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Management's Discussion and Analysis  
And Financial Statements  
June 30, 2011 and 2010

## Cordell Hospital Authority

Cordell Hospital Authority

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June 30, 2011 and 2010

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

Board of Trustees  
Cordell Hospital Authority  
Cordell, Oklahoma

We have audited the accompanying balance sheets of Cordell Hospital Authority as of June 30, 2011 and 2010, 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. These 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided 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 Cordell Hospital Authority as of June 30, 2011 and 2010, and the results of its operations and its 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 October 31, 2011, on our consideration of Perry Memorial Hospital Authority and Controlled Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements, but is supplementary information required by 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 it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
November 15, 2011

## **Introduction**

Our discussion and analysis of Cordell Hospital Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Authority.

## **Financial Highlights**

- Other assets increased in 2011 by \$1,451,778 or 56% and increased in 2010 by \$383,306 or 17%.
- Total liabilities decreased in 2011 by \$92,736 or 16% and decreased in 2010 by \$225,532 or 28%.
- The Authority's net assets increased in 2011 by \$1,181,768 or 17% and increased in 2010 by \$282,447 or 4%.
- The Authority reported an operating loss in 2011 of \$752,853 and an operating loss in 2010 of \$886,130. During 2011, operating loss decreased by \$133,277 or 15% and increased by \$647,359 or 271% in 2010.
- Net nonoperating income increased by \$766,044 or 66% in 2011 and decreased by \$348,994 or 23% in 2010.
- Operating expenses increased in 2011 by \$181,342 or 5% and \$282,310 or 8% in 2010.

## **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 assets; and a statement of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

## **The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets 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 liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

**The Statement of Cash Flows**

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

**The Authority's Net Assets**

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net assets increased by \$1,181,768 or 17% in 2011 and increased by \$282,447 or 4% in 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Assets</b>			
Current assets	\$ 3,767,855	\$ 3,921,605	\$ 4,082,705
Capital assets, net	872,146	1,081,142	1,246,433
Other assets	<u>4,062,364</u>	<u>2,610,586</u>	<u>2,227,280</u>
Total assets	<u>\$ 8,702,365</u>	<u>\$ 7,613,333</u>	<u>\$ 7,556,418</u>
<b>Liabilities</b>			
Other current and noncurrent liabilities	<u>\$ 500,218</u>	<u>\$ 592,954</u>	<u>\$ 818,486</u>
Total liabilities	<u>500,218</u>	<u>592,954</u>	<u>818,486</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	598,675	711,459	783,819
Unrestricted	<u>7,603,472</u>	<u>6,308,920</u>	<u>5,954,113</u>
Total net assets	<u>8,202,147</u>	<u>7,020,379</u>	<u>6,737,932</u>
Total liabilities and net assets	<u>\$ 8,702,365</u>	<u>\$ 7,613,333</u>	<u>\$ 7,556,418</u>

**Operating Results and Changes in Net Assets**

In 2011 the Authority's net assets increased by \$1,181,768 as shown in Table 2. The 2011 net asset increase represents an increase of 17% as compared with the increase in net assets for 2010 of \$282,447 or 4%.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 3,014,487	\$ 2,710,751	\$ 3,061,297
Other operating revenue	62,718	51,835	66,338
	<u>3,077,205</u>	<u>2,762,586</u>	<u>3,127,635</u>
<b>Operating Expenses</b>			
Nursing services	1,001,413	945,051	859,587
Other professional services	821,574	758,726	757,989
General services	417,960	392,858	345,245
Administrative services	1,372,136	1,311,079	1,237,800
Depreciation	225,675	250,103	165,785
	<u>3,838,758</u>	<u>3,657,817</u>	<u>3,366,406</u>
Operating loss	<u>(761,553)</u>	<u>(895,231)</u>	<u>(238,771)</u>
<b>Nonoperating Revenues</b>			
Investment income	209,897	259,664	197,931
Interest ;	(11,324)	(14,604)	(3,828)
Noncapital grants and contributions	8,700	9,101	8,283
Intergovernmental transfers (sales tax from county)	<u>1,736,048</u>	<u>923,517</u>	<u>1,315,185</u>
Total nonoperating revenues	<u>1,943,321</u>	<u>1,177,678</u>	<u>1,517,571</u>
Increase in net assets	<u>\$ 1,181,768</u>	<u>\$ 282,447</u>	<u>\$ 1,278,800</u>

**Operating Income**

The first component of the overall change in the Authority's net assets is its operating income (loss) - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past three years the Authority has had operating losses.

The operating loss for 2011 decreased by \$133,277 or 15% as compared to the increase of \$647,359 or 271% in 2010. The primary component of the decreasing operating loss is:

An increase in net patient service revenue of \$303,736 or 11% in 2011 and a decrease of \$350,546 or 11% in 2010 as well as an increase in operating expenses of \$181,342 or 5% in 2011 and \$282,310 or 8% in 2010.

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions, investment income county sales tax and interest expense. The investment income decreased \$49,767 or 19% in 2011 as compared to the increase of \$61,733 or 31% in 2010. Intergovernmental transfer (county sale tax) increased \$812,531 or 88% in 2011 and decreased \$391,668 or 30% in 2010.

### **The Authority's Cash Flows**

Changes in the Authority's cash flows are consistent with changes in operating income and non-operating revenues and expenses as discussed earlier, with one exception. Cash flows used by operating activities increased slightly less than operating losses in 2010 due to increases in the Authority's patient accounts receivable and provision for bad debts.

### **Capital Assets**

The Authority had \$872,146 invested in capital assets at the end of 2011 and \$1,081,142 at the end of 2010, net of accumulated depreciation, as detailed in Note 6 to the financial statements. The Authority purchased new capital assets costing \$16,679 in 2011 and \$84,812 in 2010.

### **Contacting the Authority's Financial Management**

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-832-3339.

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Cordell Hospital Authority  
Balance Sheets  
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 99,587	\$ 96,211
Accounts payable	54,832	55,655
Accrued liabilities	<u>171,915</u>	<u>167,616</u>
Total current liabilities	326,334	319,482
 Long-Term Debt, Less Current Maturities	 <u>173,884</u>	 <u>273,472</u>
Total liabilities	 <u>500,218</u>	 <u>592,954</u>
 Net Assets		
Invested in capital assets, net of related debt	598,675	711,459
Unrestricted	<u>7,603,472</u>	<u>6,308,920</u>
Total net assets	 <u>8,202,147</u>	 <u>7,020,379</u>
Total liabilities and net assets	 <u>\$ 8,702,365</u>	 <u>\$ 7,613,333</u>

Cordell Hospital Authority  
 Statements of Revenues, Expenses and Changes in Net Assets  
 Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debt of \$167,523 in 2011 and \$584,353 in 2010)	\$ 3,014,487	\$ 2,710,751
Other revenue	62,718	51,835
Total operating revenues	3,077,205	2,762,586
Operating Expenses		
Nursing services	1,001,413	945,051
Other professional services	821,574	758,726
General services	417,960	392,858
Administrative services	1,372,136	1,311,079
Provision for depreciation	225,675	250,103
Total operating expenses	3,838,758	3,657,817
Operating Loss	(761,553)	(895,231)
Nonoperating Revenues		
Investment income	209,897	259,664
Interest expense	(11,324)	(14,604)
Noncapital grants and contributions	8,700	9,101
Intergovernmental transfers (sales tax from County)	1,736,048	923,517
Total nonoperating revenues	1,943,321	1,177,678
Excess Revenues over Expenses and Increase in Net Assets	1,181,768	282,447
Net Assets, Beginning of Year	7,020,379	6,737,932
Net Assets, End of Year	\$ 8,202,147	\$ 7,020,379

Cordell Hospital Authority  
 Statements of Cash Flows  
 Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 3,099,344	\$ 2,582,586
Payments to suppliers and contractors	(1,904,114)	(1,737,251)
Payments to employees	(1,711,374)	(1,664,548)
Other receipts	<u>(25,299)</u>	<u>47,264</u>
Net Cash used for Operating Activities	<u>(541,443)</u>	<u>(771,949)</u>
Noncapital Related Financing Activities		
Sales tax revenue	<u>1,736,048</u>	<u>923,517</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(96,212)	(92,931)
Interest paid on long-term debt	(11,324)	(14,604)
Purchase of property and equipment	<u>(16,679)</u>	<u>(84,812)</u>
Net Cash used for Capital and Related Financing Activities	<u>(124,215)</u>	<u>(192,347)</u>
Investing Activities		
Purchases of investments	(4,155,245)	(474,766)
Proceeds from sale of investments	2,675,745	555,809
Interest on investments	<u>189,088</u>	<u>173,808</u>
Net Cash (used for) Provided by Investing Activities	<u>(1,290,412)</u>	<u>254,851</u>
Net Decrease (Increase) in Cash	(220,022)	214,072
Cash, Beginning of Year	<u>1,185,041</u>	<u>970,969</u>
Cash, End of Year	<u>\$ 965,019</u>	<u>\$ 1,185,041</u>

Cordell Hospital Authority  
 Statements of Cash Flows  
 Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating loss	\$ (761,553)	\$ (895,231)
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	225,675	250,103
Provision for bad debts	167,523	584,353
Changes in assets and liabilities		
Accounts receivable	(256,031)	(357,774)
Other receivables	(979)	133
Supplies	(2,053)	(996)
Prepays	(3,828)	6,018
Other assets	(87,038)	(4,704)
Accounts payable	(823)	(9,471)
Other accrued	4,299	10,364
Estimated third-party payor settlements	173,365	(354,744)
	<u>\$ (541,443)</u>	<u>\$ (771,949)</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
	<u>\$ (541,443)</u>	<u>\$ (771,949)</u>
Supplemental Disclosures of Cash Flow Information		
Unrealized gain on investment	\$ 20,809	\$ 85,856
	<u>\$ 20,809</u>	<u>\$ 85,856</u>

## **Note 1 - Organization and Significant Accounting Policies**

### **Reporting Entity**

Cordell Hospital Authority (the Authority) is a public trust created under the laws of the State of Oklahoma. The Authority entered into a lease agreement with the City of New Cordell (the City), which expires January 17, 2019, for the hospital facilities and equipment. The governing body of the City appoints the Board of Trustee members of the Authority and the City is beneficiary of the trust.

The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Cordell, Oklahoma and surrounding communities. Inpatient skilled nursing care is similarly referred through participation in the Medicare swing bed program.

### **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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Accounting Standards**

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Government Account 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 Hospital 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 is accounted for similar to an enterprise fund. The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs (expenses, including depreciation) of providing goods and services to its users. An enterprise fund prepares operating statements using as its measurement focus the flow of economic resources. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Balances classified as operating revenues and expenses are those that comprise the Authority's principal ongoing operations. Since the Authority's operations are similar to those of any health care provider, most revenues and expenses are considered operating.

### **New Accounting Pronouncements**

In March 2009, GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. GASB No. 54 is effective for the Authority for the fiscal year beginning July 1, 2010. Management does not believe that the statement will have any effect on the Authority's financial statements.

In June 2010, GASB issued statement No. 59, *Financial Instruments Omnibus*. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. GASB No. 59 is effective for the Authority for the fiscal year beginning July 1, 2010. Management does not believe that the statement will have any effect on the Authority's financial statements.

### **Investments in Debt and Equity Securities**

Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues.

### **Cash Equivalents**

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

### **Allowance for Uncollectible Accounts**

Patient receivables are uncollateralized customer and third-party payor obligations.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

### Supplies

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

### Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or retirements are included in income in the period of disposition.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The ranges of such useful lives are as follows:

	<u>Depreciable Life</u>
Land improvements	2 - 15 years
Buildings	15 - 40 years
Building improvements	5 - 40 years
Major moveable equipment	5 - 10 years

### Net Assets

Net assets in the Hospital are classified in the following two components:

Net Assets Invested in Capital Assets Net of Related Debt - Invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets.

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

### Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### Charity Care

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

### **Operating Revenues and Expenses**

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

### **Risk Management**

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, 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 two preceding years. The provision for estimated medical malpractice claims, if any, include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

### **Medical Malpractice Coverage and Claims**

The Authority pays fixed premiums for annual medical malpractice coverage under occurrence-basis policies. In general, the Authority bears risk for any individual claims with costs exceeding \$1,000,000 and the excess, if any, over the aggregate cost of \$3,000,000 for claims occurring during the policy year. The Authority accrues the expense of its share of malpractice claim costs, if any, of the 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 claims experience. No accrual for medical malpractice claims has been made in the accompanying financial statements.

### **Grants and Contributions**

From time to time, the Hospital receives grants from individuals and private organizations. Revenues from grants and contributions 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 restricted 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.

### **Compensated Absences**

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the balance sheet date plus an additional amount for compensation - related payments such as social security and Medicare taxes computed using rates in effect at that date.

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, 2011 and 2010, the carrying amounts of the Authority's deposits were \$4,493,075 and \$3,422,790 and the bank balances were \$3,290,224 and \$3,512,150, respectively. The Hospital's cash balances are maintained in various bank deposit accounts. At June 30, 2011 and 2010, there were no deposits in excess of federally insured limits and/or collateralized with governmental securities.

As discussed in Note 1, the Authority's investments generally are carried at fair value. All securities are held in the Authority's name by a custodial bank that is the agent of the Authority. At June 30, 2011 and 2010, the Authority had the following investments and maturities:

June 30, 2011		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Government securities	\$ 3,709,822	\$ -	\$ 291,000	\$ 900,000	\$ 2,809,822
June 30, 2010		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Government securities	\$ 2,308,770	\$ -	\$ -	\$ 103,201	\$ 2,205,569

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's investment policy limits investments to the following types of securities: U.S. Treasury securities, Federal Agency securities, and certificates of deposits.

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

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2011, the weighted average maturity of the Authority's U.S. Treasury portfolio was 17.82 years.

Investment income is comprised of the following for the years ending June 30, 2011 and 2010:

	2011	2010
Income		
Interest and dividend income	\$ 189,088	\$ 173,808
Unrealized gain on investment	20,809	85,856
	<u>\$ 209,897</u>	<u>\$ 259,664</u>

**Note 3 - Accounts Receivable - Patients - Net**

Patient accounts receivable reported as current assets by the Hospital at June 30, 2011 and 2010, consisted of these amounts:

Patient Accounts Receivable

	2011	2010
Receivables from patients and their insurance carriers	\$ 284,448	\$ 229,252
Receivable from Medicare	339,436	297,110
Receivable from Medicaid	53,474	66,051
 Total patient accounts receivable	 677,358	 592,413
 Less allowance for doubtful accounts	 364,609	 368,172
	\$ 312,749	\$ 224,241

**Note 4 - Due from County**

The County collects and retains sales tax collected for the benefit of the Authority. Amounts are disbursed from the County upon receipt of approved purchase orders from the Authority. The remainder is retained by the County until the Authority forwards approved purchase orders.

**Note 5 - Capital Assets**

Capital asset activity for the years ended June 30, 2011 and 2010, was as follows:

	2011				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Land *	\$ 116,000	\$ -	\$ -	\$ -	\$ 116,000
Land improvements	95,342	-	-	-	95,342
Buildings	502,483	16,679	-	-	519,162
Building improvement	425,279	-	-	-	425,279
Major moveable equipment	1,521,259	-	-	-	1,521,259
	2,660,363	16,679	-	-	2,677,042
Less accumulated depreciation for:					
Land improvements	78,622	5,355	-	-	83,977
Buildings	341,023	31,083	-	-	372,106
Buildings and improvements	177,861	36,902	-	-	214,763
Major moveable equipment	981,715	152,335	-	-	1,134,050
	1,579,221	225,675	-	-	1,804,896
Capital assets, net	\$ 1,081,142	\$ (208,996)	\$ -	\$ -	\$ 872,146

Cordell Hospital Authority  
Notes to Financial Statements  
June 30, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Land *	\$ 116,000	\$ -	\$ -	\$ -	\$ 116,000
Land improvements	95,342	-	-	-	95,342
Buildings	502,483	-	-	-	502,483
Building improvement	374,869	50,410	-	-	425,279
Major moveable equipment	1,486,857	34,402	-	-	1,521,259
	<u>2,575,551</u>	<u>84,812</u>	<u>-</u>	<u>-</u>	<u>2,660,363</u>
Less accumulated depreciation for:					
Land improvements	73,267	5,355	-	-	78,622
Buildings	332,164	8,859	-	-	341,023
Buildings and improvements	138,063	39,798	-	-	177,861
Major moveable equipment	785,624	196,091	-	-	981,715
	<u>1,329,118</u>	<u>250,103</u>	<u>-</u>	<u>-</u>	<u>1,579,221</u>
Capital assets, net	<u>\$ 1,246,433</u>	<u>\$ (165,291)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,081,142</u>

\* Nondepreciable Assets

The total cost of assets under capital leases totaled \$492,995 for the years ended June 30, 2011 and 2010, respectively. The total cost of accumulated depreciation for assets under capital leases totaled \$ 228,463 and \$129,864 for the years ended June 30, 2011 and 2010, respectively.

### Note 6 - Charity Care

Charges excluded from revenue under the Authority's charity care policy were \$8,422 and \$0 for the years ended June 30, 2011 and 2010, respectively.

### Note 7 - Net Patient Service Revenue

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

Medicare: The Hospital is licensed as a Critical Access Hospital. A Critical Access Hospital has certain limitations such as bed size, length of stay, etc. As a Critical Access Hospital, inpatient and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed during the year based on a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rates per discharge, or other established rates with no retrospective adjustments.

Other carriers: The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

A summary of net patient service revenue for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Total Patient Service Revenue	\$ 3,820,856	\$ 4,237,828
Contractual adjustments		
Medicare	(144,190)	(483,956)
Medicaid	(211,775)	(183,631)
Other	(282,881)	(275,137)
Provision for bad debts	(167,523)	(584,353)
Total reductions from revenue	(806,369)	(1,527,077)
Net Patient Service Revenue	\$ 3,014,487	\$ 2,710,751

**Note 8 - Cordell Memorial Hospital Foundation**

The Cordell Memorial Hospital Foundation (the Foundation) was established to promote projects which advance the quality of medical care for the patients of Cordell Memorial Hospital. The Foundation created an endowment fund to which private citizens and businesses may make monetary or in-kind contributions. They manage funds, accept applications for, and dispense grants to fund high quality medical equipment, improve existing patient services or implement patient services that are not already provided for in the established hospital budget.

The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Authority in amounts and in periods determined by the Foundation's Board of Directors. No transfers were made between the Authority and the Foundation during the years ended June 30, 2011 and 2010.

**Note 9 - Long-Term Debt**

A summary of long-term debt, including capital lease obligations as of June 30, 2011 and 2010, follows:

	Beginning Balance	June 30, 2011			Current Portion
		Additions	Deductions	Ending Balance	
Capital lease obligations	\$ 369,683	\$ -	\$ 96,212	\$ 273,471	\$ 99,587
	Beginning Balance	June 30, 2010			Current Portion
		Additions	Deductions	Ending Balance	
Capital lease obligations	\$ 462,614	\$ -	\$ 92,931	\$ 369,683	\$ 96,211

Scheduled payments on capital lease obligations as follows:

	CAPITAL LEASES
2012	\$ 107,535
2013	107,535
2014	71,691
2015	-
2016	-
Thereafter	-
	286,761
Less interest on capital leases	13,290
	\$ 273,471

**Note 10 - Concentration of Credit Risk**

The Authority is located in New Cordell, Oklahoma. The Authority grants credit without collateral to its patients, most of who are residents and are insured under third-party payor agreements. The mix of net patient accounts receivable at June 30, 2011 and 2010, was as follows:

	2011	2010
Medicare and Medicaid	56%	63%
Commercial Insurance	22%	23%
Patients (self pay)	22%	14%
	100%	100%

**Note 11 - Profit Sharing Plan**

The Authority participates in a 403(b) Deferred Compensation Plan covering all employees who are at least 18 years of age, who generally work twenty or more hours per week and who have completed six months of services with the Authority. The Authority, at its option, may contribute to the Plan. During 2011 and 2010, the Authority paid or accrued contributions of \$328,316 and \$276,509, respectively, which would be included in administrative services.

**Note 12 - Related Party Transactions**

The Authority is a Public Trust with the City of New Cordell designated as the beneficiary of the trust. The Authority purchased utility services from the City of New Cordell in the amounts of \$45,746 and \$45,070 for the years ended June 30, 2011 and 2010, respectively.

**Note 13 - Sales Tax Revenue**

The voters of Washita County approved to extend the .5 percent sale tax for the benefit of Cordell Hospital Authority. The sales tax extension is for a five year period beginning October 1, 2009. The Authority received approximately 35.6 percent and 23.4 percent of its financial support from a .5% county sales tax in 2011 and 2010, respectively. Revenue from sales tax is recognized in the year the tax is earned.

**Note 14 - Commitments**

The Authority is committed under various operating leases, all of which are for equipment. These expire in 2013. Future minimum operating lease payments are as follows.

2012		\$	5,254
2013			1,751
<b>Total minimum lease payments</b>		<b>\$</b>	<b>7,005</b>

The Authority paid \$5,254 and \$5,034 for operating leases for the years ended June 30, 2011 and 2010, respectively.



Supplementary Information  
June 30, 2011 and 2010

# Cordell Hospital Authority



## Independent Auditor's Report on Supplementary Information

Board of Trustees  
Cordell Hospital Authority  
Cordell, Oklahoma

We have audited the financial statements of Cordell Memorial Hospital as of and for the years then ended June 30, 2011 and 2010 and our report thereon dated November 15, 2011, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient revenue and schedules of other operating revenue are presented for purposes of additional analysis and is 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 audit 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  
November 15, 2011

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Cordell Hospital Authority  
Schedules of Net Patient Service Revenues  
Years Ended June 30, 2011 and 2010

2010		
Inpatient	Outpatient	Total
\$ 475,225	\$ 8,375	\$ 483,600
187,954	33,880	221,834
41,851	564,318	606,169
229,805	598,198	828,003
-	236,299	236,299
60,732	2,766	63,498
195,848	214,504	410,352
25,418	16,188	41,606
515,619	635,487	1,151,106
533,768	76,654	610,422
9,514	-	9,514
94,068	134,556	228,624
110,426	8,924	119,350
27,169	28,285	55,454
1,572,562	1,353,663	2,926,225
\$ 2,277,592	\$ 1,960,236	4,237,828
		-
		4,237,828
		483,956
		183,631
		275,137
		584,353
		1,527,077
		\$ 2,710,751

Cordell Hospital Authority  
Schedules of Other Operating Revenue  
Years Ended June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
Other Revenue		
Ambulance subsidy income	\$ 18,456	\$ 18,533
Cafeteria	7,341	7,095
Clinic rent - Physicians expense reimbursement	32,117	20,038
Lifeline services	1,730	1,771
Medical records fees	272	320
Miscellaneous	969	970
Purchase discounts	433	708
Rent	<u>1,400</u>	<u>2,400</u>
Total other revenue	<u>\$ 62,718</u>	<u>\$ 51,835</u>

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Cordell Hospital Authority  
Schedules of Operating Expenses  
Years Ended June 30, 2011 and 2010

	2010	
Salaries	Other	Total
\$ 534,883	\$ 23,541	\$ 558,424
1,388	18,937	20,325
110,433	255,869	366,302
<u>646,704</u>	<u>298,347</u>	<u>945,051</u>
109,498	5,096	114,594
-	9,012	9,012
4,266	13,375	17,641
23,665	200	23,865
160,177	187,589	347,766
57,536	64,786	122,322
235	2,885	3,120
54,966	28,002	82,968
19,111	904	20,015
-	17,423	17,423
<u>429,454</u>	<u>329,272</u>	<u>758,726</u>
74,584	39,312	113,896
101,537	8,457	109,994
9,326	1,241	10,567
47,318	26,468	73,786
1,780	82,835	84,615
<u>234,545</u>	<u>158,313</u>	<u>392,858</u>
364,209	204,113	568,322
-	742,757	742,757
<u>364,209</u>	<u>946,870</u>	<u>1,311,079</u>
-	250,103	250,103
<u>\$ 1,674,912</u>	<u>\$ 1,982,905</u>	<u>\$ 3,657,817</u>

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cordell 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 and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Cordell Hospital Authority, in a separate letter dated November 15, 2011.

Cordell Hospital Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Cordell Hospital 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, management and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Oklahoma City, Oklahoma  
November 15, 2011

2011-1      Preparation of financial statements

Condition: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The Hospital 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.

Criteria: Statement on Auditing Standards (SAS) 115 requires the auditor to assess the Hospital accounting staff's ability to apply General Accepted Accounting Principles (GAAP) on an ongoing basis.

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

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

Recommendation: It is recommended that the Hospital implement a system that allows the preparation of financial statements in accordance with GAAP.

Management's Response: The hospital board has taken into consideration that the expense of hiring additional accounting personnel would not justify the expense versus the benefit to the accurate reporting of the financial statements and feels that the cost does not justify the benefit.

2011-2      Cost report estimate

Condition: During the current year the Hospital did not estimate the financial effect of the Medicare cost report settlement for the current year.

Criteria: The Hospital is responsible for estimating the Medicare cost report settlement for the purpose of issuing accurate financial statements.

Cause: The board had considered the cost benefit of purchasing cost report estimation software or professional fees for a interim cost report and has decided to accept the risk associated with this condition.

Effect: This resulted in an adjusting journal entry to record the current year Medicare cost report settlement.

Recommendation: It is recommended that the Hospital implement a system to estimate the Hospital's Medicare cost report settlement.

Management's Response: The hospital board has taken into consideration the purchase cost of the cost report estimation software system or the professional fees for an interim cost report audit versus the benefit to the accurate reporting of the Medicare cost report settlement and feels that the cost does not justify the benefit.