



Financial Statements  
September 30, 2011 and 2010

# Wagoner Hospital Authority

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## Independent Auditor's Report

Board of Trustees  
Wagoner Hospital Authority  
Wagoner, Oklahoma

We have audited the accompanying balance sheets of Wagoner 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Wagoner Hospital Authority, as of September 30, 2011 and 2010, 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 report dated January 31, 2012, on our consideration of Wagoner Hospital Authority's internal control over financial reporting and our test 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.

Accounting principles generally accepted in the United State 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 about 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  
January 31, 2012

This discussion and analysis of the financial performance of Wagoner Hospital Authority (Authority) provides an overview of the Authority's financial activities and balances for the years ended September 30, 2011, 2010, and 2009. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

### **Financial Highlights**

- The Authority's total assets increased during the year by \$67,252 or 1% in 2011, compared with a decrease during 2010 of \$560,731 or 7%.
- The Authority's total liabilities decreased during the year by \$1,387,887 or 25% in 2011, compared with an increase during 2010 of \$939,033 or 20%.
- The Authority reported operating income in 2011 of \$1,497,081 and an operating loss in 2010 of \$1,471,878. Operating income increased \$2,968,959 from 2010 to 2011. Operating loss increased \$1,383,904 from 2009 to 2010.

### **Using This Annual Report**

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

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

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

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

### The Statement of Cash Flows

The final required statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, 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 the 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 and are reflected in Table 1. The Authority's net assets increased by \$1,455,139 or 80% in 2011, and decreased by \$1,499,764 or 45% in 2010.

### Condensed Financial Statements

Table 1: Balance Sheets

	2011	2010	2009
Assets			
Current assets	\$ 4,107,490	\$ 3,432,837	\$ 3,672,524
Capital assets, net	3,327,272	3,773,916	4,179,783
Other assets	-	160,757	75,934
	<u>\$ 7,434,762</u>	<u>\$ 7,367,510</u>	<u>\$ 7,928,241</u>
Liabilities			
Current liabilities	\$ 1,237,656	\$ 2,469,956	\$ 1,682,289
Non current liabilities	2,928,504	3,084,091	2,932,725
	<u>4,166,160</u>	<u>5,554,047</u>	<u>4,615,014</u>
Net Assets			
Invested in capital assets, net of related debt	141,701	270,411	860,947
Unrestricted	3,126,901	1,543,052	2,452,280
	<u>3,268,602</u>	<u>1,813,463</u>	<u>3,313,227</u>
	<u>\$ 7,434,762</u>	<u>\$ 7,367,510</u>	<u>\$ 7,928,241</u>

Table 2: Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues			
Net patient service revenue	\$ 15,213,555	\$ 13,532,241	\$ 14,241,512
Other operating revenue	849,957	140,118	104,054
Total operating revenues	<u>16,063,512</u>	<u>13,672,359</u>	<u>14,345,566</u>
Operating Expenses			
Nursing services	3,093,567	2,793,521	2,344,890
Other professional services	5,931,409	6,476,992	6,221,162
General services	1,542,815	1,557,741	1,461,790
Administrative services	3,369,316	3,681,147	3,762,971
Depreciation and amortization	629,324	634,836	642,727
Total operating expenses	<u>14,566,431</u>	<u>15,144,237</u>	<u>14,433,540</u>
Operating income (loss)	<u>1,497,081</u>	<u>(1,471,878)</u>	<u>(87,974)</u>
Nonoperating Revenues (Expenses)			
Investment income	885	1,124	983
Interest expense	(144,635)	(138,499)	(154,143)
Noncapital contributions	101,808	109,489	107,265
Gain on sale of assets	-	-	17,590
Total nonoperating revenues (expenses)	<u>(41,942)</u>	<u>(27,886)</u>	<u>(28,305)</u>
Increase (Decrease) in Net Assets	1,455,139	(1,499,764)	(116,279)
Net Assets, Beginning of Year	<u>1,813,463</u>	<u>3,313,227</u>	<u>3,429,506</u>
Net Assets, End of Year	<u>\$ 3,268,602</u>	<u>\$ 1,813,463</u>	<u>\$ 3,313,227</u>

### Operating Income

The first component of the overall change in the Authority's net assets is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services. The Authority has reported operating income of \$1,497,081 in 2011, and loss of \$1,471,878 in 2010. The primary component of the income from operations was the increase in net patient service revenue of \$1,681,314 or 12%, compared with the prior year increase of \$709,271 or 5%. Also, there was a decrease in other professional services of \$545,583 or 8%, compared with the prior year increase of \$255,830 or 4%.

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of noncapital contributions and interest expense. Noncapital contributions decreased \$7,681 or 7% from 2010 to 2011, and increased \$2,224 or 2% from 2009 to 2010. Interest expense increased \$6,136 or 4% from 2010 to 2011, and decreased \$15,644 or 10% from 2009 to 2010.

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

The changes in the Authority's cash flows were due to:

- Net cash from operating activities increased in 2011 by \$1,974,102, and decreased in 2010 by \$763,039.
- Net cash used by capital and capital related financing activities increased in 2011 by \$470,663 and decreased in 2010 by \$341,021.

### **Capital Assets**

In 2011, the Authority purchased \$182,680 of capital assets and had \$3,327,273 invested in capital assets, net of accumulated depreciation, at the end of 2011 as detailed in Note 5, to the financial statements. In 2010, the Authority purchased \$228,969 of capital assets and had \$3,773,916 invested in capital assets, net of accumulated depreciation, at the end of 2010 as detailed in Note 5, to the financial statements.

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

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling 918-485-1200.



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	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,631,274	\$ 299,594
Accounts receivable		
Patients, net of allowance for doubtful accounts of \$1,256,000 in 2011 and \$1,463,000 in 2010	1,897,331	2,607,594
Other	102,856	157,882
Security deposits	76,382	-
Supplies	302,753	323,212
Prepaid expenses	96,894	44,555
Total current assets	<u>4,107,490</u>	<u>3,432,837</u>
Capital Assets		
Land and construction in progress	163,648	160,761
Depreciable capital assets, net of accumulated depreciation	<u>3,163,624</u>	<u>3,613,155</u>
Capital Assets, net	<u>3,327,272</u>	<u>3,773,916</u>
Other Assets		
Long term notes receivable	-	84,375
Security deposits	<u>-</u>	<u>76,382</u>
Total other assets	<u>-</u>	<u>160,757</u>
Total assets	<u>\$ 7,434,762</u>	<u>\$ 7,367,510</u>

See Notes to Financial Statements

Wagoner Hospital Authority  
Balance Sheets  
September 30, 2011 and 2010

	2011	2010
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 257,067	\$ 419,414
Accounts payable	550,126	1,231,059
Accrued liabilities	406,463	687,104
Estimated third-party settlements	24,000	132,379
Total current liabilities	1,237,656	2,469,956
Long-Term Debt, net of current maturities	2,928,504	3,084,091
Total liabilities	4,166,160	5,554,047
<b>Net Assets</b>		
Invested in capital assets, net of related debt	141,701	270,411
Unrestricted	3,126,901	1,543,052
Total net assets	3,268,602	1,813,463
Total liabilities and net assets	\$ 7,434,762	\$ 7,367,510

Wagoner 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 bad debts of \$3,220,804 in 2011 and \$3,522,162 in 2010	\$ 15,213,555	\$ 13,532,241
Other	849,957	140,118
Total operating revenues	16,063,512	13,672,359
Operating Expenses		
Nursing services	3,093,567	2,793,521
Other professional services	5,931,409	6,476,992
General services	1,542,815	1,557,741
Administrative services	3,369,316	3,681,147
Depreciation and amortization	629,324	634,836
Total operating expenses	14,566,431	15,144,237
Operating Income (Loss)	1,497,081	(1,471,878)
Nonoperating Revenues (Expense)		
Investment income	885	1,124
Interest expense	(144,635)	(138,499)
Noncapital contributions	101,808	109,489
Total nonoperating revenues (expenses)	(41,942)	(27,886)
Increase (Decrease) in Net Assets	1,455,139	(1,499,764)
Net Assets, Beginning of Year	1,813,463	3,313,227
Net Assets, End of Year	\$ 3,268,602	\$ 1,813,463

Wagoner Hospital Authority  
 Statements of Cash Flows  
 Years Ended September 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 15,815,439	\$ 13,797,767
Payments to suppliers and contractors	(7,736,023)	(7,114,519)
Payments to employees	(7,110,163)	(6,889,400)
Other receipts	904,983	106,286
	1,874,236	(99,866)
Net Cash From (Used for) Operating Activities		
Non Capital Related Financing Activities		
Non capital contributions	980	-
	980	-
Capital and Related Financing Activities		
Proceeds from long-term debt	437	479,214
Principle payments on long-term debt	(355,213)	(316,553)
Interest payments on long-term debt	(43,807)	(29,010)
Deposit on equipment	-	(448)
Purchase of property and equipment	(145,838)	(206,961)
	(544,421)	(73,758)
Net Cash Used for Capital and Related Financing Activities		
Investing Activities		
Interest on investments	885	1,124
	885	1,124
Net Change in Cash	1,331,680	(172,500)
Cash and Cash Equivalents, Beginning of Year	299,594	472,094
Cash and Cash Equivalents, End of Year	\$ 1,631,274	\$ 299,594

Wagoner Hospital Authority  
 Statements of Cash Flows  
 Years Ended September 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income (Loss) to Net Cash		
From (Used for) Operating Activities		
Operating income (loss)	\$ 1,497,081	\$ (1,471,878)
Adjustments to reconcile operating income (loss) to net cash		
from (used for) operating activities		
Provision for depreciation and amortization	629,324	634,836
Provision for bad debts	3,220,804	3,522,162
Amortization of physician loans	60,805	52,500
Changes in assets and liabilities		
Accounts receivable	(2,510,541)	(3,518,532)
Other receivables	(5,779)	(170,707)
Long-term notes receivable	84,375	-
Supplies	20,459	(40,635)
Prepaid expenses	(52,339)	8,507
Accounts payable	(680,933)	584,457
Accrued liabilities	(280,641)	37,528
Estimated third-party payor settlements	(108,379)	261,896
Net Cash From (Used for) operating activities	\$ 1,874,236	\$ (99,866)
Supplemental Cash Disclosure		
Capital assets purchased under capital leases	\$ 36,842	\$ 22,008
Interest paid by City of Wagoner - included in noncapital contributions	\$ 100,828	\$ 109,489

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

### **Reporting Entity**

Wagoner Hospital Authority (Authority) is a public trust created under the laws of the State of Oklahoma, for the hospital facilities and equipment located in the city of Wagoner, Oklahoma. The city of Wagoner is beneficiary of the trust.

The Authority primarily earns revenues by providing inpatient, psychiatric inpatient, outpatient, and emergency care services to patients from Wagoner, Oklahoma and surrounding communities.

### **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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Accounting Standards**

The Authority uses enterprise fund accounting, where revenues and expenses are recognized on the accrual basis of accounting using the economic resources measurement focus. Based on the Government Accounting Standards Board ("GASB") Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

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

### **Basis of Presentation**

The balance sheet displays the Authority's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories/components:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

### **Cash Equivalents**

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

### **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. 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.

### **Notes Receivable**

Notes receivable represent uncollateralized amounts due from physicians under various incentive programs. Amounts are forgiven by the Authority over time as commitments are satisfied. If commitments are not satisfied, amounts will be due to the Authority immediately.

### **Supplies**

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



### Capital Assets

Capital asset acquisitions in excess of \$1,000 are capitalized and are recorded at cost. Capital assets donated for Authority operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of 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. Such amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

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

### Net Patient Service Revenue

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

### Charity Care

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

### Operating Revenues and Expenses

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

### Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The provision for estimated medical malpractice claims, if any, include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

### **Grants and Contributions**

Revenues from contributions and grants (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions and grants may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

### **Compensated Absences**

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

### **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.

### **Reclassification**

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase (decrease) in net assets.

### **Note 2 - Charity Care and Community Benefits**

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were approximately \$53,000 and \$98,000 for the years ended September 30, 2011 and 2010, respectively. The estimated costs of the charges foregone, based upon the Authority's overall cost-to-charge ratio calculation, for the years ended September 30, 2011 and 2010, were \$20,000 and \$42,000, respectively.

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 for some services the payments are less than the cost of rendering the services provided.

The Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

### **Note 3 - Net Patient Service Revenue**

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

**Medicare:** Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which includes capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's classification of patient under the Medicare program and the appropriateness of their admissions are subject to an independent review by a per review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 20, 2007.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates for each day of hospitalization with no retrospective adjustment.

**Other:** 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 48% and 17%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2011, and 38% and 19%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2010. The net patient service revenue for the years ended September 30, 2011 and 2010, increased approximately \$7,000 and increased approximately \$32,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated and removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

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 Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Authority may incur a liability for a claims overpayment at a future date. The Authority is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Authority's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Authority and CMS.

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

	2011	2010
Total Patient Service Revenue	\$ 36,483,043	\$ 35,233,089
Contractual adjustments		
Medicare	(5,808,137)	(6,639,883)
Medicaid	(5,405,742)	(4,860,336)
Other	(6,834,805)	(6,678,467)
Total contractual adjustments	(18,048,684)	(18,178,686)
Provision for bad debts	(3,220,804)	(3,522,162)
Net Patient Service Revenue	\$ 15,213,555	\$ 13,532,241

#### Note 4 - Cash and Deposits

State statutes require public trusts to invest monies in direct obligations of the United States Government or in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. At September 30, 2011 and 2010, the Authority had bank balances as follows:

	2011	2010
Total Bank Balance		
Insured (FDIC)	\$ 640,904	\$ 304,155
Collateralized with an irrevocable letter of credit held by the Authority's agent in the Authority's name	1,247,892	-
	\$ 1,888,796	\$ 304,155
Total Carrying Value		
Cash and cash equivalents	\$ 1,631,274	\$ 299,594

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 an irrevocable letter of credit. State law requires all deposits of public funds to be collateralized; however the Authority does not have a formal policy for collateralizing cash deposits. As of September 30, 2011 and 2010, none of the Authority's bank balances were exposed to custodial credit risk. The Authority's cash balances are maintained in various bank deposit accounts.

**Note 5 - Capital Assets**

Capital asset activity for the year ended September 30, 2011 and 2010, is as follows:

	2011				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Non-depreciable capital assets					
Land	\$ 157,808	\$ -	\$ -	\$ -	\$ 157,808
Construction in process	2,953	10,814	(4,975)	(2,952)	5,840
Total non-depreciable capital assets	<u>160,761</u>	<u>10,814</u>	<u>(4,975)</u>	<u>(2,952)</u>	<u>163,648</u>
Depreciable capital assets					
Land improvements	37,782	-	-	-	37,782
Buildings and improvements	5,037,801	2,314	4,975	-	5,045,090
Major moveable equipment	9,126,031	172,504	-	-	9,298,535
Total depreciable capital assets	<u>14,201,614</u>	<u>174,818</u>	<u>4,975</u>	<u>-</u>	<u>14,381,407</u>
Less accumulated depreciation					
Land improvements	20,375	2,540	-	-	22,915
Buildings and improvements	2,875,493	165,612	-	-	3,041,105
Major moveable equipment	7,692,591	461,172	-	-	8,153,763
Total accumulated depreciation	<u>10,588,459</u>	<u>629,324</u>	<u>-</u>	<u>-</u>	<u>11,217,783</u>
Net depreciable capital assets	<u>3,613,155</u>	<u>(454,506)</u>	<u>4,975</u>	<u>-</u>	<u>3,163,624</u>
Capital assets, net	<u>\$ 3,773,916</u>	<u>\$ (443,692)</u>	<u>\$ -</u>	<u>\$ (2,952)</u>	<u>\$ 3,327,272</u>

Wagoner Hospital Authority  
Notes to Financial Statements  
September 30, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Non-depreciable capital assets					
Land	\$ 157,808	\$ -	\$ -	\$ -	\$ 157,808
Construction in process	-	41,621	(38,668)	-	2,953
Total non-depreciable capital assets	<u>157,808</u>	<u>41,621</u>	<u>(38,668)</u>	<u>-</u>	<u>160,761</u>
Depreciable capital assets					
Land improvements	36,417	1,365	-	-	37,782
Buildings and improvements	4,996,327	2,806	38,668	-	5,037,801
Major moveable equipment	8,942,854	183,177	-	-	9,126,031
Total depreciable capital assets	<u>13,975,598</u>	<u>187,348</u>	<u>38,668</u>	<u>-</u>	<u>14,201,614</u>
Less accumulated depreciation					
Land improvements	18,110	2,265	-	-	20,375
Buildings and improvements	2,715,532	159,961	-	-	2,875,493
Major moveable equipment	7,219,981	472,610	-	-	7,692,591
Total accumulated depreciation	<u>9,953,623</u>	<u>634,836</u>	<u>-</u>	<u>-</u>	<u>10,588,459</u>
Net depreciable capital assets	<u>4,021,975</u>	<u>(447,488)</u>	<u>38,668</u>	<u>-</u>	<u>3,613,155</u>
Capital assets, net	<u>\$ 4,179,783</u>	<u>\$ (405,867)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,773,916</u>

**Note 6 - Long-Term Debt**

Long-term debt consists of:

	September 30, 2011				Current Portion
	Beginning Balance	Additions	Deductions	Ending Balance	
Notes Payable:					
First Bank and Trust (1)	\$ 2,994,882	\$ 40	\$ -	\$ 2,994,922	\$ 100,928
First Bank and Trust (2)	21,067	397	21,067	397	397
Capitalized lease obligations (3)	<u>487,556</u>	<u>36,842</u>	<u>334,146</u>	<u>190,252</u>	<u>155,742</u>
Total long-term debt	<u>\$ 3,503,505</u>	<u>\$ 37,279</u>	<u>\$ 355,213</u>	<u>\$ 3,185,571</u>	<u>\$ 257,067</u>

Wagoner Hospital Authority  
Notes to Financial Statements  
September 30, 2011 and 2010

	Beginning Balance	September 30, 2010			Current Portion
		Additions	Deductions	Ending Balance	
Note Payable:					
First Bank and Trust (1)	\$ 2,536,735	\$ 458,147	\$ -	\$ 2,994,882	\$ 73,868
First Bank and Trust (2)	-	21,067	-	21,067	21,067
Capitalized lease obligations (3)	782,101	22,008	316,553	487,556	324,479
Total long-term debt	<u>\$ 3,318,836</u>	<u>\$ 501,222</u>	<u>\$ 316,553</u>	<u>\$ 3,503,505</u>	<u>\$ 419,414</u>

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

1. Variable rate note, maximum loan principal \$3,000,000, current interest rate 4.00 percent, collateralized by accounts receivable, supplies and capital assets. Interest only for three years, principal payments begin October 2011.
2. Variable rate note, maximum loan principal \$500,000, current interest rate 4.00 percent, collateralized by accounts receivable, supplies and capital assets.
3. Capital lease obligations, at varying rates of imputed interest from 4.55 percent to 8.78 percent, collateralized by leased equipment with cost of \$1,545,741 and net book value of \$341,580.

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

Year Ending September 30,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2012	\$ 101,325	\$ 117,960	\$ 155,742	\$ 6,603
2013	105,040	113,848	11,544	2,915
2014	109,320	109,568	11,064	1,877
2015	113,774	105,115	11,902	765
2016	118,409	100,479	-	53
2017-2021	668,460	425,990	-	-
2022-2026	816,189	278,254	-	-
2027-2031	962,802	97,867	-	-
Total	<u>\$ 2,995,319</u>	<u>\$1,349,081</u>	<u>\$ 190,252</u>	<u>\$ 12,213</u>

**Note 7 - 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. Total lease expense in September 30, 2011 and 2010, for all operating leases is \$138,737 and \$138,649 respectively.

The capitalized leased assets consist of:

	2011	2010
Major movable equipment	\$ 1,545,741	\$ 1,508,899
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(1,204,161)	(939,163)
	\$ 341,580	\$ 569,736

Minimum future lease payments for the operating leases are as follows:

Year Ending September 30,	Operating Leases
2012	\$ 89,765
2013	60,762
Total minimum lease payments	\$ 150,527

**Note 8 - Concentration of Credit Risk**

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

	2011	2010
Medicare	24%	24%
Medicaid	14%	15%
Commercial insurance	34%	32%
Other and patient	28%	29%
	100%	100%



**Note 9 - Related Party Transactions**

The Authority has a verbal agreement with the city of Wagoner in which the city will pay the interest on the Authority's line of credit. During the years ended September 30, 2011 and 2010, the city of Wagoner paid \$100,828 and \$109,489, respectively, in interest on the line of credit.

The Authority Board of Trustees has a management agreement with Quorum Health Resources LLC. This agreement is a defined service agreement for managing the day-to-day operations of the Authority through August 31, 2014. During the years ended September 30, 2011 and 2010, the Authority incurred fees to Quorum Health Resources, LLC for management services of \$159,433 and \$239,034, respectively. The Authority owed Quorum Health Resources, LLC \$0 and \$69,848 at September 30, 2011 and 2010, respectively.

**Note 10 - Medicaid E H R**

During the year ended September 30, 2011, the Authority received incentive payments of \$697,545 from Medicaid to implement electronic health record technology. At the time this report was issued, no authoritative guidance had been provided regarding the accounting treatment of Medicaid E H R payments. In absence of authoritative guidance, management had recorded this transaction in other operating income similar in nature to an exchange transaction.

**Note 11 - Subsequent Event**

The Authority has evaluated subsequent events and transactions occurring subsequent to September 30, 2011, through January 31, 2012, the date which the financial statements were available to be issued. During this period, there were no subsequent events requiring recognition in the consolidated financial statements. Additionally there were no nonrecognized subsequent events requiring disclosure.

**Note 12 - Contingencies**

**Medical Malpractice Insurance**

The Authority pays fixed premiums for annual medical malpractice coverage under occurrence-basis policies. In general, the Authority bears risk for any individual claims with costs exceeding \$1,000,000 and the excess, if any, over aggregate costs of \$3,000,000 for claims occurring during the policy year. 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.

### **Health Care Legislation and Regulation**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.



Supplementary Information  
September 30, 2011 and 2010

## Wagoner Hospital Authority



## Independent Auditor's Report on Supplementary Information

Board of Trustees  
Wagoner Hospital Authority  
Wagoner, Oklahoma

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of net patient service revenue, other operating revenues, and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Eide Bailly LLP*

Oklahoma City, Oklahoma  
January 31, 2012

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	2011		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 8,001,496	\$ 274,081	\$ 8,275,577
Other Nursing Services			
Central services and supply	5,515	1,534	7,049
Emergency services	731,083	2,584,508	3,315,591
	<u>736,598</u>	<u>2,586,042</u>	<u>3,322,640</u>
Other Professional Services			
Clinic	-	2,308	2,308
Electrocardiology	-	-	-
Laboratory	2,136,232	4,157,141	6,293,373
Observation	1,064	140,140	141,204
Operating room	824,232	1,449,457	2,273,689
Outpatient center	132	22,304	22,436
Pharmacy	3,696,774	761,437	4,458,211
Physical therapy	51,379	325,521	376,900
Psychiatric	1,204,169	1,185,543	2,389,712
Radiology	1,613,268	5,733,490	7,346,758
Respiratory therapy	952,007	325,749	1,277,756
Scopes	-	15,912	15,912
Sleep lab	-	339,463	339,463
	<u>10,479,257</u>	<u>14,458,465</u>	<u>24,937,722</u>
Charity Care	-	-	(52,896)
Gross Patient Services Revenue	<u>\$ 19,217,351</u>	<u>\$ 17,318,588</u>	<u>36,483,043</u>
Less Adjustments for			
Contractual adjustments			
Medicare			5,808,137
Medicaid			5,405,742
Other			6,834,805
Provision for bad debts			<u>3,220,804</u>
Total contractual adjustments			<u>21,269,488</u>
Net Patient Service Revenue			<u>\$ 15,213,555</u>

Wagoner Hospital Authority  
Schedules of Net Patient Service Revenue  
Years Ended September 30, 2011 and 2010

2010		
Inpatient	Outpatient	Total
\$ 7,365,406	\$ 291,341	\$ 7,656,747
2,354	1,048	3,402
593,294	2,722,277	3,315,571
595,648	2,723,325	3,318,973
-	28,643	28,643
-	42,760	42,760
2,097,557	3,899,387	5,996,944
1,372	134,578	135,950
518,154	1,212,233	1,730,387
2,594	23,498	26,092
3,102,679	727,627	3,830,306
62,013	1,419,681	1,481,694
1,175,153	1,133,237	2,308,390
1,432,903	6,049,240	7,482,143
603,540	285,627	889,167
5,130	47,342	52,472
-	350,814	350,814
9,001,095	15,354,667	24,355,762
-	-	(98,393)
\$ 16,962,149	\$ 18,369,333	35,233,089
		6,639,883
		4,860,336
		6,678,467
		3,522,162
		21,700,848
		\$ 13,532,241

Wagoner Hospital Authority  
Schedules of Other Operating Revenue  
Years Ended September 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
Other Revenue		
Rent	\$ 64,433	\$ 70,152
Vendor rebates	33,497	24,953
Cafeteria	25,116	30,976
Medical records fees	7,096	7,369
Vending machines	2,092	2,319
Medicaid E H R incentive payment	697,545	-
Medical nutrition consults	1,105	455
Miscellaneous	<u>19,073</u>	<u>3,894</u>
Total other revenue	<u>\$ 849,957</u>	<u>\$ 140,118</u>



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	2011		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 921,578	\$ 688,432	\$ 1,610,010
Central services and supply	78,048	23,169	101,217
Emergency services	756,412	625,928	1,382,340
	<u>1,756,038</u>	<u>1,337,529</u>	<u>3,093,567</u>
Other Professional Services			
Clinic	54,707	10,324	65,031
Electrocardiology	-	-	-
Laboratory	313,899	474,872	788,771
Operating room	709,665	411,390	1,121,055
Outpatient center	38,204	11,657	49,861
Pharmacy	140,067	361,140	501,207
Physical therapy	129,176	81,127	210,303
Psychiatric	1,588,534	559,718	2,148,252
Radiology	367,873	385,813	753,686
Respiratory therapy	189,959	61,859	251,818
Sleep lab	-	41,425	41,425
	<u>3,532,084</u>	<u>2,399,325</u>	<u>5,931,409</u>
General Services			
Dietary	190,314	244,325	434,639
Housekeeping	198,434	132,982	331,416
Medical records	172,411	108,584	280,995
Plant engineering	135,825	359,940	495,765
	<u>696,984</u>	<u>845,831</u>	<u>1,542,815</u>
Administrative Services			
Administrative and general	844,416	1,374,810	2,219,226
Employee benefits	-	902,527	902,527
Insurance	-	247,563	247,563
	<u>844,416</u>	<u>2,524,900</u>	<u>3,369,316</u>
Provision for Depreciation and Amortization	-	629,324	629,324
Total Expenses	<u>\$ 6,829,522</u>	<u>\$ 7,736,909</u>	<u>\$ 14,566,431</u>

Wagoner Hospital Authority  
Schedules of Operating Expenses  
Years Ended September 30, 2011 and 2010

2010		
Salaries	Other	Total
\$ 915,880	\$ 402,404	\$ 1,318,284
79,333	3,809	83,142
682,732	709,363	1,392,095
1,677,945	1,115,576	2,793,521
114,332	39,853	154,185
-	21,138	21,138
332,559	471,194	803,753
229,804	511,885	741,689
19,419	15,803	35,222
147,736	365,263	512,999
485,553	144,687	630,240
1,714,574	609,458	2,324,032
366,055	594,449	960,504
186,037	62,943	248,980
-	44,250	44,250
3,596,069	2,880,923	6,476,992
204,928	250,142	455,070
197,723	129,438	327,161
175,692	108,884	284,576
156,995	333,939	490,934
735,338	822,403	1,557,741
917,577	1,580,075	2,497,652
-	913,366	913,366
-	270,129	270,129
917,577	2,763,570	3,681,147
-	634,836	634,836
\$ 6,926,929	\$ 8,217,308	\$ 15,144,237



**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  
Wagoner Hospital Authority  
Wagoner, Oklahoma

We have audited the accompanying balance sheet of Wagoner Hospital Authority, as of September 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated January 31, 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 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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings, that we consider to be significant deficiencies in internal control over financial reporting. *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.

## **Compliance and Other Matters**

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

Wagoner Hospital Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Wagoner Hospital Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, hospital officials, employees and constituents of Wagoner Hospital Authority and other parties to whom the Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties

*Eide Sallee LLP*

Oklahoma City, Oklahoma  
January 31, 2012

## Findings – Financial Statements Audit – Internal Controls over Financial Reporting

### 2011-01 Preparation of 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 the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

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

*Effect:* We noted a significant deficiency in the Authority's internal controls over financial reporting and procedures related to the preparation of the financial statements.

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

*Auditor's Recommendation:* It is recommended the Authority implement a system that allows the preparation of financial statements in accordance with GAAP.

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

*Conclusion:* Response accepted

### 2011-02 Cost Report Estimate

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

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

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

*Cause:* The Authority's accounting staff believed there was not a calculation to determine the estimated settlement.

*Auditor's Recommendation:* It is recommended that the Hospital implement a system to calculate the Authority's cost report settlement.

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

*Conclusion:* Response accepted

**2011-03            Segregation of Duties**

*Condition:* Certain employees perform duties that are incompatible.

*Criteria:* One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

*Effect:* Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

*Cause:* A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

*Auditor's Recommendation:* We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

*Management Response:* Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

*Conclusion:* Response accepted