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

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

In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2013, 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
April 29, 2013

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, 2012, 2011, and 2010. 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 $3,480,204 or 47% in 2012, compared with an increase during 2011 of $67,252 or 1%.
- The Authority's total liabilities increased during the year by $1,110,630 or 23% in 2012, compared with a decrease during 2011 of $709,887 or 13%.
- The Authority reported operating income in 2012 of $2,506,929 and operating income in 2011 of $819,081. Operating income increased $1,687,848 or 206% from 2011 to 2012. Operating income increased $2,290,959 or 156% from 2010 to 2011.

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 $2,369,574 or 91% in 2012, and increased by $777,139 or 43% in 2011.

Condensed Financial Statements

Table 1: Balance Sheets

	2012	2011	2010
Assets			
Current assets	$ 6,667,934	$ 4,107,490	$ 3,432,837
Capital assets, net	4,247,032	3,327,272	3,773,916
Other assets	-	-	160,757
Total assets	$ 10,914,966	$ 7,434,762	$ 7,367,510
Liabilities			
Current liabilities	$ 2,842,441	$ 1,915,656	$ 2,469,956
Non current liabilities	3,112,349	2,928,504	3,084,091
Total liabilities	5,954,790	4,844,160	5,554,047
Net Assets			
Invested in capital assets, net of related debt	954,573	141,701	270,411
Unrestricted	4,005,603	2,448,901	1,543,052
Total net assets	4,960,176	2,590,602	1,813,463
Total liabilities and net assets	$ 10,914,966	$ 7,434,762	$ 7,367,510

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

	2012	2011	2010
Operating Revenues			
Net patient service revenue	$ 18,048,270	$ 14,535,555	$ 13,532,241
Other operating revenue	169,625	849,957	140,118
Total operating revenues	18,217,895	15,385,512	13,672,359
Operating Expenses			
Nursing services	3,001,256	3,093,567	2,793,521
Other professional services	6,456,967	5,886,042	6,476,992
General services	1,571,385	1,542,815	1,557,741
Administrative services	3,952,265	3,414,683	3,681,147
Depreciation and amortization	729,093	629,324	634,836
Total operating expenses	15,710,966	14,566,431	15,144,237
Operating income (loss)	2,506,929	819,081	(1,471,878)
Nonoperating Revenues (Expenses)			
Investment income	11,099	885	1,124
Interest expense	(158,936)	(144,635)	(138,499)
Noncapital contributions	10,482	101,808	109,489
Total nonoperating revenues (expenses)	(137,355)	(41,942)	(27,886)
Increase (Decrease) in Net Assets	2,369,574	777,139	(1,499,764)
Net Assets, Beginning of Year	2,590,602	1,813,463	3,313,227
Net Assets, End of Year	$ 4,960,176	$ 2,590,602	$ 1,813,463

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 $2,506,929 in 2012, and income of $819,081 in 2011. The primary component of the income from operations was the increase in net patient service revenue of $3,512,715 or 24%, compared with the prior year increase of $1,003,314 or 7%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital contributions and interest expense. Noncapital contributions decreased $91,326 or 90% from 2011 to 2012, and decreased $7,681 or 7% from 2010 to 2011. Interest expense increased $14,301 or 10% from 2011 to 2012, and increased $6,136 or 4% from 2010 to 2011.

The Authority's Cash Flows

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

- Net cash from operating activities increased in 2012 by $1,948,101, and increased in 2011 by $1,974,102.
- Net cash used by capital and capital related financing activities increased in 2012 by $1,085,937, and increased in 2011 by $470,663.

Capital Assets

In 2012, the Authority purchased $1,648,853 of capital assets and had $4,247,032 invested in capital assets, net of accumulated depreciation, at the end of 2012 as detailed in Note 4, to the financial statements. In 2011, the Authority purchased $182,680 of capital assets and had $3,327,272 invested in capital assets, net of accumulated depreciation, at the end of 2011 as detailed in Note 4 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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	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 3,844,834	$ 1,631,274
Accounts receivable		
Patients, net of allowance for doubtful accounts of $1,720,000 in 2012 and $1,256,000 in 2011	2,438,743	1,897,331
Other	19,737	102,856
Security deposits	5,839	76,382
Supplies	319,857	302,753
Prepaid expenses	38,924	96,894
Total current assets	6,667,934	4,107,490
Capital Assets		
Land and construction in progress	375,284	163,648
Depreciable capital assets, net of accumulated depreciation	3,871,748	3,163,624
Capital Assets, net	4,247,032	3,327,272
Total assets	$ 10,914,966	$ 7,434,762

See Notes to Financial Statements

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 180,110	$ 257,067
Accounts payable	744,989	550,126
Accrued liabilities	532,342	406,463
Estimated third-party settlements	1,385,000	702,000
Total current liabilities	2,842,441	1,915,656
Long-Term Debt, net of current maturities	3,112,349	2,928,504
Total liabilities	5,954,790	4,844,160
Net Assets		
Invested in capital assets, net of related debt	954,573	141,701
Unrestricted	4,005,603	2,448,901
Total net assets	4,960,176	2,590,602
Total liabilities and net assets	$ 10,914,966	$ 7,434,762

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $3,412,322 in 2012 and $3,220,804 in 2011	$ 18,048,270	$ 14,535,555
Other	169,625	849,957
Total operating revenues	18,217,895	15,385,512
Operating Expenses		
Nursing services	3,001,256	3,093,567
Other professional services	6,456,967	5,886,042
General services	1,571,385	1,542,815
Administrative services	3,952,265	3,414,683
Depreciation and amortization	729,093	629,324
Total operating expenses	15,710,966	14,566,431
Operating Income	2,506,929	819,081
Nonoperating Revenues (Expense)		
Investment income	11,099	885
Interest expense	(158,936)	(144,635)
Noncapital contributions	10,482	101,808
Total nonoperating revenues (expenses)	(137,355)	(41,942)
Increase in Net Assets	2,369,574	777,139
Net Assets, Beginning of Year	2,590,602	1,813,463
Net Assets, End of Year	$ 4,960,176	$ 2,590,602

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 18,189,858	$ 15,815,439
Payments to suppliers and contractors	(7,585,335)	(7,736,023)
Payments to employees	(7,034,930)	(7,110,163)
Other receipts	252,744	904,983
Net Cash From Operating Activities	3,822,337	1,874,236
Noncapital Related Financing Activities		
Noncapital contributions	10,482	980
Capital and Related Financing Activities		
Proceeds from long-term debt	-	437
Principle payments on long-term debt	(216,930)	(355,213)
Interest payments on long-term debt	(158,936)	(43,807)
Purchase of capital assets	(1,250,461)	(145,838)
Net Cash Used for Capital and Related Financing Activities	(1,630,358)	(544,421)
Investing Activities		
Interest on investments	11,099	885
Net Change in Cash	2,213,560	1,331,680
Cash and Cash Equivalents, Beginning of Year	1,631,274	299,594
Cash and Cash Equivalents, End of Year	$ 3,844,834	$ 1,631,274

	2012	2011
Reconciliation of Operating Income to Net Cash		
From Operating Activities		
Operating income	$ 2,506,929	$ 819,081
Adjustments to reconcile operating income to net cash		
from operating activities		
Provision for depreciation and amortization	729,093	629,324
Provision for bad debts	3,412,322	3,220,804
Amortization of physician loans	88,144	60,805
Changes in assets and liabilities		
Accounts receivable	(3,953,734)	(2,510,541)
Other receivables	(5,025)	(5,779)
Long-term notes receivable	-	84,375
Supplies	(17,104)	20,459
Prepaid expenses	57,970	(52,339)
Accounts payable	194,863	(680,933)
Accrued liabilities	125,879	(280,641)
Estimated third-party payor settlements	683,000	569,621
Net Cash From Operating Activities	$ 3,822,337	$ 1,874,236
Supplemental Cash Disclosure		
Capital assets purchased under capital leases	$ 398,392	$ 36,842
Deposit applied to lease payment	$ 74,574	$ -
Interest paid by City of Wagoner - included in noncapital contributions	$ -	$ 100,828

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Wagoner Hospital Authority (Authority) is a 100-bed acute care hospital located in Wagoner, Oklahoma. The 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.

Measurement Focus and Basis of Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Authority has elected to apply the provisions 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 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, 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 and Cash Equivalents

The Authority considers all liquid investments which have original maturities of three months or less to be cash and 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. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

Notes Receivable

The Authority issues notes to physicians as part of its recruitment process. Notes are repayable over a minimum of a one-year period to a maximum of a two-year period. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven.

At September 30, 2012 and 2011, notes receivable from physicians totaled $16,231 and $94,375, respectively, and are included in other accounts receivable.

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 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 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:

	Depreciable Life
Land improvements	10 years
Buildings and improvements	10 - 40 years
Major moveable equipment	3 - 15 years

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.

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.

Net Patient Service Revenue

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

Operating Revenues and Expenses

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

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were $138,000 and $53,000 for the years ended September 30, 2012 and 2011. Total direct and indirect costs related to these foregone charges were approximately $55,000 and $20,000 at September 30, 2012 and 2011, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred $39,328 and $29,137 for advertising costs for the years ended September 30, 2012 and 2011, respectively.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments will be paid out over four years on a transitional schedule. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicare share; and (3) a transition factor applicable to that payment year.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

Supplemental Hospital Offset Payment Program Act

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

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

Grants and Contributions

From time to time, the Authority receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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.

Reclassifications

Reclassifications have been made to the September 30, 2011 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - Net Patient Service Revenue

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

Medicare: 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 Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive 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 38% and 26%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2012, and 46% and 18%, respectively, of the Authority's net patient service revenue for the year ended September 30, 2011. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended September 30, 2012 and 2011, increased approximately $267,000 and $7,000, 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.

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, 2012 and 2011, is as follows:

	2012	2011
Total Patient Service Revenue	$ 38,215,429	$ 36,483,043
Contractual adjustments		
Medicare	(6,304,393)	(6,486,137)
Medicaid	(3,641,656)	(5,405,742)
Other	(6,808,788)	(6,834,805)
Total contractual adjustments	(16,754,837)	(18,726,684)
Provision for bad debts	(3,412,322)	(3,220,804)
Net Patient Service Revenue	$ 18,048,270	$ 14,535,555

Note 3 - 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, 2012 and 2011, the Authority had bank balances as follows:

	2012	2011
Total Bank Balance		
Insured (FDIC)	$ 679,745	$ 640,904
Collateralized with an irrevocable letter of credit held by the Authority's agent in the Authority's name	3,492,900	1,247,892
	$ 4,172,645	$ 1,888,796
Total Carrying Value		
Cash and cash equivalents	$ 3,844,834	$ 1,631,274

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, 2012 and 2011, 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 4 - Capital Assets

Capital asset activity for the year ended September 30, 2012, is as follows:

	2012				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Non-depreciable capital assets					
Land	$ 157,808	$ -	$ -	$ -	$ 157,808
Construction in process	5,840	248,137	(36,501)	-	217,476
Total non-depreciable capital assets	163,648	248,137	(36,501)	-	375,284
Depreciable capital assets					
Land improvements	37,782	1,900	-	-	39,682
Buildings and improvements	5,045,090	15,607	22,098	-	5,082,795
Major moveable equipment	9,298,535	1,383,209	14,403	232,154	10,463,993
Total depreciable capital assets	14,381,407	1,400,716	36,501	232,154	15,586,470
Less accumulated depreciation					
Land improvements	22,915	2,376	-	-	25,291
Buildings and improvements	3,041,105	150,097	-	-	3,191,202
Major moveable equipment	8,153,763	576,620	-	232,154	8,498,229
Total accumulated depreciation	11,217,783	729,093	-	232,154	11,714,722
Net depreciable capital assets	3,163,624	671,623	36,501	-	3,871,748
Capital assets, net	$ 3,327,272	$ 919,760	$ -	$ -	$ 4,247,032

The majority of construction in progress at September 30, 2012, represents cost incurred for certified electronic health record software with CPSI and interface for local physicians with CPSI. Total expected cost of the projects is approximately $97,000. The projects will be financed with internal funds. Completion of the certified electronic health record software is expected in February 2013 and interface for local physicians is September 2013.

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

	2011				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
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	160,761	10,814	(4,975)	(2,952)	163,648
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	14,201,614	174,818	4,975	-	14,381,407
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	10,588,459	629,324	-	-	11,217,783
Net depreciable capital assets	3,613,155	(454,506)	4,975	-	3,163,624
Capital assets, net	$ 3,773,916	$ (443,692)	$ -	$ (2,952)	$ 3,327,272

Note 5 - Long-Term Debt

Long-term debt consists of:

		September 30, 2012			
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable:					
First Bank and Trust (1)	$ 2,994,922	$ -	$ 98,908	$ 2,896,014	$ 105,039
First Bank and Trust (2)	397	-	397	-	-
Capitalized lease obligations (3)	190,252	398,392	192,199	396,445	75,071
Total long-term debt	$ 3,185,571	$ 398,392	$ 291,504	$ 3,292,459	$ 180,110

	Beginning Balance	September 30, 2011 Additions	Deductions	Ending Balance	Current Portion
Note 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)	487,556	36,842	334,146	190,252	155,742
Total long-term debt	$ 3,503,505	$ 37,279	$ 355,213	$ 3,185,571	$ 257,067

The terms and due dates of the Authority's long-term debt, including capital lease obligations, as of September 30, 2012 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.
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 4.06 percent to 8.78 percent, collateralized by leased equipment with cost of $462,648 and net book value of $369,780.

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

	Long-term Debt		Capital Lease Obligations	
Year Ending September 30,	Principal	Interest	Principal	Interest
2013	$ 105,039	$ 113,848	$ 75,071	$ 26,137
2014	109,320	109,568	81,216	21,183
2015	113,774	105,115	80,965	15,660
2016	118,408	100,479	159,193	10,428
2017	123,233	95,655	-	-
2018-2022	695,695	398,746	-	-
2023-2027	849,441	245,000	-	-
2028-2031	781,104	62,710	-	-
Total	$ 2,896,014	$ 1,231,121	$ 396,445	$ 73,408

Note 6 - 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, 2012 and 2011, for all operating leases is $167,248 and $138,737 respectively. The capitalized leased assets consist of:

	2012	2011
Major movable equipment	$ 462,648	$ 1,545,741
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(92,868)	(1,204,161)
	$ 369,780	$ 341,580

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

Year Ending September 30,	Operating Leases
2013	$ 174,399
2014	113,636
2015	70,675
Total minimum lease payments	$ 358,710

Note 7 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at September 30, 2012 and 2011, was as follows:

	2012	2011
Medicare	28%	24%
Medicaid	15%	14%
Commercial insurance	32%	34%
Other and patient	25%	28%
	100%	100%

Note 8 - Pension Plan

The Authority has a defined contribution pension plan under which eligible employees can participate in the Plan after one year of employment with the Authority. Employer contributions of 50% of each participant's salary reduction contributions up to 6% are deposited with the plan trustee who invests the plan assets. Total pension plan expense for the years ended September 30, 2012 and 2011, was $54,000 and $48,000, respectively.

Note 9 - Related Party Transactions

The Authority had a verbal agreement with the City of Wagoner in which the city would pay the interest on the Authority's line of credit until principal payments were due. During the year ended September 30, 2011, the City of Wagoner paid $100,828, in interest on the line of credit. Principal payments began during the year ended September 30, 2012, and therefore, the City of Wagoner did not pay any interest during 2012.

Note 10 - Management Agreement

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, 2012 and 2011, the Authority incurred fees to Quorum Health Resources, LLC for management services of $139,844 and $159,433, respectively.

Note 11 - Contingencies

Medical Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on an occurrence-basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. 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.

Litigations, Claims, and Disputes

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

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

Note 12 - Supplemental Hospital Offset Payment Program (SHOPP) Act

The Authority made SHOPP payments totaling $435,130 for the year ended September 30, 2012. In return, the Authority received $2,490,112. No amounts were recorded in 2011.

Note 13 - Medicaid Electronic Health Records Incentive Payment

During the year ended September 30, 2011, the Authority received incentive payments of $697,545 from Medicaid to implement electronic health record technology. These incentive payments are included in other operating revenue in the accompanying financial statements. No amounts were recorded in 2012.

Note 14 - Subsequent Event

The Authority has evaluated subsequent events through April 29, 2013, that date which the financial statements were available to be issued.

Supplementary Information
September 30, 2012 and 2011

Wagoner Hospital Authority

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Independent Auditor's Report on Supplementary Information

Board of Trustees
Wagoner Hospital Authority
Wagoner, Oklahoma

We have audited the financial statements of Wagoner Hospital Authority as of and for the years ended September 30, 2012 and 2011, and our report thereon dated April 29, 2013, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
April 29, 2013

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	2012		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	$ 8,751,053	$ 257,605	$ 9,008,658
Other Nursing Services			
Central services and supply	2,155	1,125	3,280
Emergency services	696,393	2,667,161	3,363,554
	698,548	2,668,286	3,366,834
Other Professional Services			
Clinic	-	-	-
Laboratory	1,956,712	4,368,355	6,325,067
Observation		109,256	109,256
Operating room	1,209,308	1,749,369	2,958,677
Outpatient center	-	39,721	39,721
Pharmacy	3,450,637	871,399	4,322,036
Physical therapy	97,276	274	97,550
Psychiatric	1,260,322	1,107,084	2,367,406
Radiology	1,626,837	6,645,152	8,271,989
Respiratory therapy	856,664	292,701	1,149,365
Scopes	-	42,397	42,397
Sleep lab	-	294,657	294,657
	10,457,756	15,520,365	25,978,121
Charity Care	-	-	(138,184)
Gross Patient Services Revenue	$ 19,907,357	$ 18,446,256	38,215,429
Less Adjustments for			
Contractual adjustments			
Medicare			6,304,393
Medicaid			3,641,656
Other			6,808,788
Provision for bad debts			3,412,322
Total contractual adjustments			20,167,159
Net Patient Service Revenue			$ 18,048,270

2011		
Inpatient	Outpatient	Total
$ 8,001,496	$ 274,081	$ 8,275,577
5,515	1,534	7,049
731,083	2,584,508	3,315,591
736,598	2,586,042	3,322,640
-	2,308	2,308
2,136,232	4,157,141	6,293,373
1,064	140,140	141,204
824,232	1,449,457	2,273,689
132	22,304	22,436
3,696,774	761,437	4,458,211
51,379	325,521	376,900
1,204,169	1,185,543	2,389,712
1,613,268	5,733,490	7,346,758
952,007	325,749	1,277,756
-	15,912	15,912
-	339,463	339,463
10,479,257	14,458,465	24,937,722
-	-	(52,896)
$ 19,217,351	$ 17,318,588	36,483,043
		6,486,137
		5,405,742
		6,834,805
		3,220,804
		21,947,488
		$ 14,535,555

	2012	2011
Other Revenue		
Rent	$ 67,407	$ 64,433
Vendor rebates	33,436	33,497
Cafeteria	28,483	25,116
Medicaid Electronic Health Records incentive payment	-	697,545
Miscellaneous	40,299	29,366
Total other revenue	$ 169,625	$ 849,957

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	2012		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	$ 863,427	$ 602,238	$ 1,465,665
Central services and supply	79,610	43,304	122,914
Emergency services	827,140	585,537	1,412,677
	1,770,177	1,231,079	3,001,256
Other Professional Services			
Clinic	-	-	-
Laboratory	341,808	503,410	845,218
Operating room	853,080	579,452	1,432,532
Outpatient center	44,697	7,484	52,181
Pharmacy	147,591	397,204	544,795
Physical therapy	860	25,894	26,754
Psychiatric	1,635,108	613,179	2,248,287
Radiology	510,480	498,985	1,009,465
Respiratory therapy	193,062	69,873	262,935
Sleep lab	-	34,800	34,800
	3,726,686	2,730,281	6,456,967
General Services			
Dietary	196,626	257,157	453,783
Housekeeping	199,153	140,487	339,640
Medical records	173,061	113,771	286,832
Plant engineering	118,321	372,809	491,130
	687,161	884,224	1,571,385
Administrative Services			
Administrative and general	976,785	1,343,745	2,320,530
SHOPP assessment	-	435,130	435,130
Employee benefits	-	926,669	926,669
Insurance	-	269,936	269,936
	976,785	2,975,480	3,952,265
Provision for Depreciation and Amortization	-	729,093	729,093
Total Expenses	$ 7,160,809	$ 8,550,157	$ 15,710,966

2011		
Salaries	Other	Total
$ 921,578	$ 688,432	$ 1,610,010
78,048	23,169	101,217
756,412	625,928	1,382,340
1,756,038	1,337,529	3,093,567
15,246	4,418	19,664
313,899	474,872	788,771
709,665	411,390	1,121,055
38,204	11,657	49,861
140,067	361,140	501,207
129,176	81,127	210,303
1,588,534	559,718	2,148,252
367,873	385,813	753,686
189,959	61,859	251,818
-	41,425	41,425
3,492,623	2,393,419	5,886,042
190,314	244,325	434,639
198,434	132,982	331,416
172,411	108,584	280,995
135,825	359,940	495,765
696,984	845,831	1,542,815
883,877	1,380,716	2,264,593
-	-	-
-	902,527	902,527
-	247,563	247,563
883,877	2,530,806	3,414,683
-	629,324	629,324
$ 6,829,522	$ 7,736,909	$ 14,566,431

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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, 2012, 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 April 29, 2013. 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 of the financial statements of Wagoner Hospital Authority as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) 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 Wagoner Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Wagoner Hospital Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Bailly LLP

Oklahoma City, Oklahoma
April 29, 2013

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2012-01 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 for the preparation of interim and year-end 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.

2012-02 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 estimate versus the benefit to the accurate reporting of the Medicare cost report settlement and feels that the cost does not justify the benefit.

2012-03 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 prevent 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.

2012-04 Credit Balances in Patient Accounts Receivable

Condition: A large number of credit balances exist within patient accounts receivable.

Criteria: An important control in accounts receivable is to monitor patient balances within the detail and determine the reasoning and proper course of action on credit balances.

Effect: A reclassification entry was made to record these credit balances (or negative receivables) as accounts payable for financial statement reporting purposes.

Cause: Credit balances within patient accounts receivable are not being reviewed on a normal basis.

Auditor's Recommendation: We recommend that management and business office staff continue to monitor the accounts receivable listing and determine the status of these accounts with credit balances. We also recommend that any credit balances be reviewed on a monthly basis so necessary action can be taken in regards to these accounts as soon as possible. This process will ensure the accuracy of the accounts receivable detail and strengthen internal controls over accounts receivable.

Management Response: Management will work to analyze these accounts and determine the proper course of action on the accounts.