

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
Accountants' Reports and Financial Statements  
September 30, 2012 and 2011





**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**September 30, 2012 and 2011**

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## Independent Accountants' Report on Financial Statements

Board of Trustees  
Valley View Hospital Authority  
Ada, Oklahoma

We have audited the accompanying balance sheets of Valley View Hospital Authority (the Authority), a component unit of the City of Ada, Oklahoma, as of September 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 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 Valley View Hospital Authority (the Authority) as of September 30, 2012 and 2011, 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 25, 2013, 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

*BKD, LLP*

February 25, 2013

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Balance Sheets**  
**September 30, 2012 and 2011**

**Assets**

	<b>2012</b>	<b>2011</b>
<b>Current Assets</b>		
Cash	\$ 56,684	\$ 6,659
Notes and leases receivable – current	210,587	779,632
	<hr/>	<hr/>
Total current assets	267,271	786,291
	<hr/>	<hr/>
<b>Capital Assets, Net</b>	115,939	152,552
	<hr/>	<hr/>
<b>Other Assets</b>		
Notes and leases receivable – noncurrent	-	239,078
	<hr/>	<hr/>
	-	239,078
	<hr/>	<hr/>
Total assets	<u>\$ 383,210</u>	<u>\$ 1,177,921</u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 210,587	\$ 779,632
Due to related party	50,000	-
	<hr/>	<hr/>
Total current liabilities	260,587	779,632
	<hr/>	<hr/>
<b>Long-Term Debt</b>	-	239,078
	<hr/>	<hr/>
Total liabilities	260,587	1,018,710
	<hr/>	<hr/>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	115,939	152,552
Unrestricted	6,684	6,659
	<hr/>	<hr/>
Total net assets	122,623	159,211
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 383,210</u>	<u>\$ 1,177,921</u>

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Investment income	\$ 31,005	\$ 66,572
<b>Operating Expenses</b>		
Depreciation	36,613	30,510
Gain on sale of capital assets	<u>-</u>	<u>(5,000)</u>
Total operating expenses	<u>36,613</u>	<u>25,510</u>
<b>Operating Income (Loss)</b>	<u>(5,608)</u>	<u>41,062</u>
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital gifts	-	25,438
Interest expense	<u>(30,980)</u>	<u>(66,484)</u>
Total nonoperating revenues (expenses)	<u>(30,980)</u>	<u>(41,046)</u>
<b>Increase (Decrease) in Net Assets</b>	(36,588)	16
<b>Net Assets, Beginning of Year</b>	<u>159,211</u>	<u>159,195</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 122,623</u></u>	<u><u>\$ 159,211</u></u>

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Statements of Cash Flows**  
**Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Investment income received	\$ 31,005	\$ 72,646
Other receipts, net	<u>50,000</u>	<u>-</u>
Net cash provided by operating activities	<u>81,005</u>	<u>72,646</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(808,123)	(818,482)
Interest payments on long-term debt	(30,980)	(72,558)
Purchase of capital assets	<u>-</u>	<u>(178,062)</u>
Net cash used in capital and related financing activities	<u>(839,103)</u>	<u>(1,069,102)</u>
<b>Investing Activities</b>		
Principal payments received on leases receivable	<u>808,123</u>	<u>818,482</u>
Net cash provided by investing activities	<u>808,123</u>	<u>818,482</u>
<b>Increase (Decrease) in Cash</b>	50,025	(177,974)
<b>Cash, Beginning of Year</b>	<u>6,659</u>	<u>184,633</u>
<b>Cash, End of Year</b>	<u><u>\$ 56,684</u></u>	<u><u>\$ 6,659</u></u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (5,608)	\$ 41,062
Depreciation	36,613	30,510
Gain on sale of capital assets	-	(5,000)
Change in operating assets and liabilities		
Interest receivable	-	6,074
Due to related party	<u>50,000</u>	<u>-</u>
Net cash provided by operating activities	<u><u>\$ 81,005</u></u>	<u><u>\$ 72,646</u></u>

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2012 and 2011**

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

***Nature of Operations and Reporting Entity***

The Valley View Hospital Authority (the Authority) was created under a trust indenture dated July 8, 1966, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of the City of Ada, Oklahoma. The Authority is a component unit of the City of Ada, Oklahoma, and the city council approves members to the Board of Trustees of the Authority. The Authority primarily earns revenues from interest income on financing provided to Valley View Regional Hospital (the Hospital).

The Authority was established to provide financing for physical plant facilities for the Hospital. The Hospital's bylaws require the trustees of the Authority to be members of the Hospital's Board of Directors.

***Basis of Accounting and Presentation***

The accompanying 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 are recognized when all eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions (principally, city appropriations) that are not program specific, investment income and interest expense on capital assets-related debt are included in nonoperating revenues and expenses. 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.

***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.



**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
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**September 30, 2012 and 2011**

***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; and natural disasters. 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.

***Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2012 and 2011, there were no cash equivalents.

***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and 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 dividend and interest income.

***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 are depreciated over the shorter of the lease term or their respective estimated useful lives. The Authority is using an estimated useful life of five years for its capital assets in 2012 and 2011.

***Net Assets***

Net assets of the Authority are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2012 and 2011**

***Income Taxes***

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

***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the changes in financial position.

**Note 2: Long-Term Debt**

The following is a summary of long-term debt transactions for the Authority for the years ended September 30, 2012 and 2011:

		<b>2012</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt						
Capital lease obligations		\$ 1,018,710	\$ -	\$ 808,123	\$ 210,587	\$ 210,587
Total long-term debt		<u>\$ 1,018,710</u>	<u>\$ -</u>	<u>\$ 808,123</u>	<u>\$ 210,587</u>	<u>\$ 210,587</u>
		<b>2011</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt						
Capital lease obligations		\$ 1,837,192	\$ -	\$ 818,482	\$ 1,018,710	\$ 779,632
Total long-term debt		<u>\$ 1,837,192</u>	<u>\$ -</u>	<u>\$ 818,482</u>	<u>\$ 1,018,710</u>	<u>\$ 779,632</u>

***Capital Lease Obligations***

The Authority is obligated under leases for equipment that are accounted for as capital leases.

The capital lease obligations include two capital leases with a local bank which bear interest at 4.9%. The capital leases are payable in monthly installments through January 2013. During 2012, the Authority paid off one of these capital leases.

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2012 and 2011**

The Authority's capital lease obligations also include a lease for equipment which bears interest at 6.7%. The capital lease is payable in monthly installments. During 2012, this capital lease was paid off.

The Authority entered into sublease agreements with the Hospital related to each of these capital lease obligations. The terms of the sublease agreements are identical to the capital leases. The capital leases are secured by certain capital assets. During 2012, the Hospital paid off two of these subleases.

The following is a schedule by year of future minimum lease payments under the capital leases together with the present value of the future minimum lease payments as of September 30, 2012:

<b>Year Ending September 30,</b>	
2013	\$ 212,718
Less amount representing interest	<u>2,131</u>
Present value of future minimum lease payments	<u><u>\$ 210,587</u></u>

**Note 3: Deposits 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 compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

At September 30, 2012 and 2011, none of the Authority's bank balances of \$56,684 and \$6,659, respectively, were exposed to custodial credit risk.

***Summary of Carrying Values***

The carrying values of the deposits shown above of \$56,684 and \$6,659 as of September 30, 2012 and 2011, respectively, are included in cash in the accompanying balance sheets.

***Investment Income***

Investment income for the years ended September 30, 2012 and 2011, consisted of interest income of \$31,005 and \$66,572, respectively.

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2012 and 2011**

**Note 4: Capital Assets**

Capital assets activity for the years ended September 30, 2012 and 2011, was:

<b>2012</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Vehicles	\$ 183,062	\$ -	\$ -	\$ -	\$ 183,062
Less accumulated depreciation	30,510	36,613	-	-	67,123
Capital assets, net	<u>\$ 152,552</u>	<u>\$ (36,613)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,939</u>

  

<b>2011</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Vehicles	\$ 174,770	\$ 183,062	\$ 174,770	\$ -	\$ 183,062
Less accumulated depreciation	174,770	30,510	174,770	-	30,510
Capital assets, net	<u>\$ -</u>	<u>\$ 152,552</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,552</u>

**Note 5: Related-Party Transactions**

The Authority has entered into sublease agreements with the Hospital as discussed in *Note 2*. The receivables under the sublease agreements have terms that are identical to the capital lease obligations.

**Note 6: 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. Some of these allegations are in areas not covered by the Authority's commercial insurance; for example, allegations regarding 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. At September 30, 2012 and 2011, no accrual had been recorded. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2012 and 2011**

**Note 7: Significant Estimates and Concentrations**

***Current Economic Conditions***

The current protracted economic decline continues to present entities 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, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

In addition, 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 asset values 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  
Valley View Hospital Authority  
Ada, Oklahoma

We have audited the financial statements of Valley View Hospital Authority (the Authority) as of and for the year ended September 30, 2012, and have issued our report thereon dated February 25, 2013, which contained an explanatory paragraph regarding omission of required supplementary information. 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**

Management of the Authority is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting 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.

Board of Trustees  
Valley View Hospital Authority

### **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*.

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 25, 2013

**Valley View Hospital Authority**  
**A Component Unit of the City of Ada, Oklahoma**  
**Schedule of Findings and Responses**  
**Year Ended September 30, 2012**

<b>Reference Number</b>	<b>Finding</b>
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No matters are reportable.