

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Auditor's Reports and Financial Statements
June 30, 2013 and 2012



The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
June 30, 2013 and 2012

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Independent Auditor's Report

Board of Trustees
The Beaver County Hospital Authority
Beaver, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of The Beaver County Hospital Authority (the Authority), a component unit of Beaver County, Oklahoma, which comprise the balance sheets as of June 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 basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 respective financial position of the Authority as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 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 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* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of The Beaver County Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and restricted cash increased in 2013 and 2012 by \$503,039 and \$192,137, or 63.3% and 31.9%, respectively.
- The Hospital's net position increased in each of the past two years with a \$1,829,322 or 63.3% increase in 2013 and a \$1,486,503 or 105.8% increase in 2012.
- The Hospital reported operating losses in 2013 of \$(327,569) and 2012 of \$(560,010). The operating loss in 2013 decreased by \$232,541 or 41.5% over the operating loss reported in 2012. The operating loss in 2012 decreased by \$341,818 or 37.9% from the operating loss reported in 2011.
- Net nonoperating revenues increased by \$446,603 or 26.1% in 2013 compared to 2012, and by \$416,146 or 32.2% in 2012 compared to 2011.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, 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 any organization's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority’s net position and changes in it. The Authority’s total net position—the difference between assets and liabilities—is one measure of the Authority’s financial health or financial position. Over time, increases or decreases in the Authority’s net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority’s patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents 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 sheet. The Authority’s net position increased by \$1,829,322 or 63.3% in 2013 over 2012, and by \$1,486,503 or 105.8% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Cash and restricted cash	\$ 1,297,758	\$ 794,719	\$ 602,582
Short-term certificates of deposit	249,500	249,500	99,500
Patient accounts receivable, net	1,989,038	1,139,239	510,478
Other current assets	928,819	663,094	546,174
Capital assets, net	<u>1,327,885</u>	<u>1,088,450</u>	<u>728,662</u>
Total assets	<u>\$ 5,793,000</u>	<u>\$ 3,935,002</u>	<u>\$ 2,487,396</u>
Liabilities			
Long-term debt, including current maturities	\$ 242,623	\$ 158,403	\$ 99,254
Other current liabilities	<u>829,910</u>	<u>885,454</u>	<u>983,500</u>
Total liabilities	<u>1,072,533</u>	<u>1,043,857</u>	<u>1,082,754</u>
Net Position			
Net investment in capital assets	1,072,005	863,921	728,662
Restricted – expendable for			
Capital acquisitions	9,481	7,038	20,246
Specific operating activities	327,497	235,700	88,437
Unrestricted	<u>3,311,484</u>	<u>1,784,486</u>	<u>567,297</u>
Total net position	<u>4,720,467</u>	<u>2,891,145</u>	<u>1,404,642</u>
Total liabilities and net position	<u>\$ 5,793,000</u>	<u>\$ 3,935,002</u>	<u>\$ 2,487,396</u>

In 2013, cash and restricted cash increased by \$503,039 or 63.3% due primarily to an increase in county appropriations related to sales taxes received of \$411,815 or 30.2% in 2013 as compared to 2012.

Patient accounts receivable, net of allowances increased by \$849,799 or 74.6% from 2012 to 2013. This increase was primarily the result of an increase in net patient service revenue and from delays in claims being processed by the Authority's new administrative contractor.

Capital assets, net of accumulated depreciation increased by \$239,435 or 22.0% from 2012 to 2013 and increased by \$359,788 or 49.4% from 2011 to 2012. The increase in capital assets for both years was primarily due to additions of capital assets (see *Note 5*).

Other current assets increased by \$265,725 or 40.1% in 2013, primarily due to an increase in supplies, estimated amounts due from third-party payers and county appropriations receivable. In 2012, other current assets increased by \$116,920 or 21.4% over 2011, primarily due to an increase in county appropriations receivable and a decline in supplies.

Operating Results and Changes in the Authority's Net Position

In 2013, the Authority's net position increased by \$1,829,322 or 63.3% as shown in Table 2. This increase is made up of several different components and represents an increase of \$342,819 compared with the increase in net position in 2012 of \$1,486,503.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 5,344,900	\$ 4,511,628	\$ 3,661,826
Community pharmacy revenue	1,719,630	1,822,531	1,820,944
Other operating revenues	<u>104,115</u>	<u>189,361</u>	<u>37,968</u>
Total operating revenues	<u>7,168,645</u>	<u>6,523,520</u>	<u>5,520,738</u>
Operating Expenses			
Salaries and wages and employee benefits	3,857,612	3,453,931	3,152,245
Purchased services and professional fees	703,719	636,505	189,637
Other operating expenses	2,745,331	2,851,709	2,984,109
Depreciation	<u>189,552</u>	<u>141,485</u>	<u>96,675</u>
Total operating expenses	<u>7,496,214</u>	<u>7,083,630</u>	<u>6,422,666</u>
Operating Loss	<u>(327,569)</u>	<u>(560,110)</u>	<u>(901,928)</u>
Nonoperating Revenues (Expenses)			
County appropriations – unrestricted	1,777,273	1,365,458	1,026,812
County appropriations – restricted	262,709	249,353	237,347
Investment income	21,640	16,308	9,369
Noncapital grants and gifts	109,157	82,385	42,097
Interest expense	<u>(13,888)</u>	<u>(3,216)</u>	<u>(21,483)</u>
Total nonoperating revenues (expenses)	<u>2,156,891</u>	<u>1,710,288</u>	<u>1,294,142</u>
Capital Gifts	<u>-</u>	<u>336,325</u>	<u>-</u>
Increase in Net Position	<u>\$ 1,829,322</u>	<u>\$ 1,486,503</u>	<u>\$ 392,214</u>

Operating Losses

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported an operating loss. This is consistent with the Authority's recent operating history as the Authority was formed and is operated primarily to serve residents of Beaver County, Oklahoma, and the surrounding area. As discussed in *Note 1*, the Authority receives unrestricted support in the form of sales tax revenue from the County of Beaver to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2013 decreased by \$232,541 or 41.5% as compared to 2012. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$833,272 or 18.5%
- An increase in salaries and wages and employee benefits of \$403,681 or 11.7%
- A decrease in supplies and other expenses of \$121,547 or 4.2%

Net patient service revenue increased because of increases to rates charged for services, an increase in inpatient days of 80 for Beaver County Memorial Hospital (the Hospital) and increased occupancy for the Beaver County Nursing Home (the Nursing Home) from 2012 to 2013. The increase in inpatient days resulted principally from the Hospital beginning to use a telemedicine service in 2013.

Salaries and wages and employee benefits increased in 2013 in connection with the Authority's wage increases during 2012, having a full year's effect in 2013. Also, the Authority decreased contracted labor in some areas by hiring employees. Also, the Authority recruited an administrator for the Nursing Home who began employment in early 2013 as a new position for the Authority.

The Authority has continued to do more with less. Expenditures for medical supplies, prescription drugs and other supplies are a major component of the Authority's costs. In 2013, medical supplies, prescription drugs and other supplies costs totaled \$2,739,831 or 36.5% of total operating expenses. In 2012, they totaled \$2,861,378 or 40.4% of total operating expenses, a decrease of \$121,547 or 4.2% over 2012. The major factor contributing to the decreased medical supplies, prescription drugs and other supplies costs include utilizing the Medicaid 340B Drug Pricing Program.

The operating loss for 2012 of \$560,110 was a significant decrease from the operating loss recognized in 2011. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$849,802 or 23.2% as a result of an increase in patient volumes
- An increase in purchased services and professional fees of \$446,868 or 235.0% in 2012 from 2011. This increase was the result of increases in service rates paid for emergency room coverage, increased use of contracted nurses due to difficulty in finding nurses to employ and the use of a management company to monitor the operations of the Authority, see *Note 13*

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales taxes levied by Beaver County, property taxes levied for emergency medical services and noncapital gifts and grants. Nonoperating revenue from property taxes and noncapital gifts remained relatively constant in 2013 as compared to 2012. The Authority recognized an increase in its sales tax appropriations in 2013 compared to 2012 of \$411,815 or 30.2%.

Capital Gifts

The Authority receives both capital gifts and operating gifts/grants from various local, state and federal agencies for specific programs. In 2012, the Beaver County Ministerial Alliance donated \$336,325 to the Authority for purchases of capital assets. No capital gifts were received in 2013 or 2011.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2013, 2012 and 2011, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013 and 2012, the Authority had \$1,327,885 and \$1,088,450, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Authority purchased new capital assets costing \$434,487. Of this amount, \$201,140 was acquired through incursion of a master lease agreement. In 2012, the Authority purchased new capital assets costing \$501,273. Of this amount, \$87,034 was acquired through incursion of a capital lease obligation and \$336,325 was acquired by capital gifts.

Debt

At June 30, 2013 and 2012, the Authority had \$242,623 and \$158,403, respectively, in notes payable and capital lease obligations outstanding as discussed in *Note 9* to the financial statements. As discussed earlier, the Authority incurred a master lease obligation in 2013 and capital lease obligations for the purchase of certain capital assets. In 2012, the Authority obtained a note payable with a bank in the amount of \$80,000 to finance a portion of the purchase price of ambulances.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the chief executive officer by telephoning 580.625.4551.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Balance Sheets
June 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash	\$ 960,780	\$ 551,981
Restricted cash	336,978	242,738
Short-term certificates of deposit	249,500	249,500
Patient accounts receivable, net of allowance; 2013 – \$629,000, 2012 – \$608,000	1,989,038	1,139,239
County appropriations receivable	421,950	341,650
Estimated amounts due from third-party payers	70,000	2,066
Supplies	417,658	308,638
Prepaid expenses and other	19,211	10,740
Total current assets	4,465,115	2,846,552
Capital Assets, Net	1,327,885	1,088,450
Total assets	\$ 5,793,000	\$ 3,935,002

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 76,705	\$ 53,149
Accounts payable	247,908	316,939
Accrued expenses	582,002	568,515
Total current liabilities	906,615	938,603
Long-Term Debt	165,918	105,254
Total liabilities	1,072,533	1,043,857
Net Position		
Net investment in capital assets	1,072,005	863,921
Restricted – expendable for		
Capital acquisitions	9,481	7,038
Specific operating activities	327,497	235,700
Unrestricted	3,311,484	1,784,486
Total net position	4,720,467	2,891,145
Total liabilities and net position	\$ 5,793,000	\$ 3,935,002

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$432,870, 2012 – \$329,175	\$ 5,344,900	\$ 4,511,628
Community pharmacy revenue	1,719,630	1,822,531
Other	104,115	189,361
Total operating revenues	7,168,645	6,523,520
Operating Expenses		
Salaries and wages	3,213,902	2,756,265
Employee benefits	643,710	697,666
Purchased services and professional fees	703,719	636,505
Supplies and other	2,739,831	2,861,378
Depreciation	189,552	141,485
(Gain) loss on disposal of capital assets	5,500	(9,669)
Total operating expenses	7,496,214	7,083,630
Operating Loss	(327,569)	(560,110)
Nonoperating Revenues (Expenses)		
County appropriations – unrestricted	1,777,273	1,365,458
County appropriations – restricted	262,709	249,353
Investment income	21,640	16,308
Noncapital grants and gifts	109,157	82,385
Interest expense	(13,888)	(3,216)
Total nonoperating revenues (expenses)	2,156,891	1,710,288
Excess of Revenues over Expenses Before Capital Gifts	1,829,322	1,150,178
Capital Gifts	-	336,325
Increase in Net Position	1,829,322	1,486,503
Net Position, Beginning of Year	2,891,145	1,404,642
Net Position, End of Year	\$ 4,720,467	\$ 2,891,145

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 6,146,797	\$ 5,478,332
Payments to suppliers and contractors	(3,577,203)	(3,398,756)
Payments to employees	(3,844,125)	(3,445,042)
Other receipts and payments, net	104,115	189,361
Net cash used in operating activities	(1,170,416)	(1,176,105)
Noncapital Financing Activities		
Noncapital grants and gifts	109,157	82,385
Interest paid on long-term debt	(2,019)	(1,208)
Principal paid on long-term debt	(26,475)	(78,411)
County appropriations received	1,959,682	1,452,769
Net cash provided by noncapital financing activities	2,040,345	1,455,535
Capital and Related Financing Activities		
Capital gifts	-	336,325
Proceeds from issuance of long-term debt	-	80,000
Interest paid on long-term debt	(11,869)	(2,008)
Principal paid on long-term debt	(90,445)	(29,474)
Purchase of capital assets	(286,216)	(348,113)
Proceeds from the disposal of capital assets	-	9,669
Net cash provided by (used in) capital and related financing activities	(388,530)	46,399
Investing Activities		
Purchase of short-term certificate of deposit	-	(150,000)
Interest income received	21,640	16,308
Net cash provided by (used in) investing activities	21,640	(133,692)
Increase in Cash	503,039	192,137
Cash, Beginning of Year	794,719	602,582
Cash, End of Year	\$ 1,297,758	\$ 794,719

See Notes to Financial Statements

	<u>2013</u>	<u>2012</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 960,780	\$ 551,981
Restricted cash	<u>336,978</u>	<u>242,738</u>
	<u>\$ 1,297,758</u>	<u>\$ 794,719</u>
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (327,569)	\$ (560,110)
Depreciation	189,552	141,485
Accrued self-insurance costs	(107,860)	25,357
Gain (loss) on disposal of capital assets	5,500	(9,669)
Provision for uncollectible accounts	432,870	329,175
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,282,669)	(957,936)
Supplies, prepaid expenses and other	(117,491)	47,188
Estimated amounts due to third-party payers	(67,934)	(227,066)
Accounts payable and accrued expenses	<u>105,185</u>	<u>35,471</u>
Net cash used in operating activities	<u>\$ (1,170,416)</u>	<u>\$ (1,176,105)</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 13,257	\$ 66,126
Capital lease obligations incurred for capital assets	\$ 201,140	\$ 87,034

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

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

Nature of Operations

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), which are considered operating divisions of the Authority. The Hospital is a 24-bed general, short-term, Medicare-certified facility. The Nursing Home is a 62-bed residential living facility located in Beaver. 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.

Reporting Entity

The accompanying financial statements present the Authority and its blended component unit, as the Authority is considered to be financially accountable for its operations. The blended component unit is, in substance, part of the Authority's operations, even though it is a legally separate entity. Thus the blended component unit is appropriately presented as funds of the Authority.

Blended Component Unit

Beaver County Emergency Medical Services (EMS) was organized as a public trust to provide emergency medical services and transportation services to the residents of the county of Beaver. On July 8, 1991, the Authority and EMS entered into a contract whereby EMS authorized the Authority to operate and maintain the emergency medical services for the county of Beaver. In exchange for allowing the Authority to charge and collect fees for services provided, EMS agreed to reimburse the Authority for any and all expenses incurred that are not recovered through fees charged for emergency medical services.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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, 2013 and 2012, 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.

The Authority is self-insured for a portion of its exposure to risk of loss from workers' compensation. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

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.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

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 Position

Net position of the Authority is classified into three components. Net investment in capital assets 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 position is made up of 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 position is remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

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 20% and 17% of its financial support from county appropriations related to sales taxes during the years ended June 30, 2013 and 2012, respectively.

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 EMS. Property taxes are assessed in October of each year and half of the assessed taxes are due December 31 with the other half due March 31 of the following year. These taxes become delinquent after January 1 and April 1, respectively. Revenue from ad valorem tax is recognized in the year for which the ad valorem tax is levied. The Authority received approximately 3% of its financial support from ad valorem tax revenue during both years ended June 30, 2013 and 2012.

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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 (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Authority's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Authority is subject to penalties that would reduce future payments for services. 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 (CMS). The final amount for any payment year under both programs is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Authority recorded revenue of \$150,000, which is included in net patient service revenue in the accompanying statements of revenues, expenses and changes in net position as of the year ended 2012. No revenue was recognized in 2013 from EHR incentive programs.

The Authority plans to attest to meeting the requirements under the Medicare program during fiscal year 2014.

Supplemental Hospital Offset Payment Program

On January 17, 2012, 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, 2017. 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.

CAHs are excluded from paying an assessment fee but are still eligible to receive SHOPP funds. During the years ended June 30, 2013 and 2012, the Authority recognized approximately \$31,000 and \$10,000, respectively, of revenue related to the SHOPP program. The annual amounts to be received by the Authority over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP program is not expected to be materially different than the amounts received in 2013.

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Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. These reclassifications had no effect on the changes in financial position.

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, 2011.
- **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 65% and 74% of the Authority's net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2013 and 2012, respectively. 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.

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At June 30, 2013 and 2012, none of the Authority's bank balances of approximately \$1,551,000 and \$1,092,000, respectively, were uninsured and uncollateralized.

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	\$ 1,547,258	\$ 1,044,219
Included in the following balance sheet captions		
Cash	\$ 960,780	\$ 551,981
Restricted cash	336,978	242,738
Short-term certificates of deposit	249,500	249,500
	\$ 1,547,258	\$ 1,044,219

Investment Income

Investment income for the years ended June 30, 2013 and 2012, consisted of interest income.

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 consisted of:

	2013	2012
Medicare	\$ 1,757,226	\$ 1,054,669
Medicaid	90,609	64,441
Other third-party payers	183,325	181,866
Patients	586,878	446,263
	2,618,038	1,747,239
Less allowance for uncollectible amounts	629,000	608,000
	\$ 1,989,038	\$ 1,139,239

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Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 52,731	\$ -	\$ -	\$ -	\$ 52,731
Buildings and land improvements	2,443,083	140,889	-	-	2,583,972
Equipment	1,868,630	293,598	(269,451)	-	1,892,777
	<u>4,364,444</u>	<u>434,487</u>	<u>(269,451)</u>	<u>-</u>	<u>4,529,480</u>
Less accumulated depreciation					
Buildings and land improvements	2,150,381	54,753	-	-	2,205,134
Equipment	1,125,613	134,799	(263,951)	-	996,461
	<u>3,275,994</u>	<u>189,552</u>	<u>(263,951)</u>	<u>-</u>	<u>3,201,595</u>
Capital assets, net	<u>\$ 1,088,450</u>	<u>\$ 244,935</u>	<u>\$ (5,500)</u>	<u>\$ -</u>	<u>\$ 1,327,885</u>
	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 52,731	\$ -	\$ -	\$ -	\$ 52,731
Buildings and land improvements	2,415,092	27,991	-	-	2,443,083
Equipment	1,504,077	473,282	(108,729)	-	1,868,630
	<u>3,971,900</u>	<u>501,273</u>	<u>(108,729)</u>	<u>-</u>	<u>4,364,444</u>
Less accumulated depreciation					
Buildings and land improvements	2,076,418	51,721	-	22,242	2,150,381
Equipment	1,166,820	89,764	(108,729)	(22,242)	1,125,613
	<u>3,243,238</u>	<u>141,485</u>	<u>(108,729)</u>	<u>-</u>	<u>3,275,994</u>
Capital assets, net	<u>\$ 728,662</u>	<u>\$ 359,788</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,088,450</u>

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Note 6: Accounts Payable and Accrued Expenses

Accounts payable included in current liabilities at June 30, 2013 and 2012, consisted of items payable to suppliers and contractors while accrued expenses included in current liabilities consisted of items payable to employees.

Note 7: Workers' Compensation Claims

The Authority is self-insured for costs associated with workers' compensation claims and purchases commercial insurance coverage for claims in excess of certain retention limits. As of June 30, 2013 and 2012, the Authority had coverage for claims in excess of \$400,000 to \$1,000,000 per occurrence. The Authority accrues the expense of the claim costs and plan administrative expense for actual claims and expenses incurred and estimates of claim costs which have been incurred but not yet reported based on recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

Activity in the Authority's accrued workers' compensation claims liability during 2013 and 2012 is summarized below:

	2013	2012
Balance, beginning of year	\$ 181,000	\$ 155,000
Current year claims incurred and changes in estimates for claims incurred in prior years	(13,502)	151,204
Claims and expenses paid	(94,498)	(125,204)
Balance, end of year	\$ 73,000	\$ 181,000

In June 2009, The Oklahoma Workers' Compensation Court (OWCC) required the Authority to post collateral for self-insured claims in the form of a line of credit with a bank in the event the Authority was unable to pay its claims. Effective August 2011, the OWCC set the required collateral at \$350,000. In August 2013, the OWCC decreased the required collateral to \$300,000. As of the Independent Auditor's Report date, no amounts have been drawn on these lines of credit.

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Note 8: Medical Malpractice Claims

The Authority is a member of Cimarron Insurance Exchange, RRG (Reciprocal Risk Retention Group) (Cimarron) approved by the state of Vermont to provide hospital professional and general liability coverage to its subscribers. Cimarron 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. Cimarron members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. During 2012, Cimarron was redomiciled in Oklahoma and licensed by the Oklahoma Insurance Department to continue its operations as a risk retention group. Cimarron has indicated it will cease operations during the Authority's fiscal year ending 2014.

The Authority has obtained letters of credit totaling \$39,162 from a commercial bank to secure equity ownership in Cimarron in accordance with the subscriber agreement set forth between the Authority and Cimarron. As stated by the subscriber agreement, the beneficiary of the letters of credit is the Commissioner of Insurance of the State of Oklahoma. The commissioner has the authority to draw down on the letters of credit as needed to fund Cimarron. As of June 30, 2013 and 2012, 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.

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Note 9: Long-Term Debt

The following is a summary of long-term debt transactions for the Authority for the years ended June 30:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank (A)	\$ 5,492	\$ -	\$ (5,492)	\$ -	\$ -
Note payable to bank (B)	72,108	-	(20,983)	51,125	19,938
Capital lease obligations	80,803	-	(31,406)	49,397	29,607
Master lease agreement	-	201,140	(59,039)	142,101	27,160
	<u>\$ 158,403</u>	<u>\$ 201,140</u>	<u>\$ (116,920)</u>	<u>\$ 242,623</u>	<u>\$ 76,705</u>

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank (A)	\$ 24,447	\$ -	\$ (18,955)	\$ 5,492	\$ 5,492
Note payable to bank (B)	-	80,000	(7,892)	72,108	19,346
Line of credit	59,455	-	(59,455)	-	-
Capital lease obligations	15,352	87,034	(21,583)	80,803	28,311
	<u>\$ 99,254</u>	<u>\$ 167,034</u>	<u>\$ (107,885)</u>	<u>\$ 158,403</u>	<u>\$ 53,149</u>

Notes Payable to Bank

(A) Note payable to bank due November 2012 was fully paid off in fiscal year 2013.

(B) Note payable to bank due January 2016, with principal and interest payable monthly at 3.02%. The note is secured by certain equipment.

The debt service requirements as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 21,257	\$ 19,938	\$ 1,319
2015	21,256	20,548	708
2016	10,756	10,639	117
	<u>\$ 53,269</u>	<u>\$ 51,125</u>	<u>\$ 2,144</u>

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Lines of Credit

The Authority had a \$450,025 revolving line of credit that expired in May 2012. During 2012, the Authority paid this line of credit in full.

In June 2012, the Authority obtained a new revolving line of credit in the amount of \$450,000 with a maturity date of May 2013. No amounts were drawn on this line of credit. In June 2013, the Authority obtained a new revolving line of credit in the amount of \$450,000 with a maturity date of May 2014. No amounts have been drawn on this line of credit.

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, 2013 and 2012, totaled \$147,274, respectively, net of accumulated depreciation of \$82,567 and \$64,157, respectively. The following is a schedule by year of future minimum lease payments under capital lease, including interest ranging from 4.4% to 11.8%, together with the present value of the future minimum lease payments as of June 30, 2013:

Year Ending June 30,		
2014	\$	34,041
2015		20,856
Total minimum lease payments		54,897
Less amount representing interest		5,500
Present value of future minimum lease payments	\$	49,397

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Master Lease Obligation

In 2013, the Authority borrowed \$201,140 under a master lease agreement to purchase equipment that is accounted for as a capital lease. Assets under the master lease obligation at June 30, 2013, had total costs of \$201,140 and accumulated depreciation of approximately \$9,600. The following is a schedule by year of future minimum lease payments under the master lease, including interest at a rate of 3.54%, together with the present value of the future minimum lease payments, as of June 30, 2013:

	<u>Year Ending June 30,</u>	
2014		\$ 31,288
2015		34,420
2016		34,422
2017		34,427
2018		<u>19,662</u>
Total minimum lease payments		154,219
Less amount representing interest		<u>12,118</u>
Present value of future minimum lease payments		<u><u>\$ 142,101</u></u>

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:

	<u>2013</u>	<u>2012</u>
Charity allowances	\$ 64,000	\$ 10,000
Medicaid welfare	<u>105,000</u>	<u>114,000</u>
	<u><u>\$ 169,000</u></u>	<u><u>\$ 124,000</u></u>

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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 2013 and 2012, 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 2013 and 2012, 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 2013 and 2012, contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 8.5% and 11.5%, respectively. Contributions made by plan members approximated \$212,000 and \$163,000 for 2013 and 2012, respectively. The Authority contributed approximately \$287,000 and \$220,000 into the plan during 2013 and 2012, respectively.

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Note 13: 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. In May 2013, the agreement was automatically renewed for a period of one year. The Authority paid approximately \$59,000 and \$58,000 to NewLight Healthcare, LLC in 2013 and 2012, respectively.

Note 14: Combining Component Unit Information

As discussed in *Note 1*, the Authority consists of operations of the Hospital and the Nursing Home, which are operating divisions of the Authority. EMS is a component unit of the Authority.

The following tables include combining balance sheet information for the Authority and its component unit as of June 30, 2013 and 2012.

	June 30, 2013			Combined Balance
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	
Assets				
Current Assets				
Cash	\$ 960,780	\$ -	\$ -	\$ 960,780
Restricted cash	336,978	-	-	336,978
Short-term certificates of deposit	249,500	-	-	249,500
Patient accounts receivable, net	1,989,038	-	-	1,989,038
County appropriations receivable	421,950	-	-	421,950
Due from related parties	-	327,497	(327,497)	-
Estimated amounts due from third-party payers	70,000	-	-	70,000
Other current assets	436,869	-	-	436,869
Total current assets	<u>4,465,115</u>	<u>327,497</u>	<u>(327,497)</u>	<u>4,465,115</u>
Capital Assets, Net	<u>1,118,423</u>	<u>209,462</u>	<u>-</u>	<u>1,327,885</u>
Total assets	<u>\$ 5,583,538</u>	<u>\$ 536,959</u>	<u>\$ (327,497)</u>	<u>\$ 5,793,000</u>

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	June 30, 2013			
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Balance
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 56,767	\$ 19,938	\$ -	\$ 76,705
Accounts payable	247,908	-	-	247,908
Accrued expenses	582,002	-	-	582,002
Due to related parties	327,497	-	(327,497)	-
	1,214,174	19,938	(327,497)	906,615
Total current liabilities	1,214,174	19,938	(327,497)	906,615
Long-Term Debt	134,731	31,187	-	165,918
Total liabilities	1,348,905	51,125	(327,497)	1,072,533
Net Position				
Net investment in capital assets	913,668	158,337	-	1,072,005
Restricted – expendable for				
Capital acquisitions	9,481	-	-	9,481
Specific operating activities	-	327,497	-	327,497
Unrestricted	3,311,484	-	-	3,311,484
	4,234,633	485,834	-	4,720,467
Total net position	4,234,633	485,834	-	4,720,467
Total liabilities and net position	\$ 5,583,538	\$ 536,959	\$ (327,497)	\$ 5,793,000

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	June 30, 2012			
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Balance
Assets				
Current Assets				
Cash	\$ 551,981	\$ -	\$ -	\$ 551,981
Restricted cash	242,738	-	-	242,738
Short-term certificates of deposit	249,500	-	-	249,500
Patient accounts receivable, net	1,139,239	-	-	1,139,239
County appropriations receivable	341,650	-	-	341,650
Due from related parties	-	235,700	(235,700)	-
Estimated amounts due from third-party payers	2,066	-	-	2,066
Other current assets	319,378	-	-	319,378
	2,846,552	235,700	(235,700)	2,846,552
Total current assets	2,846,552	235,700	(235,700)	2,846,552
Capital Assets, Net	835,468	252,982	-	1,088,450
Total assets	\$ 3,682,020	\$ 488,682	\$ (235,700)	\$ 3,935,002

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	June 30, 2012			
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Balance
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 33,803	\$ 19,346	\$ -	\$ 53,149
Accounts payable	316,939	-	-	316,939
Accrued expenses	568,515	-	-	568,515
Due to related parties	235,700	-	(235,700)	-
	1,154,957	19,346	(235,700)	938,603
Long-Term Debt	52,492	52,762	-	105,254
Total liabilities	1,207,449	72,108	(235,700)	1,043,857
Net Position				
Net investment in capital assets	683,047	180,874	-	863,921
Restricted – expendable for				
Capital acquisitions	7,038	-	-	7,038
Specific operating activities	-	235,700	-	235,700
Unrestricted	1,784,486	-	-	1,784,486
	2,474,571	416,574	-	2,891,145
Total liabilities and net position	\$ 3,682,020	\$ 488,682	\$ (235,700)	\$ 3,935,002

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The following tables include condensed combining statements of revenues, expenses and changes in net position for the Authority and its component unit for the years ended June 30, 2013 and 2012.

	Year Ended June 30, 2013			Combined Balance
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ 5,344,900	\$ -	\$ -	\$ 5,344,900
Community pharmacy revenue	1,719,630	-	-	1,719,630
Other	223,115	-	(119,000)	104,115
Total operating revenues	<u>7,287,645</u>	<u>-</u>	<u>(119,000)</u>	<u>7,168,645</u>
Operating Expenses				
Salaries and wages and employee benefits	3,857,612	-	-	3,857,612
Purchased services and professional fees	703,719	119,000	(119,000)	703,719
Supplies and other	2,739,831	-	-	2,739,831
Depreciation	117,040	72,512	-	189,552
Loss on disposal of capital assets	5,500	-	-	5,500
Total operating expenses	<u>7,423,702</u>	<u>191,512</u>	<u>(119,000)</u>	<u>7,496,214</u>
Operating Loss	<u>(136,057)</u>	<u>(191,512)</u>	<u>-</u>	<u>(327,569)</u>
Nonoperating Revenues (Expenses)				
City appropriations – unrestricted	1,777,273	-	-	1,777,273
City appropriations – restricted	-	262,709	-	262,709
Investment income	21,640	-	-	21,640
Noncapital grants and gifts	109,157	-	-	109,157
Interest expense	(11,951)	(1,937)	-	(13,888)
Total nonoperating revenues (expenses)	<u>1,896,119</u>	<u>260,772</u>	<u>-</u>	<u>2,156,891</u>
Excess of Revenues over Expenses Before Capital Grants and Gifts	1,760,062	69,260	-	1,829,322
Capital Gifts	-	-	-	-
Increase in Net Position	1,760,062	69,260	-	1,829,322
Net Position, Beginning of Year	<u>2,474,571</u>	<u>416,574</u>	<u>-</u>	<u>2,891,145</u>
Net Position, End of Year	<u>\$ 4,234,633</u>	<u>\$ 485,834</u>	<u>\$ -</u>	<u>\$ 4,720,467</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

	Year Ended June 30, 2012			Combined Balance
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ 4,511,628	\$ -	\$ -	\$ 4,511,628
Community pharmacy revenue	1,822,531	-	-	1,822,531
Other	280,108	-	(90,747)	189,361
Total operating revenues	<u>6,614,267</u>	<u>-</u>	<u>(90,747)</u>	<u>6,523,520</u>
Operating Expenses				
Salaries and wages and employee benefits	3,453,931	-	-	3,453,931
Purchased services and professional fees	636,505	90,747	(90,747)	636,505
Supplies and other	2,861,378	-	-	2,861,378
Depreciation	90,576	50,909	-	141,485
Gain on disposal of capital assets	(2,200)	(7,469)	-	(9,669)
Total operating expenses	<u>7,040,190</u>	<u>134,187</u>	<u>(90,747)</u>	<u>7,083,630</u>
Operating Loss	<u>(425,923)</u>	<u>(134,187)</u>	<u>-</u>	<u>(560,110)</u>
Nonoperating Revenues (Expenses)				
City appropriations – unrestricted	1,365,458	-	-	1,365,458
City appropriations – restricted	-	249,353	-	249,353
Investment income	16,308	-	-	16,308
Noncapital grants and gifts	82,385	-	-	82,385
Interest expense	(2,249)	(967)	-	(3,216)
Total nonoperating revenues (expenses)	<u>1,461,902</u>	<u>248,386</u>	<u>-</u>	<u>1,710,288</u>
Excess of Revenues over Expenses Before Capital Grants and Gifts	1,035,979	114,199	-	1,150,178
Capital Gifts	<u>170,000</u>	<u>166,325</u>	<u>-</u>	<u>336,325</u>
Increase in Net Position	1,205,979	280,524	-	1,486,503
Net Position, Beginning of Year	<u>1,268,592</u>	<u>136,050</u>	<u>-</u>	<u>1,404,642</u>
Net Position, End of Year	<u>\$ 2,474,571</u>	<u>\$ 416,574</u>	<u>\$ -</u>	<u>\$ 2,891,145</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
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The following tables include condensed combining statements of cash flows information for the Authority and its component unit for the years ended June 30, 2013 and 2012.

	Year Ended June 30, 2013			
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Balance
Net Cash Used in Operating Activities	\$ (959,619)	\$ (210,797)	\$ -	\$ (1,170,416)
Net Cash Provided by Noncapital Financing Activities	1,798,619	241,726	-	2,040,345
Net Cash Used in Capital and Related Financing Activities	(357,601)	(30,929)	-	(388,530)
Net Cash Provided by Investing Activities	<u>21,640</u>	<u>-</u>	<u>-</u>	<u>21,640</u>
Increase in Cash	503,039	-	-	503,039
Cash, Beginning of Year	<u>794,719</u>	<u>-</u>	<u>-</u>	<u>794,719</u>
Cash, End of Year	<u><u>\$ 1,297,758</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,297,758</u></u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

	Year Ended June 30, 2012			
	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Balance
Net Cash Used in Operating Activities	\$ (929,392)	\$ (246,713)	\$ -	\$ (1,176,105)
Net Cash Provided by Noncapital Financing Activities	1,214,074	241,461	-	1,455,535
Net Cash Provided by Capital and Related Financing Activities	41,147	5,252	-	46,399
Net Cash Used in Investing Activities	<u>(133,692)</u>	<u>-</u>	<u>-</u>	<u>(133,692)</u>
Increase in Cash	192,137	-	-	192,137
Cash, Beginning of Year	<u>602,582</u>	<u>-</u>	<u>-</u>	<u>602,582</u>
Cash, End of Year	<u>\$ 794,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 794,719</u>

Note 15: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Authority's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Authority's net patient service revenue. In addition, it is possible the Authority will experience payment delays and other operational challenges during PPACA's implementation.

Note 16: Future Changes in Accounting Principles

Governmental Accounting Standards Board (GASB) recently issued its Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. GASB No. 68 requires recognition of the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Authority expects to first apply GASB No. 68 during the year ending June 30, 2015, using a retrospective recognition method. The impact of applying GASB No. 68 has not been determined but is likely to reduce the Authority's net position by an amount estimated to be between \$1,900,000 and \$2,400,000.

Supplementary Information

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2013

	Beaver County Memorial Hospital	Beaver County Nursing Home	Eliminations	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
Assets							
Current Assets							
Cash	\$ 393,663	\$ 567,117	\$ -	\$ 960,780	\$ -	\$ -	\$ 960,780
Restricted cash	327,497	9,481	-	336,978	-	-	336,978
Short-term certificates of deposit	199,500	50,000	-	249,500	-	-	249,500
Patient accounts receivable, net of allowance; \$629,000	1,861,314	127,724	-	1,989,038	-	-	1,989,038
Related-party receivable	13,541	-	(13,541)	-	327,497	(327,497)	-
County appropriations receivable	295,562	126,388	-	421,950	-	-	421,950
Estimated amounts due from third-party payers	70,000	-	-	70,000	-	-	70,000
Supplies	393,808	23,850	-	417,658	-	-	417,658
Prepaid expenses and other	18,939	4,760	(4,488)	19,211	-	-	19,211
Total current assets	3,573,824	909,320	(18,029)	4,465,115	327,497	(327,497)	4,465,115
Capital Assets, Net	666,364	452,059	-	1,118,423	209,462	-	1,327,885
Total assets	<u>\$ 4,240,188</u>	<u>\$ 1,361,379</u>	<u>\$ (18,029)</u>	<u>\$ 5,583,538</u>	<u>\$ 536,959</u>	<u>\$ (327,497)</u>	<u>\$ 5,793,000</u>
Liabilities and Net Position							
Current Liabilities							
Current maturities of long-term debt	\$ 56,767	\$ -	\$ -	\$ 56,767	\$ 19,938	\$ -	\$ 76,705
Accounts payable	201,923	50,473	(4,488)	247,908	-	-	247,908
Related-party payable	327,497	13,541	(13,541)	327,497	-	(327,497)	-
Accrued expenses	359,498	222,504	-	582,002	-	-	582,002
Total current liabilities	945,685	286,518	(18,029)	1,214,174	19,938	(327,497)	906,615
Long-Term Debt	134,731	-	-	134,731	31,187	-	165,918
Total liabilities	<u>1,080,416</u>	<u>286,518</u>	<u>(18,029)</u>	<u>1,348,905</u>	<u>51,125</u>	<u>(327,497)</u>	<u>1,072,533</u>
Net Position							
Net investment in capital assets	461,609	452,059	-	913,668	158,337	-	1,072,005
Restricted – expendable for							
Capital acquisitions	-	9,481	-	9,481	-	-	9,481
Specific operating activities	-	-	-	-	327,497	-	327,497
Unrestricted	2,698,163	613,321	-	3,311,484	-	-	3,311,484
Total net position	3,159,772	1,074,861	-	4,234,633	485,834	-	4,720,467
Total liabilities and net position	<u>\$ 4,240,188</u>	<u>\$ 1,361,379</u>	<u>\$ (18,029)</u>	<u>\$ 5,583,538</u>	<u>\$ 536,959</u>	<u>\$ (327,497)</u>	<u>\$ 5,793,000</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2012

	Beaver County Memorial Hospital	Beaver County Nursing Home	Eliminations	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
Assets							
Current Assets							
Cash	\$ 149,069	\$ 402,912	\$ -	\$ 551,981	\$ -	\$ -	\$ 551,981
Restricted cash	235,700	7,038	-	242,738	-	-	242,738
Short-term certificates of deposit	199,500	50,000	-	249,500	-	-	249,500
Patient accounts receivable, net of allowance; \$608,00	1,063,367	75,872	-	1,139,239	-	-	1,139,239
Related-party receivable	-	-	-	-	235,700	(235,700)	-
County appropriations receivable	170,825	170,825	-	341,650	-	-	341,650
Estimated amounts due from third-party payers	2,066	-	-	2,066	-	-	2,066
Supplies	281,620	27,018	-	308,638	-	-	308,638
Prepaid expenses and other	10,468	272	-	10,740	-	-	10,740
Total current assets	2,112,615	733,937	-	2,846,552	235,700	(235,700)	2,846,552
Capital Assets, Net	377,139	458,329	-	835,468	252,982	-	1,088,450
Total assets	<u>\$ 2,489,754</u>	<u>\$ 1,192,266</u>	<u>\$ -</u>	<u>\$ 3,682,020</u>	<u>\$ 488,682</u>	<u>\$ (235,700)</u>	<u>\$ 3,935,002</u>
Liabilities and Net Position							
Current Liabilities							
Current maturities of long-term debt	\$ 33,803	\$ -	\$ -	\$ 33,803	\$ 19,346	\$ -	\$ 53,149
Accounts payable	232,120	84,819	-	316,939	-	-	316,939
Related-party payable	235,700	-	-	235,700	-	(235,700)	-
Accrued expenses	412,711	155,804	-	568,515	-	-	568,515
Total current liabilities	914,334	240,623	-	1,154,957	19,346	(235,700)	938,603
Long-Term Debt	52,492	-	-	52,492	52,762	-	105,254
Total liabilities	966,826	240,623	-	1,207,449	72,108	(235,700)	1,043,857
Net Position							
Net investment in capital assets	273,144	409,903	-	683,047	180,874	-	863,921
Restricted – expendable for							
Capital acquisitions	-	7,038	-	7,038	-	-	7,038
Specific operating activities	-	-	-	-	235,700	-	235,700
Unrestricted	1,249,784	534,702	-	1,784,486	-	-	1,784,486
Total net position	1,522,928	951,643	-	2,474,571	416,574	-	2,891,145
Total liabilities and net position	<u>\$ 2,489,754</u>	<u>\$ 1,192,266</u>	<u>\$ -</u>	<u>\$ 3,682,020</u>	<u>\$ 488,682</u>	<u>\$ (235,700)</u>	<u>\$ 3,935,002</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended June 30, 2013

	Beaver County Memorial Hospital	Beaver County Nursing Home	Eliminations	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
Operating Revenues							
Net patient service revenue, net of provision for uncollectible accounts; \$432,870	\$ 3,593,267	\$ 1,751,633	\$ -	\$ 5,344,900	\$ -	\$ -	\$ 5,344,900
Community pharmacy revenue	1,719,630	-	-	1,719,630	-	-	1,719,630
Other	127,202	100,401	(4,488)	223,115	-	(119,000)	104,115
Total operating revenues	<u>5,440,099</u>	<u>1,852,034</u>	<u>(4,488)</u>	<u>7,287,645</u>	<u>-</u>	<u>(119,000)</u>	<u>7,168,645</u>
Operating Expenses							
Salaries and wages	1,937,825	1,276,077	-	3,213,902	-	-	3,213,902
Employee benefits	483,295	160,415	-	643,710	-	-	643,710
Purchased services and professional fees	668,241	35,478	-	703,719	119,000	(119,000)	703,719
Supplies and other	1,992,779	751,540	(4,488)	2,739,831	-	-	2,739,831
Depreciation	73,030	44,010	-	117,040	72,512	-	189,552
Loss on disposal of capital assets	49	5,451	-	5,500	-	-	5,500
Total operating expenses	<u>5,155,219</u>	<u>2,272,971</u>	<u>(4,488)</u>	<u>7,423,702</u>	<u>191,512</u>	<u>(119,000)</u>	<u>7,496,214</u>
Operating Income (Loss)	<u>284,880</u>	<u>(420,937)</u>	<u>-</u>	<u>(136,057)</u>	<u>(191,512)</u>	<u>-</u>	<u>(327,569)</u>
Nonoperating Revenues (Expenses)							
County appropriations – unrestricted	1,244,056	533,217	-	1,777,273	-	-	1,777,273
County appropriations – restricted	-	-	-	-	262,709	-	262,709
Investment income	12,334	9,306	-	21,640	-	-	21,640
Noncapital grants and gifts	107,525	1,632	-	109,157	-	-	109,157
Interest expense	(11,951)	-	-	(11,951)	(1,937)	-	(13,888)
Total nonoperating revenues (expenses)	<u>1,351,964</u>	<u>544,155</u>	<u>-</u>	<u>1,896,119</u>	<u>260,772</u>	<u>-</u>	<u>2,156,891</u>
Excess of Revenues over Expenses Before Capital Gifts	<u>1,636,844</u>	<u>123,218</u>	<u>-</u>	<u>1,760,062</u>	<u>69,260</u>	<u>-</u>	<u>1,829,322</u>
Capital Gifts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase in Net Position	<u>1,636,844</u>	<u>123,218</u>	<u>-</u>	<u>1,760,062</u>	<u>69,260</u>	<u>-</u>	<u>1,829,322</u>
Net Position, Beginning of Year	<u>1,522,928</u>	<u>951,643</u>	<u>-</u>	<u>2,474,571</u>	<u>416,574</u>	<u>-</u>	<u>2,891,145</u>
Net Position, End of Year	<u>\$ 3,159,772</u>	<u>\$ 1,074,861</u>	<u>\$ -</u>	<u>\$ 4,234,633</u>	<u>\$ 485,834</u>	<u>\$ -</u>	<u>\$ 4,720,467</u>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Combining Schedule – Statement of Revenues, Expenses and
Changes in Net Position Information
Year Ended June 30, 2012

	Beaver County Memorial Hospital	Beaver County Nursing Home	Eliminations	The Beaver County Hospital Authority	Beaver County Emergency Medical Services	Eliminations	Combined Total
Operating Revenues							
Net patient service revenue, net of provision for uncollectible accounts; \$329,175	\$ 3,007,921	\$ 1,503,707	\$ -	\$ 4,511,628	\$ -	\$ -	\$ 4,511,628
Community pharmacy revenue	1,822,531	-	-	1,822,531	-	-	1,822,531
Other	247,176	32,932	-	280,108	-	(90,747)	189,361
Total operating revenues	<u>5,077,628</u>	<u>1,536,639</u>	<u>-</u>	<u>6,614,267</u>	<u>-</u>	<u>(90,747)</u>	<u>6,523,520</u>
Operating Expenses							
Salaries and wages	1,757,012	999,253	-	2,756,265	-	-	2,756,265
Employee benefits	596,215	101,451	-	697,666	-	-	697,666
Purchased services and professional fees	566,859	69,646	-	636,505	90,747	(90,747)	636,505
Supplies and other	2,216,000	645,378	-	2,861,378	-	-	2,861,378
Depreciation	51,023	39,553	-	90,576	50,909	-	141,485
Gain on disposal of capital assets	(2,200)	-	-	(2,200)	(7,469)	-	(9,669)
Total operating expenses	<u>5,184,909</u>	<u>1,855,281</u>	<u>-</u>	<u>7,040,190</u>	<u>134,187</u>	<u>(90,747)</u>	<u>7,083,630</u>
Operating Loss	<u>(107,281)</u>	<u>(318,642)</u>	<u>-</u>	<u>(425,923)</u>	<u>(134,187)</u>	<u>-</u>	<u>(560,110)</u>
Nonoperating Revenues (Expenses)							
County appropriations – unrestricted	682,729	682,729	-	1,365,458	-	-	1,365,458
County appropriations – restricted	-	-	-	-	249,353	-	249,353
Investment income	10,241	6,067	-	16,308	-	-	16,308
Noncapital grants and gifts	60,233	22,152	-	82,385	-	-	82,385
Interest expense	(2,249)	-	-	(2,249)	(967)	-	(3,216)
Total nonoperating revenues (expenses)	<u>750,954</u>	<u>710,948</u>	<u>-</u>	<u>1,461,902</u>	<u>248,386</u>	<u>-</u>	<u>1,710,288</u>
Excess of Revenues over Expenses Before Capital Gifts	<u>643,673</u>	<u>392,306</u>	<u>-</u>	<u>1,035,979</u>	<u>114,199</u>	<u>-</u>	<u>1,150,178</u>
Capital Gifts	<u>170,000</u>	<u>-</u>	<u>-</u>	<u>170,000</u>	<u>166,325</u>	<u>-</u>	<u>336,325</u>
Increase in Net Position	<u>813,673</u>	<u>392,306</u>	<u>-</u>	<u>1,205,979</u>	<u>280,524</u>	<u>-</u>	<u>1,486,503</u>
Net Position, Beginning of Year	<u>709,255</u>	<u>559,337</u>	<u>-</u>	<u>1,268,592</u>	<u>136,050</u>	<u>-</u>	<u>1,404,642</u>
Net Position, End of Year	<u>\$ 1,522,928</u>	<u>\$ 951,643</u>	<u>\$ -</u>	<u>\$ 2,474,571</u>	<u>\$ 416,574</u>	<u>\$ -</u>	<u>\$ 2,891,145</u>

**Independent Auditor's 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, 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 basic financial statements of The Beaver County Hospital Authority (the Authority), which comprise the balance sheet as of June 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 basic financial statements, and have issued our report thereon dated January 27, 2014.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A 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 to those charged with governance. 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 2013-1 through 2013-9 to be material weaknesses.

Board of Trustees
The Beaver County Hospital Authority

Compliance

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*.

The Authority's Responses to the Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Other Matters

We also noted certain matters that we reported to the Authority's management in a separate letter dated January 27, 2014.

The purpose of this communication 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 entity's internal control or compliance. This communication 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.

BKD, LLP

Tulsa, Oklahoma
January 27, 2014

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2013

Reference Number	Finding
2013-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control to provide accurate recording and classification of accounting transactions.</p> <p>Condition – The Authority does not have a process by which accounts payable are accrued on a monthly basis.</p> <p>Context – Management does not record accounts payable on a monthly basis.</p> <p>Effect – Month-end and unaudited year-end financial statements are misstated by a potentially material amount.</p> <p>Cause – Management typically completes a check run once a month based on all the accumulated invoices received as of the check run date. Historically, check runs are completed in the middle of each month. The checks are then back-dated to the prior month in an attempt to recognize expenses in the time period the services were provided. These back-dated checks are then included in cash reconciliations as outstanding checks when the prior month cash reconciliation is completed as opposed to being recorded in accounts payable.</p> <p>Recommendation – Management should consider implementing procedures to ensure accounts payable are recorded on a monthly basis.</p> <p>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.</p>

The Beaver County Hospital Authority
A Component Unit of Beaver County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2013

Reference Number	Finding
2013-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Reconciliation processes surrounding cash accounts are inadequate.</p> <p>Context – The monthly bank reconciliation process did not result in the timely identification of reconciling items.</p> <p>Effect – Errors or misappropriations could occur and not be prevented or detected and result in material misappropriations of assets or material errors in financial statements.</p> <p>Cause – Bank reconciliations prepared during the year did not properly reflect outstanding checks at each month-end due primarily to the process the Authority uses to record accounts payable. This process meant that the bank reconciliations did not reflect the actual cash balances at month-end.</p> <p>Recommendation – Management should ensure monthly bank reconciliations are used to identify errors in the accounting records and make any required entries to correct errors.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will implement the recommended changes to the bank reconciliation processes.</p>

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Reference Number	Finding
2013-3	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One employee’s duties are not adequately segregated among access, recording and monitoring functions in all the accounting transactions cycles.</p> <p>Context – The hospital business 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.</p> <p>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.</p> <p>Cause – Duties in the accounting transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>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.</p> <p>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.</p>

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Reference Number	Finding
2013-4	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One employee’s duties are not adequately segregated among access, recording and monitoring functions in the purchases, cash disbursements and accounts payable transactions cycle (outflows) and in the revenue, cash receipts and accounts receivable transactions cycle (inflows).</p> <p>Context – The nursing home office manager has access rights allowing this individual to perform nearly all user activities in the accounting system related to the outflows and inflows transaction cycles and also has access to assets and reconciling responsibilities.</p> <p>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.</p> <p>Cause – Duties in the outflows and inflows transactions cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>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.</p> <p>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.</p>

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Reference Number	Finding
2013-5	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One employee’s duties are not adequately segregated among access, accounting and monitoring functions in the payroll transactions cycle.</p> <p>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.</p> <p>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.</p> <p>Cause – Duties in the payroll transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>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.</p> <p>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.</p>

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Reference Number	Finding
2013-6	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One employee’s duties are not adequately segregated among access, recording and monitoring functions in the revenue, cash receipts and accounts receivable transactions cycle.</p> <p>Context – The hospital office manager has access rights allowing this individual to receive and post payments to patient accounts, prepare cash receipts listings and perform most recording duties.</p> <p>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.</p> <p>Cause – Duties in the revenue, cash receipts and accounts receivable transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>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.</p> <p>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.</p>

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Reference Number	Finding
2013-7	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control to provide accurate recording and classification of accounting transactions.</p> <p>Condition – Several adjusting journal entries were required to correct material misstatements in the accompanying financial statements.</p> <p>Context – Errors existed in several balance sheet accounts related to errors in reconciliations, control accounts not reconciling to supporting documentation and estimates being materially misstated.</p> <p>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.</p> <p>Cause – The reconciliation processes in place were not sufficient to properly state balances, including accounts and appropriations receivable, inventory, 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.</p> <p>Recommendation – Management should ensure its current month-end close process includes a comparison of the general ledger accounts to the underlying supporting documents. Management should also evaluate the relevance and accuracy of the key assumptions and historical data used to compute estimates on a month-to-month basis.</p> <p>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.</p>

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Reference Number	Finding
2013-8	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over significant allowances and estimates in the financial statements.</p> <p>Condition – Management’s procedures for evaluating and recording significant allowances and estimates do not produce materially accurate results.</p> <p>Context – Management does not have a process that allows for consistent, unbiased methodologies to estimate significant balances on the financial statements.</p> <p>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 receivable related to both the Hospital and the clinics’ estimated amounts due to third-party payers and estimated workers’ compensation liability.</p> <p>Cause – Management is not applying consistent or accurate methodologies to estimate balances in these areas.</p> <p>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.</p> <p>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.</p>

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Reference Number	Finding
2013-9	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining the accounting records for Beaver County Emergency Medical Services (EMS), a blended component unit of the Authority.</p> <p>Condition – Management’s procedures for maintaining accurate accrual accounting records are not functioning properly.</p> <p>Context – Management does not maintain separate accounting records for EMS from those of the Hospital’s accounting records.</p> <p>Effect – Material adjustments were made to EMS’ records to present combining schedules, as required by the Governmental Accounting Standards Board.</p> <p>Cause – Management is not applying consistent policies to maintain separate accounting records for EMS.</p> <p>Recommendation – Management should consider separating EMS’ accounting records completely from the Hospital’s accounting records or including EMS as a separate company within the Hospital’s accounting records.</p> <p>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.</p>