assets	1,367,205	492,354	1,859,559	(100,825)	1,758,734
Capital Assets, Net	332,622	396,040	728,662	-	728,662
Total assets	$ 1,699,827	$ 888,394	$ 2,588,221	$ (100,825)	$ 2,487,396
Liabilities and Net Assets					
Current Liabilities					
Current maturities of long-term debt	$ 89,343	$ -	$ 89,343	$ -	$ 89,343
Accounts payable	133,847	165,852	299,699	(100,825)	198,874
Accrued expenses	396,421	163,205	559,626	-	559,626
Estimated amounts due to third-party payers	225,000	-	225,000	-	225,000
Total current liabilities	844,611	329,057	1,173,668	(100,825)	1,072,843
Long-Term Debt	9,911	-	9,911	-	9,911
Total liabilities	854,522	329,057	1,183,579	(100,825)	1,082,754
Net Assets					
Invested in capital assets, net of related debt	332,622	396,040	728,662	-	728,662
Restricted – expendable for					
Capital acquisitions	-	20,246	20,246	-	20,246
Specific operating activities	88,437	-	88,437	-	88,437
Unrestricted	424,246	143,051	567,297	-	567,297
Total net assets	845,305	559,337	1,404,642	-	1,404,642
Total liabilities and net assets	$ 1,699,827	$ 888,394	$ 2,588,221	$ (100,825)	$ 2,487,396

The Beaver County Hospital Authority

A Component Unit of Beaver County

Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets Information

Year Ended June 30, 2011

	Beaver County Memorial Hospital	Beaver County Nursing Home	Subtotal	Eliminations	Total
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts of $102,326	$ 2,257,323	$ 1,404,503	$ 3,661,826	$ -	$ 3,661,826
Other	1,828,403	30,509	1,858,912	-	1,858,912
Total operating revenues	4,085,726	1,435,012	5,520,738	-	5,520,738
Operating Expenses					
Salaries and wages	1,403,035	1,012,031	2,415,066	-	2,415,066
Employee benefits	643,676	93,503	737,179	-	737,179
Purchased services and professional fees	142,531	47,106	189,637	-	189,637
Supplies and other	2,409,808	574,301	2,984,109	-	2,984,109
Depreciation	57,087	39,588	96,675	-	96,675
Total operating expenses	4,656,137	1,766,529	6,422,666	-	6,422,666
Operating Loss	(570,411)	(331,517)	(901,928)	-	(901,928)
Nonoperating Revenues (Expenses)					
County appropriations – unrestricted	513,406	513,406	1,026,812	-	1,026,812
County appropriations – restricted	237,347	-	237,347	-	237,347
Investment income	5,813	3,556	9,369	-	9,369
Noncapital grants and gifts	38,826	3,271	42,097	-	42,097
Interest expense	(21,483)	-	(21,483)	-	(21,483)
Total nonoperating revenues (expenses)	773,909	520,233	1,294,142	-	1,294,142
Increase in Net Assets	203,498	188,716	392,214	-	392,214
Net Assets, Beginning of Year	641,807	370,621	1,012,428	-	1,012,428
Net Assets, End of Year	$ 845,305	$ 559,337	$ 1,404,642	$ -	$ 1,404,642

BKD LLP
CPAs & Advisors

Two Warren Place
6120 S. Yale Avenue, Suite 1400
Tulsa, OK 74136-4223
918.584.2900 Fax 918.584.2931 www.bkd.com

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

Board of Trustees
The Beaver County Hospital Authority
Beaver, Oklahoma

We have audited the financial statements of The Beaver County Hospital Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated August 31, 2012, which contained an explanatory paragraph regarding omission of required supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control 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 deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting 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 Authority'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 and responses as items 2011-1 through 2011-9 to be material weaknesses.

Board of Trustees
The Beaver County Hospital Authority

Compliance and Other Matters

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

We also noted certain matters that we reported to the Authority's management in a separate letter dated August 31, 2012.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

August 31, 2012

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-1	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control to promote accurate recording and classification of accounting transactions. Condition – The Authority does not have a process by which accounts payable are accrued on a monthly basis. Context – Accounts payable are expended as paid, once a month. Effect – Month-end and unaudited year-end financial statements are misstated by a potentially material amount. Cause – Proper accounting policies and procedures are not in place to ensure accounts payable are recorded at month and year-end. Recommendation – Management should consider implementing procedures to ensure accounts payable are recorded at month and year-end. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested actions and make any changes deemed appropriate within the next year.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-2	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.
	Condition – Inventory count over the hospital pharmacy is not performed at year-end.
	Context – The inventory count for the hospital pharmacy was not performed at year-end.
	Effect – Potentially material misstatements in the financial statements due to inaccurate balance being recorded in inventory.
	Cause – Procedures that require counting of all inventory balances were not followed at year-end.
	Recommendation – Management should take steps to ensure all required inventory counts are performed at year-end.
	Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will ensure that all inventory amounts are counted at year-end.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-3	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Reconciliation processes surrounding cash accounts are inadequate. Context – The monthly bank reconciliation process did not result in the timely identification of reconciling items. Additionally, the identified reconciling items were not investigated for propriety. Effect – Errors or misappropriations could occur and not be prevented or detected. Cause – The bank reconciliation process does not cause identification and resolution of errors in the related accounting records in a timely manner. Recommendation – The monthly bank reconciliation should be used to identify errors in the accounting records and to make required entries to correct the errors noted. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will implement the recommended changes to the bank reconciliation processes and management reviews of the reconciliations.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-4	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – One employee’s duties are not adequately segregated among access, accounting and monitoring in all the accounting transactions cycles. Context – The hospital office manager has access rights allowing this individual to perform nearly all user activities in the accounting system and also has access to assets and reconciling responsibilities. Effect – Errors or misappropriations could occur and not be prevented or detected. Cause – Duties in all the accounting transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-5	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – One employee's duties are not adequately segregated among access, accounting and monitoring in all the accounting transactions cycles. Context – The nursing home office manager has access rights allowing this individual to perform nearly all user activities in the accounting system and also has access to assets and reconciling responsibilities. Effect – Errors or misappropriations could occur and not be prevented or detected. Cause – Duties in all the accounting transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-6	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – One employee's duties are not adequately segregated among access, accounting and monitoring in the payroll transactions cycle. Context – The chief executive officer has access rights allowing this individual to create a new employee, prepare payroll to submit to the payroll processor and perform recording and monitoring duties. Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – Duties in the payroll transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-7	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – One employee's duties are not adequately segregated among access, accounting and monitoring in revenue, cash receipts and accounts receivable transactions cycle. Context – The business office manager has access rights allowing this individual to receive and post payments to patient accounts, prepare cash receipts listings and preform most recording duties. Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – Duties in the revenue, cash receipts and accounts receivable transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-8	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – Several adjusting journal entries were required to correct material misstatements in the accompanying financial statements.

Context – Errors existed in several balance sheet accounts related to errors in reconciliations, control accounts not reconciling to supporting documentation and estimates being materially over- or understated.

Effect – Potentially material adjustments could be made to the financial statements previously presented to the Board.

Cause – The reconciliation processes in place were not sufficient to properly state balances, including accounts and appropriations receivable, capital assets and accrued liabilities. In addition, the process of preparing estimates of allowances for contractual adjustments and bad debts and amounts due from or to Medicare were inadequate.

Recommendation – Management should revise the monthly procedures of evaluation and reconciliation of the general ledger accounts to underlying supporting documents and computing key significant estimates.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will perform the evaluation and implement corrections that are considered cost effective within the next year.

The Beaver County Hospital Authority
A Component Unit of Beaver County
Schedule of Findings and Responses
Year Ended June 30, 2011

Reference Number	Finding
2011-9	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant allowances and estimates in the financial statements. Condition – Management's procedures for evaluating and recording significant allowances and estimates do not produce materially accurate results. Context – Management does not have a process that allows for consistent, unbiased methodologies to estimate significant balances on the financial statements. Effect – Material journal entries were made to the general ledger to correct misstatements identified related to estimated allowances for contractual adjustments and uncollectible accounts on patient accounts receivables and the estimated amounts due to third-party payers. Cause – Management is not applying consistent or accurate methodologies to estimate balances in these areas. Recommendation – Management should periodically evaluate the methodology used to estimate significant allowances and estimates in the financial statements to determine that methodologies used to prepare estimates are still appropriate when compared to actual data. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to periodically evaluate the methodologies used in accurately estimating the balances.