

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Accountants' Reports and Financial Statements
September 30, 2011 and 2010



Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
September 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Tillman County – City of Frederick Hospital Authority
Frederick, Oklahoma

We have audited the accompanying balance sheets of Tillman County – City of Frederick Hospital Authority (the Authority), a component unit of The Comanche County Hospital Authority, as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Tillman County – City of Frederick Hospital Authority as of September 30, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

February 14, 2012

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Management’s Discussion and Analysis
September 30, 2011 and 2010

This management’s discussion and analysis of the financial performance of Tillman County – City of Frederick Hospital Authority (the Authority) provides an overview of the Authority’s financial activities for the years ended September 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- The Authority’s net assets increased in each of the past two years with a \$382 or 7.4% increase in 2011 and a \$562 or 12.3% increase in 2010.
- The Authority reported operating income of \$158 in 2011 and \$275 in 2010.
- The Authority reported cash, cash equivalents and short-term investments of \$2,775 and \$3,917 in 2011 and 2010, respectively, a decrease of \$1,142 or 29.2%.
- The Authority invested in capital assets costing \$1,182 and \$1,118 during 2011 and 2010, respectively.

Using This Annual Report

The Authority’s financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any organization’s finances is, “Is the organization as a whole better or worse off as a result of the year’s activities?” The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Authority’s resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheets. The Authority's net assets increased by \$382 (7.4%) in 2011 and \$562 (12.3%) in 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash, cash equivalents and short-term investments	\$ 2,775	\$ 3,917	\$ 4,427
Patient accounts receivable, net	1,034	894	778
Other current assets	359	490	369
Capital assets, net	2,670	1,861	991
Other noncurrent assets	14	27	44
Total assets	\$ 6,852	\$ 7,189	\$ 6,609
Liabilities			
Long-term obligations	\$ 450	\$ 832	\$ 1,185
Current liabilities	876	1,213	842
Total liabilities	1,326	2,045	2,027
Net Assets			
Invested in capital assets, net of related debt	1,972	774	(385)
Restricted expendable for debt service	41	44	46
Unrestricted	3,513	4,326	4,921
Total net assets	5,526	5,144	4,582
Total liabilities and net assets	\$ 6,852	\$ 7,189	\$ 6,609

The Authority's cash, cash equivalents and short-term investments decreased by \$1,142 (29.2%) in 2011 over 2010 and decreased by \$510 (11.5%) in 2010 over 2009. In both 2011 and 2010, the decrease is largely due to investments in capital assets. The Authority's long-term obligations decreased in 2011 and 2010 by \$382 (45.9%) and by \$353 (29.8%), respectively. These decreases were primarily related to the Authority issuing no additional debt while reducing existing debt through debt service payments.

Operating Results and Changes in the Authority's Net Assets

In fiscal 2011, the Authority's net assets increased by \$382 or 7.4% as shown in Table 2. This compares to an increase in net assets for 2010 of \$562 or 12.3% and for 2009 of \$269 or 6.2%.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 7,750	\$ 8,259	\$ 6,603
Other operating revenues	378	94	119
Total operating revenues	<u>8,128</u>	<u>8,353</u>	<u>6,722</u>
Operating Expenses			
Salaries, wages and employee benefits	4,960	5,062	4,216
Medical supplies and drugs	521	639	509
Depreciation and amortization	386	267	313
Other operating expenses	2,103	2,110	1,656
Total operating expenses	<u>7,970</u>	<u>8,078</u>	<u>6,694</u>
Operating Income	<u>158</u>	<u>275</u>	<u>28</u>
Nonoperating Revenues (Expenses)			
City appropriations – unrestricted	232	288	232
Investment income	33	55	80
Interest expense	(41)	(56)	(71)
Total nonoperating revenues (expenses)	<u>224</u>	<u>287</u>	<u>241</u>
Increase in Net Assets	382	562	269
Net Assets, Beginning of Year	<u>5,144</u>	<u>4,582</u>	<u>4,313</u>
Net Assets, End of Year	<u>\$ 5,526</u>	<u>\$ 5,144</u>	<u>\$ 4,582</u>

Operating Income

The first component of the overall change in the Authority's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2011, 2010 and 2009, the Authority reported operating income.

The operating income for 2011 decreased by \$117 as compared to 2010. This decrease is due primarily to decreased net patient service revenue of \$509 (6.2%) as compared to 2010 primarily as a result of decreases in inpatient volumes. However, other operating revenues increased by \$284 from 2011 compared to 2010 primarily due to the Authority earning revenue under the state Medicaid electronic health record incentive program.

The operating income for 2010 increased by \$247 as compared to 2009. This increase is due primarily to increased net patient service revenue of \$1,756 (26.6%) as compared to 2009 as a result of increases in inpatient volumes. In addition, net patient service revenue and salaries and benefits increased due to changes in the terms of the clinic's operating arrangement.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and unrestricted city appropriations. Investment income exceeds interest expense due to cash, cash equivalents and short-term investment balances exceeding long-term debt balances.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income, nonoperating revenues and expenses and changes in accounts payable.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal 2011 and 2010, the Authority had \$2,670 and \$1,861, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2011 and 2010, the Authority invested in assets costing \$1,182 and \$1,118, respectively. No additional debt was incurred in conjunction with these purchases.

Debt

At September 30, 2011 and 2010, the Authority had \$712 and \$1,073, respectively, of notes and capital lease obligations outstanding as detailed in *Note 7* to the financial statements. During 2011 and 2010, the Authority did not incur any additional long-term debt.

Contacting the Authority's Financial Management

This financial report is designed to provide patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's Administrative Office at Tillman County – City of Frederick Hospital Authority, 319 East Josephine Avenue, Frederick, Oklahoma 73542-2220.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Balance Sheets
September 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 737,752	\$ 890,550
Restricted cash and investments – current	24,536	26,194
Short-term investments	202,048	2,900,000
Patient accounts receivable, net of allowance; 2011 – \$1,485,000, 2010 – \$1,224,000	1,033,777	894,479
Amount due from related party	48,516	189,003
Other receivables	21,565	28,766
Supplies	210,092	199,823
Prepaid expenses and other	79,844	72,273
Total current assets	2,358,130	5,201,088
Noncurrent Cash and Investments		
Held by trustee for debt service	24,536	26,194
Less amount required to meet current obligations	24,536	26,194
	-	-
Other long-term investments	1,810,699	100,000
Capital Assets, Net	2,669,911	1,861,044
Other Assets		
Deferred financing costs	13,646	26,963
Total assets	\$ 6,852,386	\$ 7,189,095

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 375,681	\$ 361,282
Accounts payable	109,824	329,389
Accrued expenses	373,848	504,705
Estimated amounts due to third-party payer	14,476	15,000
Accrued interest payable	<u>2,017</u>	<u>2,970</u>
Total current liabilities	875,846	1,213,346
Long-term Debt	336,146	711,828
Long-term Compensated Absences Obligation	<u>114,100</u>	<u>120,221</u>
Total liabilities	<u>1,326,092</u>	<u>2,045,395</u>
Net Assets		
Invested in capital assets, net of related debt	1,971,730	774,007
Restricted expendable for debt service	41,285	43,569
Unrestricted	<u>3,513,279</u>	<u>4,326,124</u>
Total net assets	<u>5,526,294</u>	<u>5,143,700</u>
Total liabilities and net assets	<u>\$ 6,852,386</u>	<u>\$ 7,189,095</u>

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$1,098,000, 2010 – \$906,000	\$ 7,750,294	\$ 8,259,000
Other	377,762	94,320
	8,128,056	8,353,320
Operating Expenses		
Salaries and wages	3,990,357	3,980,960
Employee benefits	969,634	1,080,744
Purchased services and professional fees	893,914	949,152
Medical supplies and drugs	521,281	639,185
Supplies and other	1,090,580	1,047,458
Insurance	117,470	113,271
Depreciation and amortization	386,341	266,928
	7,969,577	8,077,698
	158,479	275,622
Nonoperating Revenues (Expenses)		
City appropriations – unrestricted	232,487	287,736
Investment income	32,687	55,133
Interest expense	(41,059)	(56,421)
	224,115	286,448
Increase in Net Assets	382,594	562,070
Net Assets, Beginning of Year	5,143,700	4,581,630
Net Assets, End of Year	\$ 5,526,294	\$ 5,143,700

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 7,610,472	\$ 8,187,625
Payments to suppliers and contractors	(2,819,742)	(2,635,237)
Payments to and on behalf of employees	(5,096,969)	(4,882,544)
Other receipts (payments), net	523,871	(44,267)
Net cash provided by operating activities	217,632	625,577
Noncapital Financing Activities		
City appropriations received	234,066	290,471
Net cash provided by noncapital financing activities	234,066	290,471
Capital and Related Financing Activities		
Principal paid on long-term debt	(361,301)	(347,066)
Interest paid on long-term debt	(42,012)	(57,338)
Purchase of capital assets	(1,222,781)	(1,077,197)
Net cash used in capital and related financing activities	(1,626,094)	(1,481,601)
Investing Activities		
Purchase of investments	(1,800,000)	(2,900,000)
Proceeds from disposition of investments	2,800,000	3,500,000
Income on investments	19,940	55,133
Net cash provided by investing activities	1,019,940	655,133
Increase (Decrease) in Cash and Cash Equivalents	(154,456)	89,580
Cash and Cash Equivalents, Beginning of Year	916,744	827,164
Cash and Cash Equivalents, End of Year	\$ 762,288	\$ 916,744

	<u>2011</u>	<u>2010</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 737,752	\$ 890,550
Cash equivalents in noncurrent cash and investments held by trustee for debt service	<u>24,536</u>	<u>26,194</u>
Total cash and cash equivalents	<u>\$ 762,288</u>	<u>\$ 916,744</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 158,479	\$ 275,622
Depreciation and amortization	386,341	266,928
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	6,811	(254,962)
Supplies and prepaid expenses	(17,840)	(15,798)
Estimated amount due from third-party payer	(524)	45,000
Accounts payable and accrued expenses	<u>(315,635)</u>	<u>308,787</u>
Net cash provided by operating activities	<u>\$ 217,632</u>	<u>\$ 625,577</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ -	\$ 40,890

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2011 and 2010

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

Nature of Operations

Tillman County – City of Frederick Hospital Authority (the Authority) is a public trust organized under the provisions of Title 60 of the Oklahoma statutes. The beneficiaries of the trust include Tillman County, Oklahoma, and the city of Frederick, Oklahoma.

The Authority primarily earns revenues by operating a 37-bed short-term hospital (the Hospital) which was leased from Tillman County, Oklahoma, on May 1, 1981. The lease term is 50 years or until all debts of the Authority payable from the revenues of the Hospital have been paid. The lease amount of \$10 was prepaid at the lease inception. At the end of the lease term, control of the Hospital's operations reverts to the county of Tillman, Oklahoma. The Authority also earns revenues by operating the 30-bed Tillman Memorial Nursing Center (the Nursing Center), a home health agency and a physician clinic.

Effective September 1, 1993, The Comanche County Hospital Authority (CCHA), an Oklahoma public trust, entered into a sublease agreement with the Authority for the use of the Hospital and Nursing Center facilities and to take over full administration, management and operation of the Hospital and Nursing Center. The term of the sublease is for a period of 20 years with a renewal option for an additional 20 years. CCHA's consideration to the Authority under the sublease is CCHA's partial guarantee of the Authority's Series 2003 Revenue Refunding Note (*Note 7*). Under generally accepted accounting principles, the Authority constitutes a component unit of CCHA for financial reporting purposes.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, city appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2011 and 2010

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2011 and 2010, cash equivalents consisted of money market mutual funds.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

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; employee disability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, short-term disability and employee health and dental care benefits. Settled claims have not exceeded any commercial insurance coverage in any of the three preceding years.

The Authority participates in self-insured plans sponsored by CCHA to cover claims arising from unemployment, employee health and dental care and short-term disability.

The Authority obtains workers' compensation insurance through membership in the Oklahoma Health Care Association (the Association), which was formed for the benefit of qualified Oklahoma hospitals and related entities who wish to pool their resources pursuant to the provisions of Section 149.1 of Title 85 of the Oklahoma Statutes and Rule 3 of the Administrator of Oklahoma Workers' Compensation Court. Each member of the Association has jointly and severally agreed to assume, pay and discharge any liability under the Oklahoma Workers' Compensation Act of any and all members of the Association.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2011 and 2010

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	15–20 years
Buildings, improvements and fixed equipment	20–40 years
Major moveable equipment	3–7 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized using the interest method over the terms of the respective debt.

Compensated Absences

Authority policies permit most employees to accumulate paid days off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in long-term compensated absences obligation on the accompanying balance sheets.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2011 and 2010

Net Assets

Net assets of the Authority are classified in three components. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or contributors external to the Authority, including amounts deposited with trustees under the revenue note indenture, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

City Appropriations

Effective March 1, 1980, the citizens of the city of Frederick approved a 1% sales tax for the support of the Authority. In 2011 and 2010, the Authority received approximately 3% of its financial support from city appropriations related to the sales tax.

Income Taxes

The Authority is generally exempt from federal income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the state of Oklahoma and from state income taxes under a similar provision of state law. However, the Authority is subject to income tax on any unrelated business taxable income.

Tillman County – City of Frederick Hospital Authority
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Notes to Financial Statements
September 30, 2011 and 2010

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. The reclassifications had no impact on the changes in financial position.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Those payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and outpatient services are paid based on a cost reimbursement methodology. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through September 30, 2010.
- **Medicaid** – The Authority has been reimbursed for hospital services rendered to patients covered by the state Medicaid program on a prospective per discharge method and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority has also been reimbursed for services rendered to nursing center patients covered by the state Medicaid program on a prospective per diem method with no retroactive adjustments.

Approximately 54% and 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates and fixed payments per enrollee in capitated plans in which the Authority participates.

Tillman County – City of Frederick Hospital Authority
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Notes to Financial Statements
September 30, 2011 and 2010

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At September 30, 2011 and 2010, none of the Authority's bank balances of \$2,681,333 and \$4,383,257, respectively, were exposed to custodial credit risk.

Investments

At September 30, 2011 and 2010, the Authority had the following investments and maturities:

Type	September 30, 2011				
	Fair Value	Maturities in Years			
		Less than 1	1–5	6–10	More than 10
Money market mutual funds	\$ 33,931	\$ 33,931	\$ -	\$ -	\$ -

Type	September 30, 2010				
	Fair Value	Maturities in Years			
		Less than 1	1–5	6–10	More than 10
Money market mutual funds	\$ 33,502	\$ 33,502	\$ -	\$ -	\$ -

- **Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As means of limiting its exposure to fair value losses from rising interest rates, the Authority's investment policy limits sale of investments prior to maturity dates and directly investing in securities maturing more than five years from the date of purchase. The Authority also limits investment in securities maturing in more than three years from purchase date to no more than 40% of its portfolio. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.
- **Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority's policy to limit its investments to securities with a credit rating of AAA by Standard & Poor's or Aaa by Moody's, U.S. Treasury and other U.S. agencies and instrumentalities obligations, certificates of deposit and money market mutual funds.

Tillman County – City of Frederick Hospital Authority
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Notes to Financial Statements
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- **Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.
- **Concentration of Credit Risk** – The Authority’s policy requires periodic review of its investments to identify concentrations in a single issuer and, if there is a risk of significant loss, to reinvest as appropriate to reduce that risk.

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	\$ 2,741,104	\$ 3,883,242
Investments	33,931	33,502
	\$ 2,775,035	\$ 3,916,744
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 737,752	\$ 890,550
Restricted cash and investments – current	24,536	26,194
Short-term investments	202,048	2,900,000
Other long-term investments	1,810,699	100,000
	\$ 2,775,035	\$ 3,916,744

Investment Income

Investment income for the years ended September 30, 2011 and 2010, consisted of interest income.

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Notes to Financial Statements
September 30, 2011 and 2010

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, most of whom are southwestern Oklahoma residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2011 and 2010, consisted of:

	2011	2010
Patients	\$ 1,338,634	\$ 998,399
Medicare	611,034	492,898
Medicaid	160,430	103,819
Other third-party payers	408,679	523,363
	2,518,777	2,118,479
Less allowance for uncollectible accounts	1,485,000	1,224,000
	<u>\$ 1,033,777</u>	<u>\$ 894,479</u>

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 24,566	\$ -	\$ -	\$ -	\$ 24,566
Buildings, improvements and fixed equipment	5,051,578	62,322	-	22,564	5,136,464
Major moveable equipment	2,030,802	108,303	-	1,936,507	4,075,612
Construction in progress	1,010,914	1,011,266	-	(1,959,071)	63,109
	8,117,860	1,181,891	-	-	9,299,751
Less accumulated depreciation					
Buildings, improvements and fixed equipment	4,783,257	49,766	-	-	4,833,023
Major moveable equipment	1,473,559	323,258	-	-	1,796,817
	6,256,816	373,024	-	-	6,629,840
Capital assets, net	<u>\$ 1,861,044</u>	<u>\$ 808,867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,669,911</u>

Tillman County – City of Frederick Hospital Authority
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September 30, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 24,566	\$ -	\$ -	\$ -	\$ 24,566
Buildings, improvements and fixed equipment	5,051,578	-	-	-	5,051,578
Major moveable equipment	1,923,629	107,173	-	-	2,030,802
Construction in progress	-	1,010,914	-	-	1,010,914
	<u>6,999,773</u>	<u>1,118,087</u>	<u>-</u>	<u>-</u>	<u>8,117,860</u>
Less accumulated depreciation					
Buildings, improvements and fixed equipment	4,731,389	51,868	-	-	4,783,257
Major moveable equipment	1,277,462	196,097	-	-	1,473,559
	<u>6,008,851</u>	<u>247,965</u>	<u>-</u>	<u>-</u>	<u>6,256,816</u>
Capital assets, net	<u>\$ 990,922</u>	<u>\$ 870,122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,861,044</u>

Note 6: Medical Malpractice Coverage and Claims

The Authority has purchased medical malpractice insurance for hospital and nursing home services under a claims-made policy on a fixed premium basis.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable costs of such incidents. Because the Authority is a component unit of The Comanche County Hospital Authority, which in turn is a political subdivision of the state of Oklahoma, management believes the limit of liability for any individual tort claim not covered by insurance would be limited to \$125,000. Based upon the Authority's claims experience, no accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Tillman County – City of Frederick Hospital Authority
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Notes to Financial Statements
September 30, 2011 and 2010

Note 7: Long-Term Debt and Other Long-Term Obligations

Long-Term Debt

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue refunding note	\$ 810,000	\$ -	\$ 260,000	\$ 550,000	\$ 270,000
Note payable to bank	47,524	-	17,960	29,564	18,511
Capital lease obligation	215,586	-	83,341	132,245	87,170
	<u>\$ 1,073,110</u>	<u>\$ -</u>	<u>\$ 361,301</u>	<u>\$ 711,809</u>	<u>\$ 375,681</u>

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue refunding note	\$ 1,060,000	\$ -	\$ 250,000	\$ 810,000	\$ 260,000
Note payable to bank	64,910	-	17,386	47,524	17,941
Capital lease obligation	295,266	-	79,680	215,586	83,341
	<u>\$ 1,420,176</u>	<u>\$ -</u>	<u>\$ 347,066</u>	<u>\$ 1,073,110</u>	<u>\$ 361,282</u>

Revenue Refunding Note

Hospital Revenue Refunding Note, Series 2003, in the original amount of \$2,295,000 dated December 1, 2003, which bears interest at 4.4% payable semiannually. Principal is payable semiannually through September 2013. The Authority is required to make monthly deposits to the debt service funds held by the trustee. The note is secured by a pledge of the Authority's appropriations from the city of Frederick (see *Note 10*) and repaid from certain revenues of the Authority. CCHA has guaranteed approximately 40% of the principal and interest payments. The agreement requires the Authority to comply with certain restrictive covenants.

Tillman County – City of Frederick Hospital Authority
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Notes to Financial Statements
September 30, 2011 and 2010

The debt service requirements as of September 30, 2011, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2012	\$ 291,230	\$ 270,000	\$ 21,230
2013	<u>289,240</u>	<u>280,000</u>	<u>9,240</u>
	<u>\$ 580,470</u>	<u>\$ 550,000</u>	<u>\$ 30,470</u>

Note Payable to Bank

The note payable to bank is due April 8, 2013, with principal and interest at 3.1% payable monthly. The note is secured by a certificate of deposit held by the Authority. The debt service requirements as of September 30, 2011, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2012	\$ 19,206	\$ 18,511	\$ 695
2013	<u>11,158</u>	<u>11,053</u>	<u>105</u>
	<u>\$ 30,364</u>	<u>\$ 29,564</u>	<u>\$ 800</u>

Capital Lease Obligation

The Authority is obligated under a lease for equipment that is accounted for as a capital lease. Assets under the capital lease at September 30, 2011 and 2010, totaled \$477,423, net of accumulated depreciation of \$348,136 and \$266,482, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at 4.50% together with the present value of the future minimum lease payments as of September 30, 2011:

Year Ending September 30,	
2012	\$ 91,338
2013	<u>45,668</u>
Total minimum lease payments	137,006
Less amount representing interest	<u>4,761</u>
Present value of future minimum lease payments	<u>\$ 132,245</u>

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2011 and 2010

Compensated Absences Obligation

The following is a summary of compensated absences obligation transactions for the Authority for the years ended September 30, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Compensated absences obligation	\$ 199,385	\$ 232,865	\$ 221,707	\$ 210,543	\$ 96,443
	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Compensated absences obligation	\$ 200,577	\$ 181,042	\$ 182,234	\$ 199,385	\$ 79,164

Note 8: Charity Care and Other Community Benefits

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	2011	2010
Charity allowances	\$ 64,000	\$ 113,000
State Medicaid and other public aid programs	667,000	730,000
	\$ 731,000	\$ 843,000

Note 9: Retirement Plan

The Authority administers a defined contribution retirement plan for its employees. Contributions are made at the discretion of the Authority and no employee contributions are permitted. The Authority contributed approximately \$72,000 to the plan for both 2011 and 2010.

Tillman County – City of Frederick Hospital Authority
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Notes to Financial Statements
September 30, 2011 and 2010

Note 10: City Appropriations

A 1% sales tax ordinance with no established expiration date was enacted March 1, 1980, by the city of Frederick, Oklahoma, to originally provide unrestricted appropriations to be used by the Tillman County – City of Frederick Hospital Authority for hospital purposes. Effective April 1, 1994, under the terms of the Series 1994A and 1994B Bond Indentures, the appropriations were restricted to providing debt service on the outstanding bonds (see *Note 7*). In December 2003, the city of Frederick executed a revised sales tax agreement to secure payment of the Revenue Refunding Note (see *Note 7*) with a pledge of the appropriations.

Note 11: Related-Party Transactions

The Authority purchased ancillary services and supplies from CCHA during 2011 and 2010. Included in accounts payable at September 30, 2011 and 2010, are \$117,087 and \$125,814, respectively, owed to CCHA for services and supplies. Included in accrued expenses are approximately \$108,000 and \$47,000 for 2011 and 2010, respectively, related to estimated amounts due to CCHA for the Authority’s participation in CCHA’s self-insured health insurance plan. At September 30, 2011 and 2010, the Authority also had approximately \$49,000 and \$189,000, respectively, in accounts receivable for billings collected by CCHA on behalf of the Authority. The following related-party transactions are included in the accompanying statements of revenues, expenses and changes in net assets for the years ended September 30, 2011 and 2010:

	2011	2010
Expenses		
Ancillary services provided by CCHA	\$ 14,068	\$ 13,866
Management services provided by CCHA	\$ 182,055	\$ 237,479

Note 12: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. These allegations are in areas that may not be covered by commercial insurance purchased by the Authority, such as punitive damages, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Notes to Financial Statements
September 30, 2011 and 2010

Note 13: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present health care providers with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Authority's ability to maintain sufficient liquidity.

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

Board of Trustees
Tillman County – City of Frederick Hospital Authority
Frederick, Oklahoma

We have audited the financial statements of Tillman County – City of Frederick Hospital Authority (the Authority) as of and for the year ended September 30, 2011, and have issued our report thereon dated February 14, 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 the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 Authority's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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*.

Board of Trustees
Tillman County – City of Frederick Hospital Authority

We noted certain matters that we reported to the Authority's management in a separate letter dated February 14, 2012.

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 14, 2012

Tillman County – City of Frederick Hospital Authority
A Component Unit of The Comanche County Hospital Authority
Schedule of Findings and Responses
Year Ended September 30, 2011

Reference Number	Finding
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No matters are reportable.