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

Fairview Regional Medical Center Authority

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Independent Auditor's Report

Board of Trustees
Fairview Regional Medical Center Authority
Fairview, Oklahoma

We have audited the accompanying balance sheets of Fairview Regional Medical Center 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 Hospital'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 of applicable financial standards 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 Fairview Regional Medical Center Authority as of June 30, 2011 and 2010, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 15 to the financial statements, the Authority has suffered recurring operating losses and had a significant decrease in net assets which indicates that the Authority may not be able to continue as a going concern. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our audit report dated March 16, 2012, on our consideration of Fairview Regional Medical Center Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grant agreements, and others 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 and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in addressing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 16, 2012

Fairview Municipal Hospital Authority changed its name to Fairview Regional Medical Center Authority (Authority) on October 2, 2007.

Our discussion and analysis for Fairview Regional Medical Center Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net assets decreased in each of the past 2 years with a $248,153 or 12 percent decrease in 2011 and a $400,781 or 16 percent decrease in 2010.
- The Authority reported an operating loss in 2011 of $479,865 and an operating loss in 2010 of $606,741. The loss in 2011 decreased by $126,876 or 21 percent over the loss reported in 2010. Operating losses in 2010 increased by $378,468 or 166 percent compared to 2009.
- Nonoperating income increased by $47,452 or 26 percent in 2011 compared to 2010. Nonoperating income decreased in 2010 by $10,896 or 6 percent compared to 2009

Using This Annual Report

The Authority's financial statements consist of three statements - Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheets and Statements of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Authority's finances begins on page 7. One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net 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 all 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.

Statements of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from 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 Sheets on page 7. The Authority's net assets decreased in the past year by $248,153 and decreased in the prior year by $400,781 with an 12 percent decrease in 2011 and a 16 percent decrease in 2010.

	2011	2010	2009
Assets			
Cash and cash equivalents	$ 61,622	$ 316,821	$ 398,696
Patient accounts receivable, net	795,233	959,123	972,386
Current portion of note receivable	16,056	16,009	15,867
Other current assets	130,971	165,814	156,715
Assets limited to use	192,168	176,541	176,972
Note receivable, net	7,721	31,545	41,835
Capital assets, net	4,614,284	4,977,052	5,426,058
Other assets	63,821	72,469	78,058
Total assets	$ 5,881,876	$ 6,715,374	$ 7,266,587
Liabilities			
Accounts payable	$ 387,421	$ 244,480	$ 207,210
Short-term note payable	16,534	27,320	35,118
Current maturities of long-term debt	395,910	404,351	361,181
Other current liabilities	308,696	720,030	625,941
Long-term debt, net	2,991,147	3,288,872	3,606,035
Total liabilities	4,099,708	4,685,053	4,835,485
Net Assets			
Invested in capital assets, net of related debt	1,223,183	1,279,785	1,458,842
Expendable for capital acquisitions	192,168	176,541	176,972
Unrestricted	366,817	573,995	795,288
Total net assets	1,782,168	2,030,321	2,431,102
Total liabilities and net assets	$ 5,881,876	$ 6,715,374	$ 7,266,587

Assets, Liabilities, and Net Assets

A significant component of the change in the Authority's assets is the decrease in current and capital assets. This was primarily due from the decrease in cash which decreased $241,316 or 55 percent compared to $81,875 or 21% decrease in 2010 when compared to 2009. Net patient service revenue declined by $31,402 or 1.0 percent from 2010. The decline in revenue was the result of lower volumes. Capital assets decreased by $362,768 or 12 percent from 2010.

Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenue			
Net patient service revenue	$ 5,211,630	$ 5,243,032	$ 5,486,530
Other revenue	40,870	33,665	27,328
Total operating revenue	5,252,500	5,276,697	5,513,858
Operating Expenses			
Daily patient services	606,452	617,134	566,300
Nursing services	280,909	298,970	332,324
Other professional services	2,252,233	2,351,591	2,232,489
Other operating expenses	2,029,606	1,989,874	2,008,488
Depreciation and amortization	563,165	625,869	602,530
Total operating expenses	5,732,365	5,883,438	5,742,131
Operating Loss	(479,865)	(606,741)	(228,273)
Nonoperating Revenues (Expenses)			
Sales tax	364,875	337,129	389,188
Investment income	3,295	8,840	4,457
Interest expense	(167,231)	(229,368)	(224,453)
Gain on sale of assets	1,160	-	-
Other	(23,777)	-	-
Non capital grants and contributions	53,390	67,659	25,964
Total nonoperating revenues	231,712	184,260	195,156
Capital Contributions	-	21,700	-
Decrease in Net Assets	$ (248,153)	$ (400,781)	$ (33,117)

Operating Results

The first component of the overall change in the Authority's net assets is its operating results. Generally the operating loss is the difference between net patient service revenues and the expenses incurred to perform those services. The operating loss for 2011 was $479,865. The operating loss in 2011 decreased by $126,876 compared to the 2010 operating loss of $606,741. The primary component of the change in the operating loss was the decrease in operating expenses of $151,073.

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Authority when it was established. There was $71,698 of charity care provided in 2011 and $115,396 in 2010. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax revenues, interest expense, gains on sale of assets, donations and investment income. The major change in nonoperating revenue is due to the increase in sales tax revenue which increased in 2011 by $27,746 compared to 2010 and the decrease in interest expense which decreased in 2011 by $62,137 compared to 2010. As a result of these factors, nonoperating revenues increased by $47,452 in 2011 compared to the $10,896 decrease of nonoperating revenues in 2010.

The Authority's Cash Flows

The Authority’s overall liquidity declined during the year with a net decrease to cash of $241,316 when compared with 2010. Cash flows provided for operating activities decreased by $108,610 during 2011 when compared with 2010. This was due primarily to the decrease in receipts from or on the behalf of patients. Cash used for non capital financing activities increased by $46,599 when compared with 2010. Cash used for capital and capital related financing activities decreased by $12,436 when compared with 2010. Cash from investing activities was $3,295 in 2011 compared to $18,988 in 2010.

Capital Assets and Debt Administration

At the end of 2011 and 2010, the Authority had $4,614,284 and $4,977,052 invested in net capital assets, as detailed in Note 6 to the financial statements.

Debt

At June 30, 2011, the Authority had $3,387,057 in outstanding long-term debt, a decrease of $306,166 from the prior year. For additional information regarding long-term debt, please see Note 10 to the financial statements.

Contacting the Authority's Financial Management

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 Fairview Regional Medical Center Authority, Administrator’s Office, 523 State Road, Fairview, Oklahoma 73737.

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	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 61,622	$ 316,821
Receivables		
Patient, net of estimated uncollectibles of $550,000 in 2011 and $438,000 in 2010	795,233	959,123
Other	-	3,197
Current portion of note receivable	16,056	16,009
Supplies	101,299	104,379
Prepaids	29,672	58,238
Total current assets	1,003,882	1,457,767
Assets Limited as to Use		
Cash and cash equivalents	139,629	125,746
Sales tax receivable	52,539	50,795
Total assets limited as to use	192,168	176,541
Note Receivable, Net of Current Portion	7,721	31,545
Capital Assets		
Capital assets not being depreciated	4,044	4,044
Depreciable capital assets, net of accumulated depreciation	4,610,240	4,973,008
Total capital assets, net	4,614,284	4,977,052
Other Assets	63,821	72,469
Total assets	$ 5,881,876	$ 6,715,374

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Short-term note payable	$ 16,534	$ 27,320
Current maturities of long-term debt	395,910	404,351
Accounts payable	387,421	244,480
Accrued expenses		
Salaries and payroll taxes	135,045	105,481
Vacation	113,799	118,856
Other	4,099	3,789
Estimated third party payor	55,753	491,904
Total current liabilities	1,108,561	1,396,181
Long Term Debt, Net	2,991,147	3,288,872
Total liabilities	4,099,708	4,685,053
Net Assets		
Invested in capital assets, net of related debt	1,223,183	1,279,785
Expendable for capital acquisitions	192,168	176,541
Unrestricted	366,817	573,995
Total net assets	1,782,168	2,030,321
Total liabilities and net assets	$ 5,881,876	$ 6,715,374

	2011	2010
Operating Revenue		
Patient service revenue, net of provision for bad debts of $795,865 in 2011 and $525,254 in 2010	$ 5,211,630	$ 5,243,032
Other revenue	40,870	33,665
Total operating revenue	5,252,500	5,276,697
Operating Expenses		
Daily patient services	606,452	617,134
Nursing services	280,909	298,970
Other professional services	2,252,233	2,351,591
General services	536,718	533,441
Administrative services	1,492,888	1,456,433
Depreciation and amortization	563,165	625,869
Total operating expenses	5,732,365	5,883,438
Operating Loss	(479,865)	(606,741)
Nonoperating Revenues (Expenses)		
Sales tax	364,875	337,129
Investment income	3,295	8,840
Interest expense	(167,231)	(229,368)
Gain on sale of assets	1,160	-
Non capital grants and contributions	53,390	67,659
Other nonoperating expense	(23,777)	-
Total nonoperating revenues, net	231,712	184,260
Excess of Expenses over Revenues Before Capital Contributions	(248,153)	(422,481)
Capital contributions	-	21,700
Decrease in Net Assets	(248,153)	(400,781)
Net Assets, Beginning of the Year	2,030,321	2,431,102
Net Assets, End of Year	$ 1,782,168	$ 2,030,321

	2011	2010
Operating Activities		
Receipts from or on behalf of patients	$ 4,939,369	$ 5,360,489
Other receipts	52,715	39,080
Payments to suppliers	(1,753,108)	(1,871,267)
Payments to employees	(3,074,572)	(3,255,288)
Net Cash Provided by Operating Activities	164,404	273,014
Non Capital Related Financing Activities		
Payments on financed insurance	(158,492)	(126,162)
Non capital contributions and donations	53,390	67,659
Net Cash used for Non Capital Financing Activities	(105,102)	(58,503)
Capital and Capital Related Financing Activities		
Purchase of capital assets	(128,710)	(24,768)
Sales tax restricted to capital acquisitions	363,131	336,585
Principal payments on debt obligations	(468,328)	(420,498)
Proceeds from issuance of debt	96,065	-
Interest paid on debt obligations	(167,231)	(229,368)
Capital contributions	-	21,700
Proceeds from equipment sales	1,160	-
Net Cash used for Capital and Capital Related Financing Activities	(303,913)	(316,349)
Investing Activities		
Proceeds from note receivable	-	10,148
Investment income	3,295	8,840
Net Cash Provided by Investing Activities	3,295	18,988
Net Decrease in Cash and Cash Equivalents	(241,316)	(82,850)
Cash and Cash Equivalents, Beginning of Year	442,567	525,417
Cash and Cash Equivalents, End of Year	$ 201,251	$ 442,567

	2011	2010
Reconciliation of Operating Loss to Net		
Cash Provided by Operating Activities		
Operating loss	$ (479,865)	$ (606,741)
Adjustments to reconcile change in operating loss to net cash provided by operating activities		
Depreciation and amortization	563,165	625,869
Provision for bad debts	795,865	525,254
Changes in assets and liabilities		
Receivables	(628,778)	(512,165)
Supplies	3,080	(16,576)
Prepaid expenses	176,272	126,015
Other assets	3,058	-
Estimated amounts due to third party payors	(436,151)	104,194
Accounts payable	142,941	37,269
Accrued salaries	29,564	(26,375)
Accrued other	310	-
Accrued vacation	(5,057)	16,270
Net Cash Provided by Operating Activities	$ 164,404	$ 273,014
Supplemental Cash Disclosure		
Assets purchased under other financing arrangements	$ 66,097	$ 146,505
Financed insurance	$ 147,706	$ 118,364
Non operating bad debt expense	$ 23,777	$ -
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	$ 61,622	$ 316,821
Cash limited as to use	139,629	125,746
Total Cash and Cash Equivalents	$ 201,251	$ 442,567

Note 1 - Principal Activity and Significant Accounting Policies

Reporting Entity

On October 2, 2007, Fairview Municipal Hospital Authority changed its name to Fairview Regional Medical Center Authority.

Fairview Regional Medical Center Authority was created under a trust indenture dated September 2, 1980, as a public trust under Title 60 of the Oklahoma State Statutes for the benefit of the city of Fairview, Oklahoma. The Authority is governed by a Board of Control.

The Authority is critical access facility with 25 beds and rural health clinic services.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

Propriety Fund Accounting

The Authority uses propriety fund method of accounting. Revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual. Based on Governmental Accounting Standards Board (GASB) Topic 1600, *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 for 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.

Income Taxes

The Authority is classified as a political subdivision and is exempt under section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the 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.

Patient Receivables

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

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

Supplies

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

Assets Limited as to Use

Assets limited as to use include net assets designated by the Board of Trustees for capital acquisitions, over which the Board retains control and may at its discretion subsequently use for other purposes. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

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. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

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

Unamortized Loan Issuance Costs and Expense

Loan issuance costs are amortized over the period the obligation is outstanding using the straight-line method. As of June 30, 2011 and 2010, accumulated amortization was $47,980 and $42,390, respectively. Total amortization expense of the loan issuance costs was $5,590 for each of the years ended June 30, 2011 and 2010.

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

Net Assets Invested in Capital Assets, Net of Related Debt - Invested in capital assets net of related 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 for Capital Acquisition - Non capital assets that must be used for a specific purpose, as specified by creditors, grantors or contributors external to the Authority.

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 or restricted.

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

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, they are not reported as patient service revenue.

Sales Tax Revenue

The Authority received approximately 7% and 6% of its financial support during 2011 and 2010 from sales taxes levied. These funds were used entirely to support building renovations and improvements. The tax was effective April 2002, for a term of 15 years, subject to annual appropriation.

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.

Advertising Costs

The Authority expenses advertising costs as incurred.

Compensated Absences

The Authority's employees earn vacation at varying rates depending on years of service. Employees accumulate vacation time up to a specified maximum per year that does not carryover. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees who successfully complete their 90-day introductory period are paid their accumulated vacation balance whether terminated or retired.

Reclassifications

Certain reclassifications were made of corresponding items to the prior year financial statements to conform to the current year format. The reclassifications had no impact on previously reported changes in assets.

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 approximately $72,000 and $115,000 for the years ended June 30, 2011 and 2010.

Note 3 - 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:

<u>Medicare</u>: 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. Final settlements are 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, 2008.

<u>Medicaid:</u> Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates with no retrospective adjustment.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 54% and 4% of the Authority’s net patient service revenue for the year ended June 30, 2011 and 59% and 4% for the year ended June 30, 2010.

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 service revenue and contractual adjustments for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Total patient service revenue	$ 11,246,828	$ 11,242,348
Contractual adjustments		
Medicare and Medicaid	3,829,610	3,929,896
Other	1,409,723	1,544,166
Total contractual adjustments	5,239,333	5,474,062
Provision for bad debts	795,865	525,254
Net patient service revenue	$ 5,211,630	$ 5,243,032

Note 4 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2011 and 2010 consist of the following:

	2011	2010
Receivables from patients and their insurance carriers	$ 1,023,718	$ 1,143,334
Receivable from Medicare	309,206	228,281
Receivable from Medicaid	12,645	25,842
Total patient accounts receivable	1,345,569	1,397,457
Less allowance for uncollectible accounts	550,336	438,334
Patient accounts receivable, net	$ 795,233	$ 959,123

Note 5 - Investment Income

Investment income on cash equivalents included interest income of $3,295 and $8,840 for the years ended June 30, 2011 and 2010, respectively.

Note 6 - Capital Assets

Capital assets additions, disposal or transfers, and balances for the years ended June 30, 2011 are as follows:

	Balance June 30, 2010	Additions and Transfers	Disposals	Balance June 30, 2011
Capital assets not being depreciated				
Land	$ 4,044	$ -	$ -	$ 4,044
Capital assets being depreciated				
Building and improvements	7,154,387	12,730	-	7,167,117
Equipment	3,495,901	182,080	-	3,677,981
	10,650,288	194,810	-	10,845,098
Less accumulated depreciation for:				
Building and improvements	2,596,078	575,976	-	3,172,054
Equipment	3,081,202	(18,398)	-	3,062,804
Total accumulated depreciation	5,677,280	557,578	-	6,234,858
Total capital assets being depreciated, net	4,973,008	(362,768)	-	4,610,240
Total capital assets, net	$ 4,977,052	$ (362,768)	$ -	$ 4,614,284

Capital assets additions, disposal or transfers, and balances for the years ended June 30, 2010 are as follows:

	Balance June 30, 2009	Additions and Transfers	Disposals	Balance June 30, 2010
Capital assets not being depreciated				
Land	$ 4,044	$ -	$ -	$ 4,044
Capital assets being depreciated				
Building and improvements	7,154,387	-	-	7,154,387
Equipment	3,324,628	171,273	-	3,495,901
Total capital assets being depreciated	10,479,015	171,273	-	10,650,288
Less accumulated depreciation for:				
Building and improvements	2,251,211	344,867	-	2,596,078
Equipment	2,805,790	275,412	-	3,081,202
Total accumulated depreciation	5,057,001	620,279	-	5,677,280
Total capital assets being depreciated, net	5,422,014	(449,006)	-	4,973,008
Total capital assets, net	$ 5,426,058	$ (449,006)	$ -	$ 4,977,052

Note 7 - Cash and Deposits

At June 30, 2011 and 2010, bank balances were as follows:

	2011	2010
Insured (FDIC)	$ 267,753	$ 452,916
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	-	49,626
Total	$ 267,753	$ 502,542
Total carrying value		
Cash	$ 61,622	$ 316,821
Restricted cash	139,629	125,746
Total	$ 201,251	$ 442,567

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; however the Authority does not have a formal policy for collateralizing cash deposits. At June 30, 2011 and 2010, the carrying amount of the Authority's deposits was $201,251 and $442,567 and the bank balance was $267,753 and $502,542, respectively. As of June 30, 2011 and 2010, none of the Authority's bank balances were exposed to custodial credit risk.

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.

Note 8 - Assets Limited to Use

The $192,168 and $176,541 reported as assets limited to use in 2011 and 2010, respectively, have been limited to the purchase and financing for capital acquisitions and improvements.

Note 9 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. The rental expense for all operating leases was $42,460 and $53,953 for 2011 and 2010, respectively.

Future minimum lease payments under operating leases as June 30, 2011, which have an initial or remaining lease term in excess of one year are as follows:

Years Ending June 30,	
2012	18,968
2013	1,771
2014	1,771
2015	1,771
2016	-
	$ 24,281

The capitalized leased assets consist of:

	2011	2010
Major movable equipment	$ 619,438	$ 1,056,293
Less accumulated amortization (included as depreciation on the accompanying financial statements)	330,980	669,482
	$ 288,458	$ 386,811

Minimum lease payments on capital lease obligations are included in Note 10.

Note 10 - Debt

A schedule of changes in the Authority's long-term liabilities for 2011 follows:

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Current Portion
Short-term notes payable:					
Financed insurance 6	$ 27,320	$ 147,706	$ 158,492	$ 16,534	
Long-term notes payable:					
Bank of America 1	$ 1,997,081	$ -	$ 117,916	$ 1,879,165	$ 123,949
Line of credit 2	122	-	-	122	122
F&M note payable 3	1,304,398	-	130,146	1,174,252	115,173
City of Fairview 4	-	96,065	4,888	91,177	30,416
Total long-term Notes Payable	3,301,601	96,065	252,950	3,144,716	269,660
Capitalized lease obligations 5 - Note 9	391,622	66,097	215,378	242,341	126,250
Total long-term debt	$ 3,693,223	$ 162,162	$ 468,328	$ 3,387,057	$ 395,910

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

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Current Portion
Short-term notes payable:					
Financed insurance	$ 35,118	$ 118,364	$ 126,162	$ 27,320	
Notes payable:					
Bank of America	$ 2,109,247	$ -	$ 112,166	$ 1,997,081	$ 117,916
Line of credit	122	-	-	122	122
F&M note payable	1,377,773	-	73,375	1,304,398	70,463
Total long-term Notes Payable	3,487,142	-	185,541	3,301,601	188,501
Capitalized lease obligations - Note 9	480,074	146,505	234,957	391,622	215,850
Total long-term debt	$ 3,967,216	$ 146,505	$ 420,498	$ 3,693,223	$ 404,351

The terms and due dates of the Authority's short-term and long-term debt, including capital lease obligations, at June 30, 2011 are as follows:

Notes Payable		
1 5.0% Note payable, due December 2022, secured by a 1% city sales tax ordinance.		
2 The Authority has a line of credit up $75,025. The loan bears interest based on a fixed rate of 5.5 percent. The line of credit is collateralized by accounts receivable and equipment, due July 2012.		
3 Variable rate note payable, interest rate of 1.64% at June 30, 2011, due July 16, 2027, secured by accounts receivable, equipment, and real estate.		
4 6.25% Note payable, due April 2014, secured by property owned by the Hospital		
6 Financed insurance premiums, due December 1, 2011 and January 1, 2012, unsecured.		
Capital Leases		
5 Capital lease of furniture, with an interest rate of 8.4%, collateralized by leased furniture	$	24,437
Capital lease of telephone system, with an interest rate of 12.7%, collateralized by leased equipment		5,056
Capital lease of computer software, with an interest rate of 8.5%, collateralized by leased software		34,392
Capital lease of chemistry analyzer, with an interest rate of 9.5%, collateralized by leased analyzer		37,391
Capital lease of photocopiers, with imputed interest rate of 9%, collateralized by leased photocopiers		5,149
Capital lease of patient monitoring system, with an interest rate of 14.5%, collateralized by leased system		78,725
Capital lease of a treadmill, with an interest rate of 10.51%, collateralized by leased treadmill		17,472
Capital lease of chemistry analyzer, with an interest rate of 9.5%, collateralized by leased analyzer		39,719
	$	242,341

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

	Long Term Debt		Capital Lease Obligations	
Year Ending June 30,	Principal	Interest	Principal	Interest
2012	$ 269,660	$ 114,297	$ 126,250	$ 20,195
2013	279,740	104,095	70,638	10,360
2014	284,355	93,430	29,369	4,217
2015	264,941	83,641	13,280	974
2016	274,305	74,276	2,804	45
2017-2021	1,460,045	216,079	-	-
2022-2023	311,670	12,420	-	-
Total	$ 3,144,716	$ 698,238	$ 242,341	$ 35,791

Note 11 - 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.

Note 12 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2011 and 2010 was as follows:

	2011	2010
Medicare and Medicaid	37%	33%
Other third-party payors	26%	30%
Patients	37%	37%
	100%	100%

Note 13 - Contingencies

Malpractice Insurance

The Authority has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

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.

Litigation, Claims and Disputes

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

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

Note 14 - Related Parties

During the years ended June 30, 2011 and 2010, the Authority received contributions from Fairview Hospital Foundation in the amounts of $4,500 and $17,850. The Foundation was established to solicit contributions from the general public for funding various activities of the Authority.

The Authority has payables due to the City of Fairview in the amount of $100,647 and $55,812 for utilities as of June 30, 2011, and 2010, respectively.

The Authority has a note payable due to the City of Fairview in the amount of $91,177 as of June 30, 2011 and $0 as of June 30, 2010.

Note 15 - Going Concern

The Authority has incurred decreases in net assets during the years ended June 30, 2011 and 2010. Census issues, and operational issues have influenced these decreases. During 2011, the Authority eliminated several management positions. Subsequent to year end, has continued to reduce operating expenses by eliminating several other positions, reducing some administrative costs and adopting a low census enforcement plan. In addition, the Authority is reviewing the possibility of outsourcing some internal functions to reduce costs, and reviewing potential alternative reimbursement strategies.

Note 16 - Subsequent Events

The Authority has evaluated subsequent events through March 16, 2012, the date which the financial statements were available to be issued.

Supplementary Information

Fairview Regional Medical Center Authority

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Fairview Regional Medical Center Authority
Fairview, Oklahoma

We have audited the financial statements of Fairview Regional Medical Center Authority (Authority) as of and for the years ended June 30, 2011 and 2010, and our report thereon dated March 16, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient service revenue, other revenue, and expenses on pages 24-26 are presented for the purposes of additional analysis and are not a required part of the basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 16, 2012

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	2011		
	Inpatient	Outpatient	Total
Daily Patient Services			
Adults and Peds	$ 2,313,324	$ 572,047	$ 2,885,371
Other Nursing Services			
Operating room	18,968	962,732	981,700
Central services and supply	161	5,123	5,284
Emergency room	85,319	1,316,598	1,401,917
	104,448	2,284,453	2,388,901
Other Professional Services			
Radiology	186,849	1,036,976	1,223,825
Laboratory	293,290	1,185,671	1,478,961
Speech therapy	4,109	1,859	5,968
Respiratory therapy	341,269	80,744	422,013
Cardiac rehabilitation	714	28,135	28,849
Pharmacy	539,340	424,726	964,066
Physical therapy	76,987	415,650	492,637
Rural Health Clinic	-	1,392,581	1,392,581
Nutritional education	150	4,117	4,267
Occupational therapy	7,191	23,896	31,087
	1,449,899	4,594,355	6,044,254
Gross Patient Service Revenue	$ 3,867,671	$ 7,450,855	11,318,526
Charity care			(71,698)
Total patient service revenue			11,246,828
Less Contractual Adjustments			
Medicare and Medicaid			3,829,610
Other			1,409,723
Total contractual adjustments			5,239,333
Provision for Bad Debts			795,865
Net Patient Service Revenue			$ 5,211,630

2010		
Inpatient	Outpatient	Total
$ 2,407,164	$ 570,369	$ 2,977,533
32,992	733,665	766,657
1,162	5,390	6,552
106,817	1,217,249	1,324,066
140,971	1,956,304	2,097,275
205,521	1,040,793	1,246,314
290,702	1,189,833	1,480,535
5,327	6,952	12,279
408,508	47,916	456,424
-	51,022	51,022
662,147	496,780	1,158,927
115,958	415,918	531,876
-	1,310,402	1,310,402
-	6,621	6,621
15,944	12,592	28,536
1,704,107	4,578,829	6,282,936
$ 4,252,242	$ 7,105,502	11,357,744
		(115,396)
		11,242,348
		3,929,896
		1,544,166
		5,474,062
		525,254
		$ 5,243,032

	2011	2010
Other Revenue		
Dietary meals	$ 737	$ 285
Medical records	928	1,496
Rental income	8,988	11,254
Miscellaneous	30,217	20,630
Total Other Revenue	$ 40,870	$ 33,665

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	2011		
	Salaries	Supplies and Expenses	Total
Daily Patient Services			
Adults and Peds	561,707	$ 44,745	$ 606,452
	561,707	44,745	606,452
Other Nursing Services			
Operating room	33,930	144,952	178,882
Central services and supply	-	17	17
Emergency services	59,917	42,093	102,010
	93,847	187,062	280,909
Other Professional Services			
Radiology	172,860	122,129	294,989
Laboratory	167,764	160,226	327,990
Speech therapy	5,148	-	5,148
Respiratory therapy	-	7,629	7,629
Cardiac rehabilitation	46,779	3,529	50,308
Pharmacy	13,669	217,540	231,209
Physical therapy	140,100	9,807	149,907
Rural Health Clinic	1,056,428	124,515	1,180,943
Occupational therapy	3,360	750	4,110
	1,606,108	646,125	2,252,233
General Services			
Dietary	53,186	34,268	87,454
Medical records	102,379	65,986	168,365
Operation of plant	47,513	142,486	189,999
Housekeeping	56,615	16,601	73,216
Laundry and linen	17,684	-	17,684
	277,377	259,341	536,718
Administrative Services			
Administrative	565,097	477,724	1,042,821
Employee Benefits	-	450,067	450,067
	565,097	927,791	1,492,888
Depreciation and Amortization	-	563,165	563,165
Total Expenses	$ 3,104,136	$ 2,628,229	$ 5,732,365

2010		
Salaries	Supplies and Expenses	Total
$ 546,983	$ 70,151	$ 617,134
546,983	70,151	617,134
42,504	146,146	188,650
-	12,095	12,095
61,690	36,535	98,225
104,194	194,776	298,970
178,441	112,628	291,069
162,426	205,058	367,484
16,379	119	16,498
-	4,431	4,431
48,642	1,500	50,142
12,551	183,892	196,443
144,297	7,225	151,522
1,129,443	141,491	1,270,934
847	2,221	3,068
1,693,026	658,565	2,351,591
76,458	31,750	108,208
103,603	24,654	128,257
47,860	138,223	186,083
62,092	12,406	74,498
36,395	-	36,395
326,408	207,033	533,441
558,302	412,806	971,108
-	485,325	485,325
558,302	898,131	1,456,433
-	625,869	625,869
$ 3,228,913	$ 2,654,525	$ 5,883,438

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

Board of Trustees
Fairview Regional Medical Center Authority
Fairview, Oklahoma

We have audited the financial statements of Fairview Regional Medical Center Authority, as of and for the year ended June 30, 2011, and have issued our report thereon dated March 16, 2012. 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, we considered Fairview Regional Medical Center Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fairview Regional Medical Center Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fairview Regional Medical Center Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses 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 consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2011-1 through 2011-4 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. We consider the deficiencies described in the accompany Schedule of Findings and Responses as items 2011-5, 2011-6, and 2011-7 to be significant deficiencies.

Compliance and Other Matters

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

Fairview Regional Medical Center Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Fairview Regional Medical Center Authority's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Fairview Regional Medical Center Authority, in a separate letter dated March 16, 2012.

This report is intended solely for the information and use of management, the board of trustees and 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
March 16, 2012

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weaknesses:

2011-1 Preparation of Financial Statements

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

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

Cause: This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with this condition because of cost or other considerations. 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. Material adjusting entries were proposed as part of the financial statement audit.

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

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

Conclusion: Response accepted

2011-2 Account Reconciliations and Adjusting Journal Entries

Criteria**:** Reconciliation of general ledger accounts on a monthly basis is essential to prepare reliable financial statements. Furthermore, reconciliations serve as an internal control over financial reporting and safeguarding of assets.

Condition**:** Certain accounts such as contractual allowances on accounts receivable, fixed assets, accrued payroll and withholding accounts, and debt accounts were not properly reconciled or reviewed at year end.

Significant and material audit adjustments were necessary to fairly present the financial statements in all material respects.

Cause: An internal review process that verifies the accuracy of general ledger account balances on a monthly basis was not implemented. Some variances were caused by inaccurate postings of general ledger activity during the year.

Effect: Failure to periodically review account balances can result in errors on the interim financial statements and represents a weakness in internal control in the accounting system. Significant and material entries were proposed during the audit to adjust year end account balances, which overall had a material effect on the financial statements.

Recommendation: All general ledger accounts must be reconciled and reviewed monthly. Furthermore, the Chief Financial Officer should review reconciliations prepared by the accounting staff. This will help to ensure that significant entries are made as necessary on a timely basis.

Management's Response: Management agrees with the finding. The Hospital's staff accountant and Chief Financial Officer will work collectively with the monthly account reconciliations to improve the financial reporting process going forward.

Conclusion: Response accepted

2011-3 Reconciliation of Inventory Accounts and Implementation of Inventory Policies

Criteria: The Authority is responsible for reconciling all accounts for the purpose of issuing accurate financial statements.

Condition: During the current year, the Authority was not following proper inventory policies and inventory accounts were not reconciled to the general ledger. Furthermore, errors relative to pricing and quantities were noted in the inventory detail.

Cause: Controls over accounting did not provide for reconciliation and proper accounting of inventory.

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 Authority implement procedures to ensure inventory accounts are reconciled on a monthly basis.

Management's Response: Procedures will be implemented to ensure these balances are reconciled throughout 2011 – 2012.

Conclusion: Response accepted

2011-4 Maintenance of Depreciation Schedules

Criteria: The Authority is responsible maintaining depreciation schedules for the purpose of record keeping over its capital assets and issuing accurate financial statements.

Condition: During the current year the Authority did maintain depreciation schedules.

Cause: Controls over accounting did not provide for proper recording of depreciation expense.

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 Authority implement procedures to track capital assets and the depreciation related to such assets.

Management's Response: Procedures will be implemented to ensure these balances are reconciled throughout 2011 – 2012.

Conclusion: Response accepted

Significant Deficiencies:

2011-5 Evaluation of Contractual Allowance Percentages used for Estimates

Criteria: The Authority is responsible for evaluating contractual allowance percentages to apply to accounts receivable balances for the purpose of issuing accurate financial statements.

Condition: During the current year, the Authority did evaluate contractual allowance percentages. However, some percentages were not updated for industry changes. Furthermore, an allowance was not provided for Clinic Medicaid receivables.

Cause: Controls over accounting did not provide an appropriate evaluation of contractual allowance percentages.

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 Authority implement procedures to ensure contractual allowance percentages are evaluated and updated and all accounts receivable balances are properly addressed when reviewing the sufficiency of allowance balances.

Management's Response: Procedures will be implemented to ensure these balances are reconciled throughout 2011 – 2012.

Conclusion: Response accepted

2011-6 Reconciliation of Accrued Payroll Taxes and Withholding Accounts

Criteria: The Authority is responsible for reconciling all accounts for the purpose of issuing accurate financial statements.

Condition: During the current year the Authority did not reconcile accrued payroll taxes and withholding accounts from supporting schedules to the general ledger.

Cause: Controls over accounting did not provide for reconciliation of accrued payroll taxes and withholding accounts.

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 Authority implement procedures to ensure accrued payroll taxes and withholding accounts are reconciled on a monthly basis.

Management's Response: Procedures will be implemented to ensure these balances are reconciled throughout 2011 – 2012.

Conclusion: Response accepted

2011-7 Accounting for Debt Payments in Accordance with Amortization Schedules

Criteria: The Authority is responsible for properly recording debt payments and following amortization schedules for the purpose of issuing accurate financial statements.

Condition: During the current year the Authority did not consistently record debt payments nor did the Authority follow amortization schedules.

Cause: Controls over accounting did not provide for the proper recording of debt payments.

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 Authority implement procedures to record debt payments and reconcile balances to amortization schedules on a monthly basis.

Management's Response: Procedures will be implemented to ensure these balances are reconciled throughout 2011 – 2012.

Conclusion: Response accepted