



Management's Discussion and Analysis
and Financial Statements
June 30, 2010 and 2009

Beaver County Hospital Authority

BEAVER COUNTY HOSPITAL AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Beaver County Hospital Authority
Beaver, Oklahoma

We have audited the accompanying balance sheets of **Beaver County Hospital Authority** (“Authority”) as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beaver County Hospital Authority as of June 30, 2010 and 2009, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2011 on our consideration of **Beaver County Hospital Authority’s** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management’s discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management’s discussion and analysis.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 19, 2011

www.eidebailly.com

**BEAVER COUNTY HOSPITAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2010, AND 2009**

This discussion and analysis of the financial performance of Beaver County Hospital Authority (Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended June 30, 2010, and 2009. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

FINANCIAL HIGHLIGHTS – FINANCIAL STATEMENTS

- The Authority recorded a decrease in net assets of \$505,339 for the fiscal year ended June 30, 2010, and a decrease in net assets of \$239,486 for the fiscal year ended June 30, 2009.
- The Authority's operating loss was \$1,435,125 for the year ended June 30, 2010, and \$1,252,136 for the year ended June 30, 2009.
- Total assets were approximately \$2,074,000 at June 30, 2010, and \$2,486,000 at June 30, 2009.
- Total liabilities were approximately \$1,062,000 at June 30, 2010 and \$968,000 at June 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include the balance sheets, statements of revenues, expenses, and changes in net assets, and statements of cash flows.

The balance sheet at June 30, 2010 indicated total assets \$2,074,692, total liabilities of \$1,062,264, and net assets of \$1,012,428. Total current assets were \$1,288,292 and total current liabilities were \$1,019,858 for a current ratio of 1.3. The balance sheet at June 30, 2009 had current assets of \$1,571,901 and current liabilities of \$896,658 for a current ratio of 1.8.

The statements of revenues, expenses, and changes in net assets for the year ended June 30, 2010 indicated total operating revenues of \$5,575,988 and operating expenses of \$7,011,113 for an operating loss of \$1,435,125. These statements indicate total non-operating revenues (net) of \$12,556. The Authority received sales tax transfers of \$598,247, property tax transfers of \$314,836, and capital related contributions of \$4,087. The net assets decreased \$505,399 from \$1,517,827 at June 30, 2009 to \$1,012,428 at June 30, 2010.

The statements of revenues, expenses, and changes in net assets for the year ended June 30, 2009 indicated total operating revenues of \$6,150,204 and operating expenses of \$7,402,340 for an operating loss of \$1,252,136. These statements indicate total non-operating revenues (net) of \$86,439. The Authority received sales tax transfers of \$708,081, property tax transfers of \$182,582, and capital related contributions of \$35,548. The net assets decreased \$239,486 from \$1,757,313 at June 30, 2008 to \$1,517,827 at June 30, 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS – page 2

The Authority's net assets are the difference between its assets and liabilities reported on the balance sheet. The Authority's net assets decreased \$505,399 or 33.3% in 2010 and \$239,436 or 13.6% in 2009.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS			
Current assets	\$ 1,288,292	\$ 1,571,901	\$ 1,765,377
Capital assets, net	785,680	910,443	1,013,119
Oil Royalties, net	720	3,840	3,840
Total assets	\$ 2,074,692	\$ 2,486,184	\$ 2,782,336
LIABILITIES			
Current liabilities	\$ 1,019,858	\$ 896,658	\$ 924,138
Long-term debt outstanding, net	42,406	71,699	100,885
Total liabilities	1,062,264	968,357	1,025,023
NET ASSETS			
Invested in capital assets, net of related debt	713,386	810,129	860,668
Restricted			
Expendable for capital acquisitions	22,416	35,548	-
Expendable for emergency medical services	43,801	-	-
Unrestricted	232,825	672,150	896,645
Total net assets	1,012,428	1,517,827	1,757,313
Total liabilities and net assets	\$ 2,074,692	\$ 2,486,184	\$ 2,782,336

A significant component of the change in the Authority's assets is accounts receivable which decreased significantly in 2010 compared to 2009.

In 2010, the Authority's net assets decreased by \$505,399 as shown in Table 2. This decrease is made up of very different components and represents a decline of 110% compared with the decrease in net assets for 2009 of \$239,486.

Table 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES			
Net patient and resident service revenue	\$ 3,644,421	\$ 4,245,058	\$ 3,947,508
Other revenue	<u>1,931,567</u>	<u>1,905,146</u>	<u>1,658,829</u>
Total operating revenues	<u>5,575,988</u>	<u>6,150,204</u>	<u>5,606,337</u>
OPERATING EXPENSES			
Professional care of patients and residents and other professional services	4,684,724	4,766,959	4,410,762
General services	692,753	824,326	772,580
Administrative services	1,513,942	1,670,947	1,532,993
Depreciation and amortization	<u>119,694</u>	<u>140,108</u>	<u>132,554</u>
Total operating expenses	<u>7,011,113</u>	<u>7,402,340</u>	<u>6,848,889</u>
OPERATING LOSS	<u>(1,435,125)</u>	<u>(1,252,136)</u>	<u>(1,242,552)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	8,176	13,841	28,539
Interest expense	(17,239)	(7,107)	(3,751)
Contributions	32,461	57,147	39,870
Oil royalties	1,112	21,236	2,677
Loss on disposal of assets	(13,276)	-	-
Other	<u>1,322</u>	<u>1,322</u>	<u>1,322</u>
Total nonoperating revenues, net	<u>12,556</u>	<u>86,439</u>	<u>68,657</u>
EXPENSES IN EXCESS OF REVENUES			
BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(1,422,569)</u>	<u>(1,165,697)</u>	<u>(1,173,895)</u>
Transfers in - Sales Tax	598,247	708,081	633,866
Property tax	314,836	182,582	105,024
Contributions	<u>4,087</u>	<u>35,548</u>	<u>-</u>
	<u>917,170</u>	<u>926,211</u>	<u>738,890</u>
DECREASE IN NET ASSETS	(505,399)	(239,486)	(435,005)
NET ASSETS, BEGINNING OF YEAR	<u>1,517,827</u>	<u>1,757,313</u>	<u>2,192,318</u>
NET ASSETS, END OF THE YEAR	<u><u>\$ 1,012,428</u></u>	<u><u>\$ 1,517,827</u></u>	<u><u>\$ 1,757,313</u></u>

OPERATING INCOME

The first component of the overall change in the Authority’s net assets is its operating income – generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating loss for 2010 increased by \$182,989 or 14.6% as compared to 2009 and increased \$9,584 or 0.8% in 2009 compared to 2008. The primary components of the increased operating loss are:

- A decrease in patient revenue, net of uncollectible accounts of \$600,637, or 14.1%, as compared to an increase of \$297,550, or 7.5%, in 2009 from 2008.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of contributions and interest expense. The nonoperating revenues decreased by \$73,883 or 85.5% in 2010 and increased \$17,782 or 25.9% in 2009.

TRANSFERS

Transfers consist of transfers from the City of Beaver and Beaver County. The transfers decreased \$9,041 or 1.0% in 2010 and increased \$187,321 or 25.4% in 2009.

THE AUTHORITY’S CASH FLOWS

Changes in the Authority’s cash flows are consistent with changes in operating income, nonoperating revenues and expenses, and transfers, discussed earlier.

CAPITAL ASSETS

The Authority had capital assets net of accumulated depreciation at June 30, 2010 amounting to \$785,681. This investment in capital assets includes land, land improvements, buildings and improvements, and equipment.

Capital assets consist of the following at June 30:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 52,731	\$ 52,731	\$ 52,731
Land improvements	10,994	14,872	14,872
Buildings and fixed equipment	2,614,633	2,713,922	2,701,076
Major movable equipment	1,253,885	1,955,412	1,930,826
Accumulated Depreciation	<u>(3,146,563)</u>	<u>(3,826,494)</u>	<u>(3,686,386)</u>
Total capital assets, net	<u>\$ 785,680</u>	<u>\$ 910,443</u>	<u>\$ 1,013,119</u>

DEBT

As of June 30, 2010 and 2011 the Authority had \$72,294 and \$100,314 in outstanding long-term debt as detailed in note 7. In addition to the long-term debt, the Authority has \$213,575 and \$78,000 for 2010 and 2009 in short-term note obligations.

ECONOMIC OUTLOOK

The outlook for health care in the State of Oklahoma continues to be cautious. The four main payment sources for health care facilities are Medicare, Medicaid, Commercial Insurance and Private Pay. Medicaid has suffered in all states, including the state of Oklahoma, as a result of large state budget deficits and unfunded Federal mandates. Commercial insurance payors continue to attempt to receive deeper discounts and more people are losing their insurance and becoming private pay patients. Our plan is to continue to monitor these areas of payment and make any necessary changes in our costs or services as these payors make changes in their reimbursement amounts.

The outlook for Beaver County continues to be cautious. Sales tax revenue on which the Authority depends for funding operations decreased in the current year, but proceeds from property tax for support of the Emergency Medical Services increased.

REQUESTS FOR INFORMATION

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact **Beaver County Hospital Authority, 212 East 8th Street, P.O. Box 640, Beaver, Oklahoma 73932.**

BEAVER COUNTY HOSPITAL AUTHORITY
BALANCE SHEETS
JUNE 30, 2010

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 96,767	\$ 81,876
Cash - restricted	66,217	35,548
Short term investments	99,500	99,500
Receivables		
Patient and resident, net of estimated uncollectibles of approximately \$686,000 in 2010 and \$597,000 in 2009	334,903	732,086
Estimated third-party payor settlements	190,581	126,500
Other	5,773	8,197
Supplies	433,782	385,987
Prepays	12,146	8,224
Other current assets	48,623	93,983
Total current assets	<u>1,288,292</u>	<u>1,571,901</u>
CAPITAL ASSETS, Net	785,680	910,443
OIL ROYALTIES, Net	720	3,840
Total assets	<u>\$ 2,074,692</u>	<u>\$ 2,486,184</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bank overdrafts	\$ 165,385	\$ 78,436
Current maturities of long-term debt	29,888	28,615
Short term notes	213,575	78,000
Accounts payable	148,447	156,776
Accrued expenses		
Payroll and payroll taxes	215,359	296,534
Vacation	243,538	254,450
Other expenses	3,666	3,847
Total current liabilities	<u>1,019,858</u>	<u>896,658</u>
LONG-TERM DEBT, net of current maturities	42,406	71,699
Total liabilities	<u>1,062,264</u>	<u>968,357</u>
NET ASSETS		
Invested in capital assets, net of related debt	713,386	810,129
Restricted		
Expendable for capital acquisitions	22,416	35,548
Expendable for emergency medical services	43,801	-
Unrestricted	232,825	672,150
Total net assets	<u>1,012,428</u>	<u>1,517,827</u>
Total liabilities and net assets	<u>\$ 2,074,692</u>	<u>\$ 2,486,184</u>

BEAVER COUNTY HOSPITAL AUTHORITY
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient and resident service revenue, net of provision for bad debts of \$403,951 in 2010 and \$204,013 in 2009	\$ 3,644,421	\$ 4,245,058
Other revenue	1,931,567	1,905,146
Total operating revenues	5,575,988	6,150,204
OPERATING EXPENSES		
Routine care	1,183,651	1,247,144
Other nursing services	147,010	124,997
Other professional services	3,354,063	3,394,818
General services	692,753	824,326
Administrative services	1,513,942	1,670,947
Depreciation and amortization	119,694	140,108
Total operating expenses	7,011,113	7,402,340
OPERATING LOSS	(1,435,125)	(1,252,136)
NONOPERATING REVENUES (EXPENSES)		
Investment income	8,176	13,841
Interest expense	(17,239)	(7,107)
Contributions	32,461	57,147
Oil royalties	1,112	21,236
Loss on disposal of assets	(13,276)	-
Other	1,322	1,322
Nonoperating revenues (expenses), net	12,556	86,439
EXPENSES IN EXCESS OF REVENUES BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(1,422,569)	(1,165,697)
TRANSFERS AND CONTRIBUTIONS		
Transfers in - Sales Tax	598,247	708,081
Transfers in - Property tax	314,836	182,582
Contributions	4,087	35,548
Transfers and capital contributions	917,170	926,211
DECREASE IN NET ASSETS	(505,399)	(239,486)
NET ASSETS, BEGINNING OF YEAR	1,517,827	1,757,313
NET ASSETS, END OF THE YEAR	\$ 1,012,428	\$ 1,517,827

BEAVER COUNTY HOSPITAL AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Patient and resident service revenue	\$ 3,519,316	\$ 3,810,487
Other revenue	1,931,386	1,985,765
Payments to suppliers	(3,392,433)	(3,960,016)
Payments to employees	<u>(3,103,539)</u>	<u>(3,198,511)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>(1,045,270)</u>	<u>(1,362,275)</u>
NON CAPITAL RELATED FINANCING ACTIVITIES		
Sales tax receipts	643,607	708,081
Contributions	32,461	
Property tax receipts	314,836	182,582
Proceeds from short term note	292,878	78,000
Payments on short term note	<u>(157,303)</u>	<u>-</u>
NET CASH FROM NON CAPITAL RELATED FINANCING ACTIVITIES	<u>1,126,479</u>	<u>968,663</u>
CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES		
Principal payments on debt	(28,020)	(52,137)
Interest paid on long-term debt	(17,239)	(7,107)
Purchase of capital assets	(7,333)	(37,432)
Noncapital grants and contributions	<u>4,087</u>	<u>92,695</u>
NET CASH FROM (USED FOR) CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES	<u>(48,505)</u>	<u>(3,981)</u>
INVESTING ACTIVITIES		
Investment income	8,176	13,841
Proceeds from sale of certificates of deposit	99,500	99,500
Proceeds from sale of equipment	2,246	-
Purchase of certificates of deposit	(99,500)	(99,500)
Royalty income	1,112	21,236
Farm rent	<u>1,322</u>	<u>1,322</u>
NET CASH FROM INVESTING ACTIVITIES	<u>12,856</u>	<u>36,399</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	45,560	(361,194)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>117,424</u>	<u>478,618</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 162,984</u></u>	<u><u>\$ 117,424</u></u>

(continued on next page)

BEAVER COUNTY HOSPITAL AUTHORITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEET CASH AND EQUIVALENTS		
Cash and cash equivalents	\$ 96,767	\$ 81,876
Cash - restricted	<u>66,217</u>	<u>35,548</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 162,984</u>	<u>\$ 117,424</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (1,435,125)	\$ (1,252,136)
Adjustments to reconcile operating loss to net cash for operating activities		
Depreciation and amortization	119,694	140,108
Provision for bad debt	416,384	204,013
Changes in assets and liabilities		
Patient receivables	(19,201)	(347,068)
Estimated third-party payor settlements	(64,081)	(81,730)
Other Receivables	2,424	(5,773)
Supplies	(47,795)	53,778
Prepays	(3,922)	21,204
Other assets	-	(12,142)
Accounts payable	(8,329)	(107,855)
Bank overdrafts	86,949	78,436
Accrued payroll and taxes	(81,175)	117,260
Accrued vacation	(10,912)	9,619
Other accrued expenses	<u>(181)</u>	<u>(179,989)</u>
NET CASH USED FOR OPERATING ACTIVITIES	<u>\$ (1,045,270)</u>	<u>\$ (1,362,275)</u>

BEAVER COUNTY HOSPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Beaver County Hospital Authority (“Authority”) was created under a trust indenture dated June 1989, as a public trust under the provisions of Title 60 of the Oklahoma State Statutes for the benefit of the Town of Beaver, Beaver County, Oklahoma.

The Authority, located in Beaver, Oklahoma is a twenty-four bed general, short-term, Medicare-certified facility. The Beaver County Nursing Home is a sixty-two bed residential living facility located in Beaver, Oklahoma. There are two rural health clinics located in Beaver and Turpin, Oklahoma and the Community Pharmacy located in the Hospital.

Propriety Fund Accounting

The Authority uses the propriety fund method of accounting. Revenues and expenses are recognized on the accrual basis. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Authority has adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Restricted Cash

Restricted cash includes all cash and equivalents that have been restricted by outside donors or law to a specific purpose.

Short-term Investments

Short-term investments include investments whose original maturities are less than one year, but greater than 3 months.

NOTES TO FINANCIAL STATEMENTS

Patient and Resident Receivables

Patient and resident receivables are uncollateralized and non-interest bearing customer and third-party payor obligations. Unpaid patient and resident receivables, excluding amounts due from third-party payors, are turned over to a collection agency. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

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

Grants and Contributions

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

Net Assets – Net assets are presented in the following components:

Net Assets Invested in Capital Assets, Net of Related Long-term Debt – Invested in capital assets net of related long-term debt consists of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding balances used to finance the purchase or construction of those assets.

Expendable Restricted Expendable Net Assets – Noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority. Restricted net assets are further discussed in Note 8.

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

NOTES TO FINANCIAL STATEMENTS

Net Patient and Resident Service Revenue

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

Operating Revenues and Expenses

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

Charity Care

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

Compensated Absences

The Authority's employees earn vacation and sick leave at varying rates depending on years of service. Employees accumulate vacation time and sick leave up to a specified maximum per year that carries over. Employees are only paid for accumulated unused sick leave in excess of 320 hours. However, employees who retire from the Authority are paid accumulated total sick leave pay at the date of retirement. If the employee has greater than ten years of service, he/she will receive paid sick leave in excess of 320 hours plus one-quarter pay, down to 150 hours. Both terminated and retired employees are paid their accumulated vacation balance.

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; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Income Taxes

The Authority is classified as a political subdivision and is exempt from federal taxes on related income pursuant to Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

NOTES TO FINANCIAL STATEMENTS

Sales Tax Revenue

The Authority received approximately 11% and 12% of its financial support during both 2010 and 2009, respectively, from sales taxes. These funds were used to support operations.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred \$7,598 and \$9,661 for advertising costs for the years ended June 30, 2010 and 2009, respectively.

Reclassifications

Certain items in the prior year financial statements have been reclassified for comparability purposes with the current year financial statements. These reclassifications did not affect either the financial position or changes in net assets as previously reported.

NOTE 2 - CHARITY CARE

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were \$31,298 and \$22,231 for the years ended June 30, 2010 and 2009, respectively.

NOTE 3 - NET PATIENT AND RESIDENT SERVICE REVENUE

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

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Authority subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2008. The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Authority's Medicare cost report, or rates as established by the Medicaid program. The Authority is reimbursed at a tentative rate with final settlement determined by the program based on the Authority's final Medicaid cost report.

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

NOTES TO FINANCIAL STATEMENTS

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Total patient and resident service revenue	<u>\$ 4,548,896</u>	<u>\$ 5,001,230</u>
Contractual adjustments		
Medicare	(96,522)	(151,820)
Medicaid	(82,995)	(107,746)
Blue Cross	(269,012)	(259,259)
Other	<u>(39,562)</u>	<u>(33,334)</u>
Total contractual adjustments	<u>(488,091)</u>	<u>(552,159)</u>
Provision for bad debts	<u>(416,384)</u>	<u>(204,013)</u>
Net patient and resident service revenue	<u><u>\$ 3,644,421</u></u>	<u><u>\$ 4,245,058</u></u>

NOTE 4 - INVESTMENTS AND INVESTMENT INCOME

At June 30, 2010 and 2009, the Authority's short-term investments consisted of certificates of deposit. Certificates of deposit are carried at cost, which approximates the fair value.

Investment income from these certificates of deposit included interest income of \$8,176 and \$13,841 for the years ended June 30, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CAPITAL ASSETS

Capital assets additions, retirements, and balances for the years ended June 30, 2010 and 2009 are as follows:

	Balance June 30, 2009	Additions	Disposals/ Transfers	Balance June 30, 2010
Non-depreciable capital assets				
Land	\$ 52,731	\$ -	\$ -	\$ 52,731
Depreciable Capital Assets				
Land improvements	14,872	-	(3,878)	10,994
Buildings and fixed equipment	2,713,922	7,333	(106,622)	2,614,633
Major movable equipment	1,955,412	-	(701,527)	1,253,885
Total depreciable capital assets	4,684,206	7,333	(812,027)	3,879,512
Total capital assets	4,736,937	7,333	(812,027)	3,932,243
ACCUMULATED DEPRECIATION				
Land and improvements	9,552	832	(3,877)	6,507
Buildings and fixed equipment	2,067,702	56,151	(105,807)	2,018,046
Major movable equipment	1,749,240	59,591	(686,821)	1,122,010
Total accumulated depreciation	3,826,494	116,574	(796,505)	3,146,563
Capital assets, net	\$ 910,443	\$ (109,241)	\$ (15,522)	\$ 785,680
	Balance June 30, 2008	Additions	Disposals/ Transfers	Balance June 30, 2009
Non-depreciable capital assets				
Land	\$ 52,731	\$ -	\$ -	\$ 52,731
Depreciable Capital Assets				
Land improvements	14,872	-	-	14,872
Buildings and fixed equipment	2,701,076	12,846	-	2,713,922
Major movable equipment	1,930,826	24,586	-	1,955,412
Total depreciable capital assets	4,646,774	37,432	-	4,684,206
Total capital assets	4,699,505	37,432	-	4,736,937
ACCUMULATED DEPRECIATION				
Land improvements	9,076	476	-	9,552
Buildings and fixed equipment	2,006,888	60,814	-	2,067,702
Major movable equipment	1,670,422	78,818	-	1,749,240
Total accumulated depreciation	3,686,386	140,108	-	3,826,494
Capital assets, net	\$ 1,013,119	\$ (102,676)	\$ -	\$ 910,443

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CASH AND DEPOSITS

At June 30, 2010 and 2009, bank balances were as follows:

	<u>2010</u>	<u>2009</u>
Insured (FDIC)	\$ 250,000	\$ 250,000
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	<u>34,705</u>	<u>43,536</u>
Total	<u>\$ 284,705</u>	<u>\$ 293,536</u>
Carrying value	<u>\$ 162,984</u>	<u>\$ 117,424</u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name. The Authority secures cash deposits in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2010 and 2009, the carrying amount of the Authority's deposits was \$162,984 and \$117,424 and the bank balance was \$284,705 and \$293,536, respectively. The Authority's cash balances are maintained in various bank deposit accounts. At June 30, 2010 and 2009, there were no deposits in excess of federally insured limits.

Investment Credit Risk – Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority does not have an investment policy that limits investments.

Concentrations of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investment in any one issuer represent a significant percent of total investments. Investments issued or explicitly guaranteed by the U.S. Government and investment in mutual funds, external investment pools, and other pooled investments are excluded from this consideration.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - DEBT

Short-term debt consists of:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/10</u>
Line of credit (1)	<u>\$ 78,000</u>	<u>\$ 292,825</u>	<u>\$ (157,250)</u>	<u>\$ 213,575</u>
	Balance 6/30/08	Additions	Deductions	Balance 6/30/09
Line of credit (1)	<u>\$ -</u>	<u>\$ 78,000</u>	<u>\$ -</u>	<u>\$ 78,000</u>

(1) Line of credit with variable interest calculated as prime plus 2%, renewed October 9, 2009, collateralized by equipment and real estate, due May 1, 2011

A schedule of changes in the Authority's long-term debt for 2010 and 2009 follows:

	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Notes payable					
First Security Bank (2)	\$ 59,490	\$ -	\$ (16,088)	\$ 43,402	\$ 17,404
Bank of Beaver (3)	<u>40,824</u>	<u>-</u>	<u>(11,932)</u>	<u>28,892</u>	<u>12,484</u>
Total notes and capital leases payable	<u>\$ 100,314</u>	<u>\$ -</u>	<u>\$ (28,020)</u>	<u>\$ 72,294</u>	<u>\$ 29,888</u>
	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009	Current Portion
Capital lease					
Bank of Beaver - Ambulance (1)	\$ 24,169	\$ -	\$ (24,169)	\$ -	\$ -
Notes payable					
First Security Bank (2)	76,012	-	(16,522)	59,490	16,661
Bank of Beaver (3)	<u>52,270</u>	<u>-</u>	<u>(11,446)</u>	<u>40,824</u>	<u>11,954</u>
Total notes and capital leases payable	<u>\$ 152,451</u>	<u>\$ -</u>	<u>\$ (52,137)</u>	<u>\$ 100,314</u>	<u>\$ 28,615</u>

NOTES TO FINANCIAL STATEMENTS

The terms and due dates of the Authority's long-term debt as of June 30, 2010 and 2009 are as follows:

- (1) Bank of Beaver capital lease, due in monthly payments of \$2,007 including interest, with interest rate of 3.9%, collateralized with ambulance, due March 15, 2009
- (2) First Security Bank of Beaver note payable, due in monthly payments of \$1,580 including interest, with interest rate of 4.4%, collateralized with building, due November 8, 2012
- (3) Bank of Beaver note payable, due in monthly payments of \$3,385 including interest, with interest rate of 4.4%, collateralized with equipment, due September 15, 2012

The five year maturities as of June 30:

<u>Years ending June 30,</u>	Long-term Debt	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 29,888	\$ 2,607
2012	31,217	1,278
2013	11,189	116
Total	<u>\$ 72,294</u>	<u>\$ 4,001</u>

NOTE 8 - RESTRICTED NET ASSETS

Restricted, expendable net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Nursing home renovations	\$ 22,416	\$ 35,548
Emergency medical services	<u>43,801</u>	-
Total expendable, restricted net assets	<u>\$ 66,217</u>	<u>\$ 35,548</u>

NOTE 9 - PENSION PLAN

The Authority participates in the Oklahoma Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit plan administered by the State of Oklahoma. The OPERS covers substantially all state and county employees, as well as employees of cities and towns and county hospitals which may elect to participate. The plan was established by the State of Oklahoma. The State of Oklahoma sponsored multiple-employer plan and a schedule of funding progress is available for the plan. The OPERS issues a publicly available financial report that includes financial statements and required supplementary information for participating employees. 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. Employees contribute 8% of compensation and may elect to contribute higher amounts.

NOTES TO FINANCIAL STATEMENTS

the Authority's employees' contributions to OPERS in dollars and as a percentage of considered payrolls were as follows:

	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
Employer	\$ 225,765	10.5%	\$ 205,134	10.0%
Employee	<u>182,763</u>	<u>8.5%</u>	<u>164,107</u>	<u>8.0%</u>
Total	<u>\$ 408,528</u>		<u>\$ 369,241</u>	

Normal monthly retirement benefits are one-twelfth of 2% of final average compensation multiplied by number of years of credited service, subject to a defined minimum benefit. A vested severance benefit applies after eight years of credited service (six years for elected officials).

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The Authority grants credit without collateral to its patients and residents, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients and residents at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	40%	38%
Medicaid	7%	10%
Other third-party payors	17%	20%
Patients	<u>36%</u>	<u>32%</u>
	<u>100%</u>	<u>100%</u>

NOTE 11 - MEDICAL MALPRACTICE INSURANCE

Malpractice Insurance

The Authority participates in a Reciprocal Risk Retention Group to purchase insurance under claims made policy. Premiums under this policy are accrued based on the overall experience of the captive. In general, the Authority bears risk for any individual claims with costs exceeding \$1,000,000 and the excess, if any, over aggregate costs of \$3,000,000 for claims occurring during the policy year. The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claim experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

NOTE 12 - SUBSEQUENT EVENT

The Authority has adopted ASC 855, *Subsequent Events*. ASC 855 established general standards of accounting for and disclosures of events that occur after the statement of financial position date but before the financial statements are issued or are available to be issued. The standard applies to the accounting for and disclosure of subsequent events not addressed in other applicable Generally Accepted Accounting Principles.

NOTES TO FINANCIAL STATEMENTS

The Authority evaluated events and transactions occurring subsequent to year end through December 19, 2011, the date of issuance of the financial statements. During this period, there were no subsequent events requiring recognition in the consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Beaver County Hospital Authority
Beaver, Oklahoma

We have audited the financial statements of Beaver County Hospital Authority as of and for the years ended June 30, 2010 and 2009, and our report thereon dated December 19, 2011, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient and resident service revenue, other revenue and expenses, and combining schedules of balance sheet information, and combining schedules of revenues, expenses, and changes in net assets information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 19, 2011

BEAVER COUNTY HOSPITAL AUTHORITY
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	2010				
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Beaver County NH</u>	<u>Total</u>
DAILY PATIENT AND RESIDENT SERVICES					
Routine care	<u>\$ 209,035</u>	<u>\$ -</u>	<u>\$ 209,035</u>	<u>\$ 1,484,603</u>	<u>\$ 1,693,638</u>
OTHER NURSING SERVICES					
Emergency room	4,926	226,339	231,265	-	231,265
Observation room	4,096	103,835	107,931	-	107,931
	<u>9,022</u>	<u>330,174</u>	<u>339,196</u>	<u>-</u>	<u>339,196</u>
OTHER PROFESSIONAL SERVICES					
Ambulance	1,700	131,903	133,603	-	133,603
Laboratory	83,515	648,622	732,137	-	732,137
Medical supplies	43,815	47,197	91,012	-	91,012
Pharmacy	128,269	301,171	429,440	-	429,440
Physical therapy	1,343	75,844	77,187	-	77,187
Radiology	25,685	228,090	253,775	-	253,775
Respiratory therapy	176,484	42,035	218,519	-	218,519
Rural Health Clinic	-	611,687	611,687	-	611,687
	<u>460,811</u>	<u>2,086,549</u>	<u>2,547,360</u>	<u>-</u>	<u>2,547,360</u>
CHARITY CARE	<u>(31,298)</u>	<u>-</u>	<u>(31,298)</u>	<u>-</u>	<u>(31,298)</u>
GROSS PATIENT SERVICES REVENUE	<u>647,570</u>	<u>2,416,723</u>	<u>3,064,293</u>	<u>1,484,603</u>	<u>4,548,896</u>
LESS CONTRACTUAL ADJUSTMENTS					
Medicare			(96,522)	-	(96,522)
Medicaid			(62,436)	(20,559)	(82,995)
Blue Cross			(269,012)	-	(269,012)
Other			(39,562)	-	(39,562)
Total contractual adjustments			<u>(467,532)</u>	<u>(20,559)</u>	<u>(488,091)</u>
PROVISION FOR BAD DEBTS			<u>(390,551)</u>	<u>(25,833)</u>	<u>(416,384)</u>
NET PATIENT SERVICE REVENUE			<u>\$ 2,206,210</u>	<u>\$ 1,438,211</u>	<u>\$ 3,644,421</u>

2009				
Inpatient	Outpatient	Total	Beaver County NH	Total
\$ 346,629	\$ -	\$ 346,629	\$ 1,562,375	\$ 1,909,004
13,217	215,383	228,600	-	228,600
6,948	100,754	107,702	-	107,702
<u>20,165</u>	<u>316,137</u>	<u>336,302</u>	<u>-</u>	<u>336,302</u>
-	157,475	157,475	-	157,475
136,526	607,765	744,291	-	744,291
84,474	50,278	134,752	-	134,752
172,227	287,905	460,132	-	460,132
2,130	154,127	156,257	-	156,257
33,727	203,811	237,538	-	237,538
300,500	42,977	343,477	-	343,477
-	544,233	544,233	-	544,233
<u>729,584</u>	<u>2,048,571</u>	<u>2,778,155</u>	<u>-</u>	<u>2,778,155</u>
(22,231)	-	(22,231)	-	(22,231)
<u>1,074,147</u>	<u>2,364,708</u>	<u>3,438,855</u>	<u>1,562,375</u>	<u>5,001,230</u>
		(151,820)	-	(151,820)
		(90,169)	(17,577)	(107,746)
		(259,259)	-	(259,259)
		(33,334)	-	(33,334)
		<u>(534,582)</u>	<u>(17,577)</u>	<u>(552,159)</u>
		<u>(43,632)</u>	<u>(160,381)</u>	<u>(204,013)</u>
		<u>\$ 2,860,641</u>	<u>\$ 1,384,417</u>	<u>\$ 4,245,058</u>

BEAVER COUNTY HOSPITAL AUTHORITY
SCHEDULES OF OTHER REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	2010		
	Hospital	Beaver County NH	Total
OTHER REVENUE			
Cafeteria	\$ 2,730	\$ 39,930	\$ 42,660
Supplies sold	-	24,491	24,491
Community pharmacy	1,843,567	-	1,843,567
Miscellaneous	10,163	10,686	20,849
TOTAL OTHER REVENUE	<u>\$ 1,856,460</u>	<u>\$ 75,107</u>	<u>\$ 1,931,567</u>

2009		
Hospital	Beaver County NH	Total
\$ 2,870	\$ 44,986	\$ 47,856
-	16,170	16,170
1,782,653	-	1,782,653
54,807	3,660	58,467
<u>\$ 1,840,330</u>	<u>\$ 64,816</u>	<u>\$ 1,905,146</u>

BEAVER COUNTY HOSPITAL AUTHORITY
SCHEDULE OF EXPENSES
YEAR ENDED JUNE 30, 2010

	Hospital 2010		
	Salaries	Supplies and Expenses	Total
DAILY PATIENT AND RESIDENT SERVICES			
Routine care	\$ 542,812	\$ 37,770	\$ 580,582
OTHER NURSING SERVICES			
Emergency room	35,523	111,487	147,010
OTHER PROFESSIONAL SERVICES			
Ambulance	58,886	62,955	121,841
Laboratory	111,039	128,787	239,826
Medical records	43,856	7,917	51,773
Medical supplies	19,437	10,935	30,372
Pharmacy	192,464	1,731,865	1,924,329
Physical therapy	-	14,346	14,346
Radiology	9,742	16,261	26,003
Respiratory therapy	4,740	6,246	10,986
Rural Health Clinic	734,600	96,102	830,702
Social services	-	-	-
	1,174,764	2,075,414	3,250,178
GENERAL SERVICES			
Dietary	-	28,189	28,189
Housekeeping and laundry	26,020	17,297	43,317
Operation of plant	39,267	46,365	85,632
	65,287	91,851	157,138
ADMINISTRATIVE SERVICES			
Administrative	171,663	289,603	461,266
Employee benefits	-	430,177	430,177
	171,663	719,780	891,443
DEPRECIATION	-	80,645	80,645
TOTAL EXPENSES	\$ 1,990,049	\$ 3,116,947	\$ 5,106,996

Beaver County NH 2010			2010
Salaries	Supplies and Expenses	Total	Total
\$ 566,216	\$ 36,853	\$ 603,069	\$ 1,183,651
-	-	-	147,010
-	-	-	121,841
-	-	-	239,826
-	-	-	51,773
-	-	-	30,372
-	15,656	15,656	1,939,985
23,801	-	23,801	38,147
-	-	-	26,003
-	-	-	10,986
-	-	-	830,702
62,749	1,679	64,428	64,428
86,550	17,335	103,885	3,354,063
198,090	120,522	318,612	346,801
83,938	11,472	95,410	138,727
41,031	80,562	121,593	207,225
323,059	212,556	535,615	692,753
137,665	222,506	360,171	821,437
-	262,328	262,328	692,505
137,665	484,834	622,499	1,513,942
-	39,049	39,049	119,694
\$ 1,113,490	\$ 790,627	\$ 1,904,117	\$ 7,011,113

BEAVER COUNTY HOSPITAL AUTHORITY
SCHEDULE OF EXPENSES
YEAR ENDED JUNE 30, 2009

	Hospital 2009		Total
	Salaries	Supplies and Expenses	
DAILY PATIENT AND RESIDENT SERVICES			
Routine care	\$ 488,948	\$ 34,587	\$ 523,535
OTHER NURSING SERVICES			
Emergency room	45,442	79,555	124,997
OTHER PROFESSIONAL SERVICES			
Ambulance	62,115	67,869	129,984
Laboratory	121,051	158,985	280,036
Medical records	41,091	7,508	48,599
Medical supplies	14,210	8,295	22,505
Pharmacy	197,390	1,685,728	1,883,118
Physical therapy	-	55,949	55,949
Radiology	13,936	11,085	25,021
Respiratory therapy	12,115	8,490	20,605
Rural Health Clinic	671,152	106,031	777,183
Social services	-	-	-
	<u>1,133,060</u>	<u>2,109,940</u>	<u>3,243,000</u>
GENERAL SERVICES			
Dietary	-	30,394	30,394
Housekeeping and laundry	33,368	21,698	55,066
Operation of plant	49,407	76,055	125,462
	<u>82,775</u>	<u>128,147</u>	<u>210,922</u>
ADMINISTRATIVE SERVICES			
Administrative	168,629	432,805	601,434
Employee benefits	-	356,967	356,967
	<u>168,629</u>	<u>789,772</u>	<u>958,401</u>
DEPRECIATION	<u>-</u>	<u>95,996</u>	<u>95,996</u>
TOTAL EXPENSES	<u>\$ 1,918,854</u>	<u>\$ 3,237,997</u>	<u>\$ 5,156,851</u>

Beaver County NH 2009			2009
Salaries	Supplies and Expenses	Total	Total
\$ 670,607	\$ 53,002	\$ 723,609	\$ 1,247,144
-	-	-	124,997
-	-	-	129,984
-	-	-	280,036
-	-	-	48,599
-	-	-	22,505
-	23,674	23,674	1,906,792
46,320	-	46,320	102,269
-	-	-	25,021
-	-	-	20,605
-	-	-	777,183
79,460	2,364	81,824	81,824
125,780	26,038	151,818	3,394,818
216,438	141,325	357,763	388,157
102,584	16,725	119,309	174,375
48,681	87,651	136,332	261,794
367,703	245,701	613,404	824,326
161,827	266,480	428,307	1,029,741
-	284,239	284,239	641,206
161,827	550,719	712,546	1,670,947
-	44,112	44,112	140,108
\$ 1,325,917	\$ 919,572	\$ 2,245,489	\$ 7,402,340

BEAVER COUNTY HOSPITAL AUTHORITY
COMBINING SCHEDULES OF BALANCE SHEET INFORMATION
JUNE 30, 2010 AND 2009

	2010		
	Hospital	Beaver County NH	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,801	\$ 93,966	\$ 96,767
Cash - restricted	43,801	22,416	66,217
Short term investments	49,500	50,000	99,500
Receivables			
Patient and resident, net of estimated uncollectibles of approximately \$686,000 in 2010 and \$597,000 in 2009	281,712	53,191	334,903
Estimated third-party payor settlements	190,581	-	190,581
Other	5,773	-	5,773
Due to/from related parties	125,825	(125,825)	-
Supplies	409,425	24,357	433,782
Prepays	9,068	3,078	12,146
Other current assets	25,154	23,469	48,623
	<u>1,143,640</u>	<u>144,652</u>	<u>1,288,292</u>
Total current assets	1,143,640	144,652	1,288,292
CAPITAL ASSETS, Net	365,179	420,501	785,680
OIL ROYALTIES, Net	720	-	720
	<u>720</u>	<u>-</u>	<u>720</u>
Total assets	<u>\$ 1,509,539</u>	<u>\$ 565,153</u>	<u>\$ 2,074,692</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Bank overdrafts	165,385	\$ -	\$ 165,385
Current maturities of debt	29,888	-	29,888
Short term notes	213,575	-	213,575
Accounts payable	80,267	68,180	148,447
Accrued expenses			
Payroll and payroll taxes	145,395	69,964	215,359
Vacation	190,816	52,722	243,538
Other expenses	-	3,666	3,666
	<u>825,326</u>	<u>194,532</u>	<u>1,019,858</u>
Total current liabilities	825,326	194,532	1,019,858
LONG-TERM DEBT, net of current maturities	42,406	-	42,406
NET ASSETS			
Invested in capital assets, net of related debt	292,885	420,501	713,386
Restricted:			
Expendable for capital acquisitions	-	22,416	22,416
Expendable for emergency medical services	43,801	-	43,801
Unrestricted	305,121	(72,296)	232,825
	<u>641,807</u>	<u>370,621</u>	<u>1,012,428</u>
Total net assets	641,807	370,621	1,012,428
Total liabilities and net assets	<u>\$ 1,509,539</u>	<u>\$ 565,153</u>	<u>\$ 2,074,692</u>

2009		
Hospital	Beaver County NH	Total
\$ -	\$ 81,876	\$ 81,876
-	35,548	35,548
49,500	50,000	99,500
665,044	67,042	732,086
126,500	-	126,500
8,197	-	8,197
78,000	(78,000)	-
355,000	30,987	385,987
5,803	2,421	8,224
76,039	17,944	93,983
1,364,083	207,818	1,571,901
446,060	464,383	910,443
3,840	-	3,840
<u>\$ 1,813,983</u>	<u>\$ 672,201</u>	<u>\$ 2,486,184</u>
\$ 78,436	\$ -	\$ 78,436
28,615	-	28,615
78,000	-	78,000
85,048	71,728	156,776
217,629	78,905	296,534
201,728	52,722	254,450
-	3,847	3,847
689,456	207,202	896,658
71,699	-	71,699
345,746	464,383	810,129
-	35,548	35,548
-	-	-
707,082	(34,932)	672,150
1,052,828	464,999	1,517,827
<u>\$ 1,813,983</u>	<u>\$ 672,201</u>	<u>\$ 2,486,184</u>

BEAVER COUNTY HOSPITAL AUTHORITY
COMBINING SCHEDULES OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
INFORMATION
YEARS ENDED JUNE 30, 2010 AND 2009

	2010		
	Hospital	Beaver County NH	Total
OPERATING REVENUE			
Net patient and resident service revenue, net of provision for bad debts of \$403,951 in 2010 and \$204,013 in 2009	\$ 2,206,210	\$ 1,438,211	\$ 3,644,421
Other revenue	1,856,460	75,107	1,931,567
Total operating revenue	<u>4,062,670</u>	<u>1,513,318</u>	<u>5,575,988</u>
OPERATING EXPENSES			
Routine care	580,582	603,069	1,183,651
Other nursing services	147,010	-	147,010
Other professional services	3,250,178	103,885	3,354,063
General services	157,138	535,615	692,753
Administrative services	891,443	622,499	1,513,942
Depreciation and amortization	80,645	39,049	119,694
Total operating expenses	<u>5,106,996</u>	<u>1,904,117</u>	<u>7,011,113</u>
OPERATING LOSS	<u>(1,044,326)</u>	<u>(390,799)</u>	<u>(1,435,125)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	5,223	2,953	8,176
Interest expense	(17,225)	(14)	(17,239)
Contributions	32,461	-	32,461
Oil royalties	-	1,112	1,112
Loss on disposal of assets	(1,110)	(12,166)	(13,276)
Other	-	1,322	1,322
Nonoperating revenues (expenses), net	<u>19,349</u>	<u>(6,793)</u>	<u>12,556</u>
EXPENSES IN EXCESS OF REVENUES BEFORE TRANSFERS AND CONTRIBUTIONS	<u>(1,024,977)</u>	<u>(397,592)</u>	<u>(1,422,569)</u>
TRANSFERS AND CONTRIBUTIONS			
Transfers in - Sales Tax	299,120	299,127	598,247
Transfer in - Property tax	314,836	-	314,836
Contributions	-	4,087	4,087
Transfers and contributions	<u>613,956</u>	<u>303,214</u>	<u>917,170</u>
(DECREASE) INCREASE IN NET ASSETS	<u>(411,021)</u>	<u>(94,378)</u>	<u>(505,399)</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,052,828</u>	<u>464,999</u>	<u>1,517,827</u>
NET ASSETS, END OF THE YEAR	<u>\$ 641,807</u>	<u>\$ 370,621</u>	<u>\$ 1,012,428</u>

2009		
Hospital	Beaver County NH	Total
\$ 2,860,641	\$ 1,384,417	\$ 4,245,058
1,840,330	64,816	1,905,146
<u>4,700,971</u>	<u>1,449,233</u>	<u>6,150,204</u>
523,535	723,609	1,247,144
124,997	-	124,997
3,243,000	151,818	3,394,818
210,922	613,404	824,326
958,401	712,546	1,670,947
95,996	44,112	140,108
<u>5,156,851</u>	<u>2,245,489</u>	<u>7,402,340</u>
<u>(455,880)</u>	<u>(796,256)</u>	<u>(1,252,136)</u>
8,726	5,115	13,841
(6,193)	(914)	(7,107)
30,554	26,593	57,147
-	21,236	21,236
-	-	-
-	1,322	1,322
<u>33,087</u>	<u>53,352</u>	<u>86,439</u>
<u>(422,793)</u>	<u>(742,904)</u>	<u>(1,165,697)</u>
298,121	409,960	708,081
182,582	-	182,582
-	35,548	35,548
<u>480,703</u>	<u>445,508</u>	<u>926,211</u>
57,910	(297,396)	(239,486)
<u>994,918</u>	<u>762,395</u>	<u>1,757,313</u>
<u>\$ 1,052,828</u>	<u>\$ 464,999</u>	<u>\$ 1,517,827</u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Trustees
Beaver County Hospital Authority
Beaver, Oklahoma

We have audited the financial statements of **Beaver County Hospital Authority**, a public trust, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the combined financial statements of Beaver County Hospital Authority as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Beaver County Hospital Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. 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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered items 2011-01 through 2011-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies are described in the accompanying schedule of findings as items 2010-14 through 2010-17.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Beaver County Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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.

We noted certain other matters that were reported to management and the Board of Trustees in a separate letter dated December 19, 2011.

Beaver County Hospital Authority d/b/a Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Beaver County Hospital Authority d/b/a Authority's response and, accordingly, we express no opinion on it.

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

Eide Sully LLP

Oklahoma City, Oklahoma
December 19, 2011

BEAVER COUNTY HOSPITAL AUTHORITY
SCHEDULE OF FINDINGS – Page 1

FINDINGS – FINANCIAL STATEMENTS AUDIT – INTERNAL CONTROLS OVER FINANCIAL REPORTING

2010-01 Preparation of Financial Statements

Condition and Criteria: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. Statement on Auditing Standards (SAS) 115 requires the auditor to assess the Authority’s accounting staff’s ability to apply Generally Accepted Accounting Principles (GAAP) on an ongoing basis. The Authority does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations.

Effect: We noted a material weakness in the Authority’s internal controls over financial reporting and procedures related to the preparation of the financial statements.

Cause: The weakness is partially due to the resources of staff charged with financial reporting.

Auditor’s Recommendation: We recommend that the Authority periodically assess the accounting staffing and duties and that the Board review capability and resources required to prepare and examine the full set of financial statements and related disclosures.

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

2010-02 Cost Report Settlements

Condition and Criteria: During the year the Authority did not estimate the financial effect of the Medicare cost report settlement. It is the responsibility of management to implement policies and procedures to ensure estimates are recorded in the general ledger.

Effect: Could result in material misstatement of the financial statements.

Cause: Management has not evaluated the impact of cost report settlements.

Auditor’s Recommendation: We recommend that management review and establish effective procedures for evaluating cost report settlements.

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

2010-03 Material Audit Adjustments

Condition and Criteria: During the audit multiple significant and material audit adjustments were identified as a result of improper accounting and a lack of review.

Effect: Multiple audit adjustments were noted during the audit.

Cause: Proper review procedures are not in place to ensure that information is recorded according to generally accepted accounting principles.

Auditor's Recommendation: We recommend that appropriate review procedures be developed and implemented to verify that information is correctly captured and recorded in the general ledger. With accounting principles changing, we further recommend that individuals involved in the accounting process receive formal accounting education to enable them to maintain a current understanding of accounting procedures and principles.

Corrective Action Plan: The Authority will contract the services of a Chief Financial Officer to assist in providing appropriate review of all accounts.

2010-04 Failure to Address Previously Identified Weaknesses

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

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

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

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

Corrective Action Plan: The Authority will contract the services of a Chief Financial Officer to provide assistance in addressing both current and previous control deficiencies noted as a result of the audit

2010-05 Accounts Receivable Reconciliations

Condition and Criteria: During our review of the accounts receivable we noted that detailed reports do not agree to the general ledger balance.

Effect: An audit adjustment was posted to agree the general ledger and detail balances.

Cause: Management does not review and reconcile the underlying reports to the general ledger on a regular basis.

Recommendation: We recommend that management review the detail of accounts receivable each month. If discrepancies occur between the accounts receivable detail and the general ledger, these discrepancies should be identified. Adjustments should be made to the general ledger to ensure that the detail reconciliation report agrees to the general ledger.

Corrective Action Plan: Management will begin reviewing the accounts receivable detail each month to verify agreement with the general ledger reports.

2010-06 Incomplete Medical Charts

Condition and Criteria: During our review of medical charts we noted that not all charts included a doctor's signature.

Effect: In the event of a chart audit by Medicare or other payors, this chart could be declined for payment as an incomplete chart.

Cause: A lack of review processes to ensure that all charts are properly completed.

Recommendation: We recommend that management develop and implement a method for reviewing all charts to determine that all necessary components are included.

Corrective Action Plan: Management and the medical records department will implement a review process to verify that all charts are complete before the billing is performed.

2010-07 Contractual Allowances and Bad Debt

Condition and Criteria: During our audit of accounts receivable and the related allowances we noted that no formal estimate of allowances has been completed. A standard percentage is applied to the bad debt but this percentage is not reviewed for comparison to actual results.

Effect: A material audit adjustment was made to the allowance accounts.

Cause: Historical collection averages are not reviewed and considered in determining the potential impact of contractual adjustments or bad debt write offs.

Recommendation: We recommend that management develop a worksheet to estimate the impact of contractual adjustments and bad debt over an extended period and apply these estimates to the accounts receivable balances each month. The allowance accounts should be reviewed each month as well for reasonableness in relation to the accounts receivable and revenue.

Correction Action Plan: Management has contracted with a Chief Financial Officer with an expertise in healthcare who will begin reviewing the accounts receivable and assist in developing an appropriate method for calculating these allowances.

2010-08 Line of Credit Transactions

Condition and Criteria: During our audit of debt it was noted that transactions on the line of credit have not all been recorded and some were improperly recorded.

Effect: Material audit adjustments for the Hospital and the Nursing Home were noted. Debt was materially misstated, and the impact to cash and revenue was significant.

Cause: Transactions that result in payments or draws on the line of credit have not been properly recorded on the Hospital's books. The transfers to the Nursing Home have not been recorded by the Hospital or the Nursing Home. The Nursing Home recorded draws on their behalf as revenue.

Auditor's Recommendation: We recommend that all transactions on the line of credit be recorded. The transactions should be recorded directly by the holder of the debt and appropriate intercompany balances should be established between the Hospital and the Nursing Home.

Corrective Action Plan: Management will begin reviewing these transactions carefully in connection with the bank reconciliation process and recording the activity on the line of credit.

2010-9 Journal Entries

Condition and Criteria: During our review of month end procedures and journal entries we noted that journal entries are not consistently supported by documentation or formally reviewed and approved once prepared and posted by the accounting team.

Effect: Errors or fraud could occur and not be identified by management in a timely fashion.

Cause: Review by the Administrator does not include a detailed review of the manual entries posted at the end of the month to verify that all transactions include the necessary support and a proper purpose.

Auditor's Recommendation: We recommend that all journal entries, including standard monthly entries, contain detailed support for the entry posted. These entries and the support should then be reviewed by the Administrator each month.

Corrective Action Plan: Management has contracted with a Chief Financial Officer who will assist in the monthly close process, including review of the journal entries posted to the general ledger.

2010-10 Bank Reconciliations

Condition and Criteria: During our audit we noted that bank reconciliations are not completed in a timely fashion each month, differences are not fully reconciled between the bank and the general ledger, and are not reviewed.

Effect: The lack of proper and timely reconciliations allow for misstatements to go undetected and management decisions are made using incorrect and incomplete information. The lack of review of the reconciliation process allows the process to continue to be performed incorrectly and not in a timely fashion and also provides an increased opportunity for fraud to occur.

Auditor's Recommendation: We recommend that bank reconciliations be completed each month reconciling all differences between the bank and the general ledger. The reconciliations should then be reviewed the Administrator.

Corrective Action Plan: Management will work with a consultant to establish a method for properly completing bank reconciliations in a timely manner each month.

2010-11 Segregation of Duties

Condition and Criteria: It is desirable, from a standpoint of good internal control, that the functions of execution of transactions, recording of transactions, and accountability be performed by different individuals. We realize that in an organization of your size, complete segregation of duties may not be possible; however, we bring this to your attention as a matter of record.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely manner by employees in the normal course of performing their assigned functions.

Cause: Inadequate number of accounting department staff and a lack of review.

Auditor's Recommendation: The management and those charged with governance should make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. In determining how to mitigate the lack of segregation of duties, management must weigh the costs of any proposed changes against the expected benefits. In lieu of segregation of duties, another effective program to provide control is for management to be involved in the control procedures available. Management involvement through the review of reconciliation procedures is an effective control to ensure these procedures are being properly completed on a timely basis.

Corrective Action Plan: Management has contracted with a Chief Financial Officer to assist with this situation. A review of all procedures will be done to determine where segregation of duties can be achieved and where mitigating controls can be applied.

2010-12 Inappropriate Check Signers

Condition and Criteria: During review of authorized check signers it was noted that individuals with access to the general ledger and check stock are also authorized check signers.

Effect: Individuals with check signing abilities could perpetrate and conceal fraud, which is further evidence of the need for a proper review procedure as noted above.

Cause: Limited size of staff has prevented full segregation of duties.

Auditor's Recommendation: We recommend that check signing abilities be removed from individuals with access to check stock, the general ledger, and who complete the bank reconciliations. We further recommend that proper review procedures be implemented for all checks written.

Corrective Action Plan: Management will review this matter and determine if an alternative process can be implemented.

2010-13 Debit Card

Condition and Criteria: A strong system of internal control separates control of assets from the functions of authorization and recording. The use of a debit card does not allow for the proper segregation related to cash disbursements.

Effect: The individual with access to the debit card has the ability to use cash without proper authorization.

Cause: Debit cards do not require any review by an additional person to be used.

Auditor's Recommendation: We recommend that the Authority cease all use of debit cards.

Corrective Action Plan: Management will work with the bank to determine if alternate options are available.

2010-14 Capital Asset Listing

Condition and Criteria: During our review of capital assets it was noted that the capital asset listing contains several items of an age that it is unlikely they are still held by the Authority.

Effect: The capital asset listing does not accurately reflect the assets that are held by the Authority.

Cause: Lack of review and maintenance of this listing.

Auditor's Recommendation: We recommend that management conduct a full asset review to determine which assets are not longer held by the Authority. These assets should then be removed from the listing and the general ledger.

Corrective Action Plan: Management will work with the maintenance supervisor to determine which assets in the listing are still present and determine if items should be removed.

2010-15 Inventory Maintenance and Supervision

Condition and Criteria: Internal controls should be structured to allow for tracking of all assets, including items in the pharmacy. This tracking should allow management to identify the location of items that are in the pharmacy, on the floor, or have been removed for sale at another location. Currently inventory is recorded as an expense at the time of purchase and is not recorded in a manner that allows for proper tracking. We noted this became a particular problem in the pharmacy when durable medical equipment is removed for sale at outside locations as there is no way to determine which items have been removed and verify their sales.

Effect: There is a potential for items to be removed without payment or to be removed and payment to be held and not remitted to the Authority without being caught.

Cause: Inappropriate methods for tracking inventory during the year.

Auditor's Recommendation: We recommend that all inventory received be logged. This log should include a description of the item, the quantity received, the physical location of the items, and any changes that occur to the location.

Corrective Action Plan: Management will review this area and evaluate what procedures can be changed to accurately record the inventory.

2010-16 Prepaid Expense Accounts

Condition and Criteria: During our review of prepaid balances it was noted that amounts have been improperly expensed twice.

Effect: A misstatement was noted in the current year of an immaterial nature, however the cause of this misstatement could result in a material misstatement if corrective action is not taken.

Cause: Entries were posted to the prepaid balance in the same manner as they have been in the past regardless of changes that were made to the timing and nature of payments.

Auditor's Recommendation: We recommend that all transactions and accounts be reviewed for proper treatment. When changes are made to how transactions occur, such as paying insurance on a monthly basis instead of an annual basis, adjustments should be made to how the transaction is recorded and old methods should be disregarded. Entries of any type should not be made just because they have always been made.

Corrective Action Plan: Management has contracted a Chief Financial Officer who will assist in determining the appropriate expense and prepaid balances on a recurring basis.

2010-17 Security of Check Stock

Condition and Criteria: During our review of check processing we noted that check stock is not maintained in a secure location which limits access.

Effect: Check stock is accessible by anyone and may be stolen and used to misappropriate Authority's funds.

Cause: Not placing check stock in a locked or otherwise secured location.

Auditor's Recommendation: We recommend that check stock be maintained in a secure location that is accessible by a limited number of individuals.

Corrective Action Plan: Management will review possible alternate locations and work to secure the check stock.