Management's Discussion and Analysis
and Financial Statements
June 30, 2012 and 2011

Fairview Regional Medical Center Authority

EideBailly

CPAs & BUSINESS ADVISORS

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, 2012 and 2011, 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, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our audit report dated October 24, 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.

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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
October 24, 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, 2012 and 2011. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net assets changed in each of the past 2 years with a $246,136 or 14 percent increase in 2012 and a $248,153 or 12 percent decrease in 2011.
- The Authority reported an operating loss in 2012 of $85,625 and an operating loss in 2011 of $479,865. The loss in 2012 decreased by $394,240 or 82 percent over the loss reported in 2011. Operating losses in 2011 decreased by $126,876 or 21 percent compared to 2010.
- Nonoperating income increased by $100,049 or 43 percent in 2012 compared to 2011. Nonoperating income increased in 2011 by $47,452 or 26 percent compared to 2010.

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 increased in the past year by $246,136 and decreased in the prior year by $248,153 with a 14 percent increase in 2012 and a 12 percent decrease in 2011.

Condensed Balance Sheet

	2012	2011	2010
Assets			
Cash and cash equivalents	$ 437,157	$ 61,622	$ 316,821
Patient accounts receivable, net	829,770	795,233	959,123
Current portion of note receivable	29,122	16,056	16,009
Other current assets	168,285	130,971	165,814
Assets limited to use	249,075	192,168	176,541
Note receivable, net	-	7,721	31,545
Capital assets, net	4,235,638	4,614,284	4,977,052
Other assets	58,231	63,821	72,469
Total assets	$ 6,007,278	$ 5,881,876	$ 6,715,374
Liabilities			
Accounts payable	$ 491,180	$ 387,421	$ 244,480
Short-term note payable	22,165	16,534	27,320
Current maturities of long-term debt	366,658	395,910	404,351
Other current liabilities	417,608	308,696	720,030
Long-term debt, net	2,681,363	2,991,147	3,288,872
Total liabilities	3,978,974	4,099,708	4,685,053
Net Assets			
Invested in capital assets, net of related debt	1,183,573	1,223,183	1,279,785
Expendable for capital acquisitions	249,075	192,168	176,541
Unrestricted	595,656	366,817	573,995
Total net assets	2,028,304	1,782,168	2,030,321
Total liabilities and net assets	$ 6,007,278	$ 5,881,876	$ 6,715,374

Assets, Liabilities, and Net Assets

A significant component of the change in the Authority's assets, liabilities, and net assets is the change in current assets, capital assets and other current liabilities. This was primarily due to the increase in cash which increased $375,535 or 609%. Capital assets decreased by $378,646 or 8 percent from 2011. Other current liabilities increased $108,912 or 35%

Operating Results and Changes in Net Assets

Condensed Income Statement

	2012	2011	2010
Operating Revenue			
Net patient service revenue	$ 5,513,606	$ 5,211,630	$ 5,243,032
Other revenue	84,913	40,870	33,665
Total operating revenue	5,598,519	5,252,500	5,276,697
Operating Expenses			
Daily patient services	693,154	606,452	617,134
Nursing services	317,976	280,909	298,970
Other professional services	2,090,440	2,252,233	2,351,591
Other operating expenses	2,095,998	2,029,606	1,989,874
Depreciation and amortization	486,576	563,165	625,869
Total operating expenses	5,684,144	5,732,365	5,883,438
Operating Loss	(85,625)	(479,865)	(606,741)
Nonoperating Revenues (Expenses)			
Sales tax	406,506	364,875	337,129
Investment income	11,935	3,295	8,840
Interest expense	(146,882)	(167,231)	(229,368)
Gain on sale of assets	11,964	1,160	-
Other	(5,345)	(23,777)	-
Non capital grants and contributions	53,583	53,390	67,659
Total nonoperating revenues	331,761	231,712	184,260
Capital Contributions	-	-	21,700
Change in Net Assets	$ 246,136	$ (248,153)	$ (400,781)

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 2012 was $85,625. The operating loss in 2012 decreased by $394,240 compared to the 2011 operating loss of $479,865. The primary component of the change in the operating loss was the increase in operating revenue of $346,019.

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 $31,831 of charity care provided in 2012 and $71,698 in 2011 based on charges foregone. 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 2012 by $41,631 compared to 2011 and the decrease in interest expense which decreased in 2012 by $20,349 compared to 2011. As a result of these factors, nonoperating revenues increased by $100,049 in 2012 compared to the $47,452 increase of nonoperating revenues in 2011.

The Authority's Cash Flows

The Authority's overall liquidity increased during the year with a net increase to cash and cash equivalents, of $424,912 when compared with 2011. Cash flows provided by operating activities increased by $485,682 during 2012 when compared with 2011. This was due primarily to the increase in receipts from or on the behalf of patients. Cash used for non-capital financing activities decreased by $56,001 when compared with 2011. Cash used for capital and capital related financing activities decreased by $126,595 when compared with 2011. Cash from investing activities was $1,245 in 2012 compared to $3,295 in 2011.

Capital Assets and Debt Administration

At the end of 2012 and 2011, the Authority had $4,235,638 and $4,614,284 invested in net capital assets, as detailed in Note 5 to the financial statements.

Debt

At June 30, 2012, the Authority had $3,048,021 in outstanding long-term debt, a decrease of $339,033 from the prior year. For additional information regarding long-term debt, please see Note 9 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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	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 437,157	$ 61,622
Receivables		
Patient, net of estimated uncollectibles of $577,000 in 2012 and $550,000 in 2011	829,770	795,233
Other	101	-
Current portion of note receivable	29,122	16,056
Supplies	110,109	101,299
Prepaids	58,075	29,672
Total current assets	1,464,334	1,003,882
Assets Limited as to Use		
Cash and cash equivalents	189,006	139,629
Sales tax receivable	60,069	52,539
Total assets limited as to use	249,075	192,168
Note Receivable, Net of Current Portion	-	7,721
Capital Assets		
Capital assets not being depreciated	4,044	4,044
Depreciable capital assets, net of accumulated depreciation	4,231,594	4,610,240
Total capital assets, net	4,235,638	4,614,284
Other Assets	58,231	63,821
Total assets	$ 6,007,278	$ 5,881,876

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Short-term note payable	$ 22,165	$ 16,534
Current maturities of long-term debt	366,658	395,910
Accounts payable	491,180	387,421
Accrued expenses		
Salaries and payroll taxes	130,464	135,045
Vacation	181,362	113,799
Other	3,941	4,099
Estimated third party payor	101,841	55,753
Total current liabilities	1,297,611	1,108,561
Long Term Debt, Net	2,681,363	2,991,147
Total liabilities	3,978,974	4,099,708
Net Assets		
Invested in capital assets, net of related debt	1,183,573	1,223,183
Expendable for capital acquisitions	249,075	192,168
Unrestricted	595,656	366,817
Total net assets	2,028,304	1,782,168
Total liabilities and net assets	$ 6,007,278	$ 5,881,876

	2012	2011
Operating Revenue		
Patient service revenue, net of provision for bad debts of $763,849 in 2012 and $795,865 in 2011	$ 5,513,606	$ 5,211,630
Other revenue	84,913	40,870
Total operating revenue	5,598,519	5,252,500
Operating Expenses		
Daily patient services	693,154	606,452
Nursing services	317,976	280,909
Other professional services	2,090,440	2,252,233
General services	487,783	536,718
Administrative services	1,608,215	1,492,888
Depreciation and amortization	486,576	563,165
Total operating expenses	5,684,144	5,732,365
Operating Loss	(85,625)	(479,865)
Nonoperating Revenues (Expenses)		
Sales tax	406,506	364,875
Investment income	11,935	3,295
Interest expense	(146,882)	(167,231)
Gain on sale of assets	11,964	1,160
Non capital grants and contributions	53,583	53,390
Other nonoperating expense	(5,345)	(23,777)
Total nonoperating revenues, net	331,761	231,712
Increase (Decrease) in Net Assets	246,136	(248,153)
Net Assets, Beginning of the Year	1,782,168	2,030,321
Net Assets, End of Year	$ 2,028,304	$ 1,782,168

See Notes to Financial Statements

	2012	2011
Operating Activities		
Receipts from or on behalf of patients	$ 5,525,157	$ 4,939,369
Other receipts	90,402	52,715
Payments to suppliers	(1,929,227)	(1,753,108)
Payments to employees	(3,036,246)	(3,074,572)
Net Cash Provided by Operating Activities	650,086	164,404
Non Capital Related Financing Activities		
Payments on financed insurance	(102,684)	(158,492)
Non capital contributions and donations	53,583	53,390
Net Cash used for Non Capital Financing Activities	(49,101)	(105,102)
Capital and Capital Related Financing Activities		
Purchase of capital assets	(47,147)	(128,710)
Sales tax restricted to capital acquisitions	398,976	363,131
Principal payments on debt obligations	(439,229)	(468,328)
Proceeds from issuance of debt	-	96,065
Interest paid on debt obligations	(146,882)	(167,231)
Advances on line of credit	45,000	-
Proceeds from equipment sales	11,964	1,160
Net Cash used for Capital and Capital Related Financing Activities	(177,318)	(303,913)
Investing Activities		
Investment income	1,245	3,295
Net Increase (Decrease) in Cash and Cash Equivalents	424,912	(241,316)
Cash and Cash Equivalents, Beginning of Year	201,251	442,567
Cash and Cash Equivalents, End of Year	$ 626,163	$ 201,251

	2012	2011
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	$ 437,157	$ 61,622
Cash limited as to use	189,006	139,629
Total Cash and Cash Equivalents	$ 626,163	$ 201,251

	2012	2011
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	$ (85,625)	$ (479,865)
Adjustments to reconcile change in operating loss to net cash provided by operating activities		
Depreciation and amortization	486,576	563,165
Provision for bad debts	763,849	795,865
Changes in assets and liabilities		
Receivables	(798,487)	(628,778)
Supplies	(8,810)	3,080
Prepaid expenses	79,912	176,272
Other assets	-	3,058
Estimated amounts due to third party payors	46,088	(436,151)
Accounts payable	103,759	142,941
Accrued salaries	(4,581)	29,564
Accrued other	(158)	310
Accrued vacation	67,563	(5,057)
Net Cash Provided by Operating Activities	$ 650,086	$ 164,404

	2012	2011
Supplemental Cash Disclosure		
Assets purchased under other financing arrangements	$ 55,193	$ 66,097
Financed insurance	$ 108,315	$ 147,706
Accrued interest receivable	$ 10,690	$ -
Non operating bad debt expense	$ 5,345	$ 23,777

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 payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. 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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets, and are excluded from operations, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

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, 2012 and 2011, accumulated amortization was $53,570 and $47,980, respectively. Total amortization expense of the loan issuance costs was $5,591 for each of the years ended June 30, 2012 and 2011.

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.

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.

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.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were $32,000 and $72,000 for the years ended June 30, 2012 and 2011. Total direct and indirect costs related to these foregone charges were approximately $16,000 and $37,000 at June 30, 2012 and 2011, based on an average ratio of cost to gross charges.

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.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred $6,903 and $10,308 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

Sales Tax Revenue

The Authority received approximately 8% and 7% of its financial support during 2012 and 2011 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.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generated matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will or equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records payments to other expenses and receipts as reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Note 2 - 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. 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, 2010.

Medicaid: 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 55% and 3% of the Authority's net patient service revenue for the year ended June 30, 2012 and 57% and 4% for the year ended June 30, 2011. 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. The net patient service revenue for the year ended June 30, 2012 increased approximately $150,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Total patient service revenue	$ 11,006,104	$ 11,246,828
Contractual adjustments		
Medicare and Medicaid	3,348,264	3,829,610
Other	1,380,385	1,409,723
Total contractual adjustments	4,728,649	5,239,333
Provision for bad debts	763,849	795,865
Net patient service revenue	$ 5,513,606	$ 5,211,630

Note 3 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2012 and 2011 consist of the following:

	2012	2011
Receivables from patients and their insurance carriers	$ 901,491	$ 1,023,718
Receivable from Medicare	474,123	309,206
Receivable from Medicaid	30,961	12,645
Total patient accounts receivable	1,406,575	1,345,569
Less allowance for uncollectible accounts	576,805	550,336
Patient accounts receivable, net	$ 829,770	$ 795,233

Note 4 - Investment Income

Investment income on cash equivalents included interest income of $11,935 and $3,295 for the years ended June 30, 2012 and 2011, respectively.

Note 5 - Capital Assets

Capital assets additions, disposal or transfers, and balances for the years ended June 30, 2012 are as follows:

	Balance June 30, 2011	Additions and Transfers	Disposals	Balance June 30, 2012
Capital assets not being depreciated				
Land	$ 4,044	$ -	$ -	$ 4,044
Capital assets being depreciated				
Building and improvements	7,167,117	-	-	7,167,117
Equipment	3,677,981	102,339	-	3,780,320
	10,845,098	102,339	-	10,947,437
Less accumulated depreciation for:				
Building and improvements	3,172,054	324,700	-	3,496,754
Equipment	3,062,804	156,285	-	3,219,089
Total accumulated depreciation	6,234,858	480,985	-	6,715,843
Total capital assets being depreciated, net	4,610,240	(378,646)	-	4,231,594
Total capital assets, net	$ 4,614,284	$ (378,646)	$ -	$ 4,235,638

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
Total capital assets being depreciated	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

Note 6 - Cash and Deposits

At June 30, 2012 and 2011, bank balances were as follows:

	2012	2011
Insured (FDIC)	$ 586,512	$ 267,753
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	75,895	-
Total	$ 662,407	$ 267,753
Total carrying value		
Cash	$ 437,157	$ 61,622
Restricted cash	189,006	139,629
Total	$ 626,163	$ 201,251

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, 2012 and 2011, the carrying amount of the Authority's deposits was $626,163 and $201,251 and the bank balance was $662,407 and $267,753, respectively. As of June 30, 2012, $75,895 of the Authority's bank balances were collateralized by securities held by the pledging financial institution's trust department in the Authority's name. No amounts were at risk as of June 30, 2012.

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 7 - Assets Limited to Use

The $249,075 and $192,168 reported as assets limited to use in 2012 and 2011, respectively, have been limited by the sales tax ordinance to the purchase and financing for capital acquisitions and improvements.

Note 8 - 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 $75,422 and $42,460 for 2012 and 2011, respectively.

Future minimum lease payments under operating leases as June 30, 2012, which have an initial or remaining lease term in excess of one year are as follows:

Years Ending June 30,	
2013	$ 43,059
2014	1,975
2015	1,975
2016	1,975
	$ 48,984

The capitalized leased assets consist of:

	2012	2011
Major movable equipment	$ 674,630	$ 619,438
Less accumulated amortization (included as depreciation on the accompanying financial statements)	421,567	330,980
	$ 253,063	$ 288,458

Minimum lease payments on capital lease obligations are included in Note 9.

Note 9 - Debt

A schedule of changes in the Authority's long-term liabilities for 2012 follows:

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Current Portion
Short-term notes payable:					
Financed insurance 6	$ 16,534	$ 108,315	$ 102,684	$ 22,165	
Long-term notes payable:					
Bank of America 1	$ 1,879,165	$ -	$ 125,516	$ 1,753,649	$ 130,290
Line of credit 2	122	45,000	45,000	122	122
F&M note payable 3	1,174,252	-	114,845	1,059,407	117,077
City of Fairview 4	91,177	-	30,859	60,318	32,373
Total long-term Notes Payable	3,144,716	45,000	316,220	2,873,496	279,862
Capitalized lease obligations 5 - Note 9	242,341	55,193	123,009	174,525	86,796
Total long-term debt	$ 3,387,057	$ 100,193	$ 439,229	$ 3,048,021	$ 366,658

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	
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

The terms and due dates of the Authority's short-term and long-term debt, including capital lease obligations, at June 30, 2012 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 1.65% at June 30, 2012, 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

Capital Leases

5 Capital lease of chemistry analyzer, with an interest rate of 9.5%, collateralized by leased analyzer	$ 26,075
Capital lease of patient monitoring system, with an interest rate of 14.5%, collateralized by leased system	52,407
Capital lease of a treadmill, with an interest rate of 10.51%, collateralized by leased treadmill	12,776
Capital lease of system software, with an interest rate of 16.92%, collateralized by leased system	2,521
Capital lease of system software, with an interest rate of 12.79%, collateralized by leased system	29,116
Capital lease of computer hardware, with an interest rate of 6.59%, collateralized by leased desktops	9,354
Capital lease of computer hardware, with an interest rate of 15.37%, collateralized by leased monitors	7,142
Capital lease of photocopiers, with imputed interest rate of 9%, collateralized by leased photocopiers	3,378
Capital lease of chemistry analyzer, with an interest rate of 9.5%, collateralized by leased analyzer	31,756
	$ 174,525

6 Financed insurance premiums, due December 1, 2012 and January 1, 2013, unsecured.

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
2013	$ 279,862	$ 104,095	$ 86,796	$ 17,005
2014	283,912	93,430	58,385	7,570
2015	264,941	83,641	26,539	1,760
2016	274,305	74,276	2,805	45
2017	284,079	64,502	-	-
2018-2022	1,380,437	162,447	-	-
2023-2027	105,960	1,551	-	-
Total	$ 2,873,496	$ 583,942	$ 174,525	$ 26,380

Note 10 - Retirement Plan

Defined Contribution Plan

The Medical Center adopted a defined contribution 403(b) Savings Plan covering substantially all employees who have over 1,000 hours of service and are at least 21 years of age.

The Plan allows for eligible employees to contribute a percentage of pre-tax annual compensation as defined in the Plan. The Medical Center makes a discretionary matching percentage on the participant's eligible contributions for the Plan year. The Medical Center may also make an optional profit sharing contribution subject to certain limitations imposed by the Internal Revenue Service.

Participants are immediately vested in their voluntary contribution plus actual earnings thereon. Vesting in the remainder of their accounts is based on years of continuous service. A participant is 100% vested after three years of service. The discretionary contributions to the Plan were $24,749 and $27,605 for the years ended June 30, 2012 and 2011, respectively.

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, 2012 and 2011 was as follows:

	2012	2011
Medicare and Medicaid	50%	37%
Other third-party payors	19%	26%
Patients	31%	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, 2012 and 2011, the Authority received contributions from Fairview Hospital Foundation in the amounts of $0 and $4,500. 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 $159,327 and $100,647 for utilities as of June 30, 2012 and 2011, respectively.

The Authority has a note payable due to the City of Fairview in the amount of $60,318 as of June 30, 2012 and $91,177 as of June 30, 2011.

Note 15 - Subsequent Events

The Authority has evaluated subsequent events through October 24, 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, 2012 and 2011, and our report thereon dated October 24, 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 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 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
October 24, 2012

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	2012		
	Inpatient	Outpatient	Total
Daily Patient Services			
Adults and Peds	$ 2,111,760	$ 441,364	$ 2,553,124
Other Nursing Services			
Operating room	13,651	953,844	967,495
Central services and supply	132	6,992	7,124
Emergency room	75,702	1,431,052	1,506,754
	89,485	2,391,888	2,481,373
Other Professional Services			
Radiology	144,644	960,016	1,104,660
Laboratory	257,279	1,231,576	1,488,855
Speech therapy	4,436	1,894	6,330
Respiratory therapy	387,945	86,225	474,170
Cardiac rehabilitation	-	96,616	96,616
Pharmacy	549,770	526,431	1,076,201
Physical therapy	96,430	358,010	454,440
Rural Health Clinic	-	1,282,570	1,282,570
Nutritional education	-	1,430	1,430
Occupational therapy	11,619	6,547	18,166
	1,452,123	4,551,315	6,003,438
Gross Patient Service Revenue	$ 3,653,368	$ 7,384,567	11,037,935
Charity care			(31,831)
Total patient service revenue			11,006,104
Less Contractual Adjustments			
Medicare and Medicaid			3,348,264
Other			1,380,385
Total contractual adjustments			4,728,649
Provision for Bad Debts			763,849
Net Patient Service Revenue			$ 5,513,606

2011		
Inpatient	Outpatient	Total
$ 2,313,324	$ 572,047	$ 2,885,371
18,968	962,732	981,700
161	5,123	5,284
85,319	1,316,598	1,401,917
104,448	2,284,453	2,388,901
186,849	1,036,976	1,223,825
293,290	1,185,671	1,478,961
4,109	1,859	5,968
341,269	80,744	422,013
714	28,135	28,849
539,340	424,726	964,066
76,987	415,650	492,637
-	1,392,581	1,392,581
150	4,117	4,267
7,191	23,896	31,087
1,449,899	4,594,355	6,044,254
$ 3,867,671	$ 7,450,855	11,318,526
		(71,698)
		11,246,828
		3,829,610
		1,409,723
		5,239,333
		795,865
		$ 5,211,630

	2012	2011
Other Revenue		
Dietary meals	$ 4,235	$ 737
Medical records	846	928
Rental income	9,869	8,988
Miscellaneous	69,963	30,217
Total Other Revenue	$ 84,913	$ 40,870

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	2012		
	Salaries	Supplies and Expenses	Total
Daily Patient Services			
Adults and Peds	$ 638,971	$ 54,183	$ 693,154
	638,971	54,183	693,154
Other Nursing Services			
Operating room	32,397	175,161	207,558
Central services and supply	-	89	89
Emergency services	47,428	62,901	110,329
	79,825	238,151	317,976
Other Professional Services			
Radiology	113,612	91,917	205,529
Laboratory	177,830	190,668	368,498
Speech therapy	3,031	-	3,031
Respiratory therapy	-	7,600	7,600
Cardiac rehabilitation	52,996	1,306	54,302
Pharmacy	13,998	168,155	182,153
Physical therapy	146,193	5,401	151,594
Rural Health Clinic	980,586	135,146	1,115,732
Occupational therapy	1,023	978	2,001
	1,489,269	601,171	2,090,440
General Services			
Dietary	59,921	42,831	102,752
Medical records	112,604	39,846	152,450
Operation of plant	48,576	115,578	164,154
Housekeeping	56,033	12,394	68,427
Laundry and linen	-	-	-
	277,134	210,649	487,783
Administrative Services			
Administrative	546,466	509,579	1,056,045
Employee Benefits	-	552,170	552,170
	546,466	1,061,749	1,608,215
Depreciation and Amortization	-	486,576	486,576
Total Expenses	$ 3,031,665	$ 2,652,479	$ 5,684,144

2011		
Salaries	Supplies and Expenses	Total
$ 561,707	$ 44,745	$ 606,452
561,707	44,745	606,452
33,930	144,952	178,882
-	17	17
59,917	42,093	102,010
93,847	187,062	280,909
172,860	122,129	294,989
167,764	160,226	327,990
5,148	-	5,148
-	7,629	7,629
46,779	3,529	50,308
13,669	217,540	231,209
140,100	9,807	149,907
1,056,428	124,515	1,180,943
3,360	750	4,110
1,606,108	646,125	2,252,233
53,186	34,268	87,454
102,379	65,986	168,365
47,513	142,486	189,999
56,615	16,601	73,216
17,684	-	17,684
277,377	259,341	536,718
565,097	477,724	1,042,821
-	450,067	450,067
565,097	927,791	1,492,888
-	563,165	563,165
$ 3,104,136	$ 2,628,229	$ 5,732,365

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, 2012, and have issued our report thereon dated October 24, 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 2012-1 through 2012-3 to be material weaknesses.

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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 2012-4 through 2012-6 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 October 24, 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
October 24, 2012

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weaknesses:

2012-1 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

2012-2 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.

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

2012-3 Depreciation Schedules not Updated

Criteria: The Authority is responsible for 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 not 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:

2012-4 Reconciliation of Payroll (Retirement) Accrual Account

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 the accrued retirement withholding account from supporting schedules to the general ledger.

Cause: Controls over accounting did not provide for reconciliation of the accrued retirement withholding account.

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 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

2012-5 Adjusting Inventory Accounts at Year End

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

Condition: During the current year, the Authority failed to adjust book inventory to their physical count sheets as of yearend.

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 that book inventory is adjusted to the physical count sheets as of specific time periods.

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

Conclusion: Response accepted

2012-6 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