



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

Watonga Municipal Hospital Authority

Watonga Municipal Hospital Authority

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June 30, 2012 and 2011

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Independent Auditor's Report

The Board of Trustees
Watonga Hospital Trust Authority
Watonga, Oklahoma

We have audited the accompanying balance sheets of Watonga Hospital Trust Authority (Authority) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watonga Hospital Trust Authority as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2013, on our consideration of Watonga Hospital Trust Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, 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 States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management 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 Sallee LLP

Oklahoma City, Oklahoma
March 19, 2013

Our discussion and analysis for Watonga Hospital Trust Authority's the(Authority) financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 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 notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's net assets increased in 2012 by approximately \$354,000 compared to a decrease of approximately \$1,187,000 in 2011.
- The Authority reported an operating loss of approximately \$624,000 in 2012 and \$1,578,000 in 2011.
- Total operating revenues increased by approximately \$306,000 in 2012 compared to a decrease of approximately \$1,373,000 in 2011.

Using This Annual Report

The Authority's financial statements consist of three statements - Balance Sheet; Statements of Revenues, Expenses, and Changes in Net assets; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The 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 Sheets and Statements of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Authority's finances begins on page 2. One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statements of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 5. The Authority's net assets increased by approximately \$354,000 in 2012 and decreased by \$1,187,000 in 2011 as shown in Table 1.

Condensed Financial Statements

Table 1: Balance Sheets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Current assets	\$ 1,256,690	\$ 792,300	\$ 1,671,857
Capital assets, net	86,619	345,882	430,106
Non current assets	-	115,644	-
	<u>\$ 1,343,309</u>	<u>\$ 1,253,826</u>	<u>\$ 2,101,963</u>
Liabilities			
Current liabilities	\$ 901,072	\$ 987,153	\$ 704,702
Noncurrent liabilities	-	178,227	121,734
	<u>901,072</u>	<u>1,165,380</u>	<u>826,436</u>
Net Assets (Deficit)			
Invested in capital assets, net of related debt	58,481	208,305	163,235
Unrestricted	383,756	(119,859)	1,112,292
	<u>442,237</u>	<u>88,446</u>	<u>1,275,527</u>
	<u>\$ 1,343,309</u>	<u>\$ 1,253,826</u>	<u>\$ 2,101,963</u>

Assets, Liabilities, and Net Assets

A significant component of the change in the change in the Authority's assets is the increase in cash and receivables. Operating revenues increased in 2012 by \$306,000 or 8 percent, patient accounts receivable, net of uncollectible amounts increased \$37,000 or 8 percent in 2012. Cash increased by approximately \$442,000 when compare to 2011 In addition the City of Watonga paid \$500,000 on the Authority's line of credit, thereby allowing the Authority to improve the cash position.

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 reported operating losses in 2012 and 2011. The operating loss in 2012 decreased by approximately

\$954,000 compared with an increase of approximately \$985,000 in 2011 from 2010. The primary component of the increased operating income in 2012 was the decrease in operating expense.

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals set for the Authority when it was established. The amount of charges forgone in 2012 was approximately \$119,000 compared with \$95,000 in 2011.

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

	2012	2011	2010
Operating Revenue			
Net patient service revenue	\$ 4,175,896	\$ 3,857,455	\$ 5,232,395
Other operating revenue	23,638	36,196	34,062
Total operating revenues	<u>4,199,534</u>	<u>3,893,651</u>	<u>5,266,457</u>
Operating Expenses			
Routine care	934,209	1,070,545	1,308,987
Other nursing services	667,843	847,842	868,555
Other professional services	1,244,686	1,493,466	1,462,184
General services	428,211	446,452	474,316
Administrative services	1,426,103	1,468,602	1,557,395
Depreciation and amortization	122,302	144,471	188,153
Total operating expenses	<u>4,823,354</u>	<u>5,471,378</u>	<u>5,859,590</u>
Operating loss	<u>(623,820)</u>	<u>(1,577,727)</u>	<u>(593,133)</u>
Nonoperating Revenues (Expenses)			
Interest expense	(35,305)	(36,897)	(57,290)
Gain on disposal of assets	2,992	65,000	-
Sales tax revenue	487,063	333,246	313,392
Other	-	7,457	-
Impairment loss	(128,915)	-	-
Non capital grants and contributions	140,171	9,169	158,506
Total nonoperating revenues	<u>466,006</u>	<u>377,975</u>	<u>414,608</u>
Intergovernmental transfer	511,605	-	-
Capital contributions	-	12,671	-
Increase (decrease) in net assets	<u>\$ 353,791</u>	<u>\$ (1,187,081)</u>	<u>\$ (178,525)</u>

Non-operating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest expense, noncapital grants and contributions, sales tax revenues, and other items that are not considered earned or incurred in the Authority's ordinary course of operations. Nonoperating revenue increased approximately \$88,000 in 2012 compared to a decrease of \$37,000 in 2011.

The Authority's Cash Flows

Operating cash flows increased by approximately \$561,000 in 2012 compared to 2011. Cash provided by capital and capital related financing activities decreased by \$178,000 in 2012 compared to 2011.

Capital Assets and Debt Administration

At the end of 2012, the Authority had approximately \$87,000 at the end of fiscal year 2012 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

Debt

At year-end, the Authority had approximately \$195,000 in short term debt compared to \$534,000 at the end of 2011. The Authority had long term debt of \$28,000 which decreased by \$261,000 when compared with 2011. For additional information regarding notes payable, please see Note 5 in the financial statements.

Contacting the Authority's Financial Management

This financial report is designated to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Watonga Hospital Trust Authority, Chief Financial Officer's Office, 500 Clarence Nash, PO Box 370, Watonga, Oklahoma 73772.

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	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 529,733	\$ 87,050
Receivables		
Patients, net of allowance for doubtful accounts of approximately \$405,000 in 2012 and \$1,083,000 in 2011	519,191	481,834
Other	69,195	58,000
Supplies	100,759	122,592
Prepays	37,812	42,824
Total current assets	<u>1,256,690</u>	<u>792,300</u>
Capital Assets		
Land and construction in progress-nondepreciable	3,950	14,766
Depreciable assets, net of accumulated depreciation	<u>82,669</u>	<u>331,116</u>
Capital assets, net	<u>86,619</u>	<u>345,882</u>
Other Receivables	<u>-</u>	<u>115,644</u>
Total assets	<u>\$ 1,343,309</u>	<u>\$ 1,253,826</u>

See Notes to Financial Statements

Watonga Municipal Hospital Authority
Balance Sheets
June 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Notes payable	\$ -	\$ 379,225
Current maturities of long-term debt	28,138	110,227
Note payable, related party	195,442	44,565
Accounts payable	86,497	152,460
Accrued expenses	191,216	202,499
Estimated third party payor settlements	399,779	98,177
Total current liabilities	901,072	987,153
Long-Term Debt, Less Current Maturities		
Long term debt	-	27,350
Note payable, related party	-	150,877
Total long term debt	-	178,227
Total liabilities	901,072	1,165,380
Net Assets (Deficit)		
Invested in capital assets net of related debt	58,481	208,305
Unrestricted	383,756	(119,859)
Total net assets	442,237	88,446
Total liabilities and net assets	\$ 1,343,309	\$ 1,253,826

Watonga Municipal Hospital Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$1,468,000 in 2012 and \$1,898,000 in 2011)	\$ 4,175,896	\$ 3,857,455
Other revenue	23,638	36,196
Total operating revenue	4,199,534	3,893,651
Operating Expenses		
Routine care	934,209	1,070,545
Other nursing services	667,843	847,842
Other professional services	1,244,686	1,493,466
General services	428,211	446,452
Administrative services	1,426,103	1,468,602
Depreciation	122,302	144,471
Total operating expenses	4,823,354	5,471,378
Operating Loss	(623,820)	(1,577,727)
Nonoperating Revenues (Expenses)		
Interest expense	(35,305)	(36,897)
Gain on disposal of assets	2,992	65,000
Sales tax revenue	487,063	333,246
Other	-	7,457
Impairment loss	(128,915)	-
Non capital grants and contributions	140,171	9,169
Total nonoperating revenues	466,006	377,975
Excess of Revenues over Expenses Before Capital Contributions and Intergovernmental Transfers	(157,814)	(1,199,752)
Intergovernmental transfer Debt payments by City of Watonga	511,605	-
Capital contributions	-	12,671
Increase (Decrease) in Net Assets	353,791	(1,187,081)
Net Assets, Beginning of the Year	88,446	1,275,527
Net Assets, End of Year	\$ 442,237	\$ 88,446

Watonga Municipal Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Cash flow from patient service revenue	\$ 4,440,141	\$ 4,621,540
Cash flow from other revenue	139,282	(78,254)
Payments to suppliers	(2,870,118)	(2,837,946)
Payments to employees	(1,860,858)	(2,417,580)
	(151,553)	(712,240)
Non Capital Related Financing Activities		
Sales tax receipts	475,868	333,246
Grants and contributions	140,171	9,169
	616,039	342,415
Capital and Capital Related Financing Activities		
Repayments on notes payable	(109,439)	(121,837)
Proceeds from Short term debt	130,000	378,733
Repayments on short term debt	(41,307)	(80,068)
Purchase of capital assets	(182)	(60,247)
Proceeds from equipment sale	11,220	65,000
Capital contributions	-	12,671
Interest paid	(12,095)	(36,897)
	(21,803)	157,355
Net Increase (Decrease) in Cash and Cash Equivalents	442,683	(212,470)
Cash and Cash Equivalents, Beginning of Year	87,050	299,520
Cash and Cash Equivalents, End of Year	\$ 529,733	\$ 87,050

Watonga Municipal Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Loss to Net		
Cash (used for) from Operating Activities		
Operating loss	\$ (623,820)	\$ (1,577,727)
Adjustments to reconcile operating loss to net cash (used for) from operating activities		
Depreciation and amortization	122,302	144,471
Provision for bad debts	1,467,584	1,898,152
Bad debt physician loans	115,644	-
Changes in assets and liabilities		
Receivables	(1,504,941)	(1,415,301)
Supplies	21,833	(1,541)
Prepays	37,094	63,040
Other assets	-	(115,644)
Accounts payable	(65,963)	(13,079)
Accrued expenses	(22,888)	22,963
Estimated third party payor settlements	301,602	282,426
Net Cash (used for) from Operating Activities	\$ (151,553)	\$ (712,240)

Supplemental Disclosure of Noncash Investing, Capital, and Financing Activity

During 2012 and 2011, the Authority entered into insurance policy financing agreements totaling \$32,082 and \$61,512.

During 2012 and 2011, the Authority had \$0 and \$7,457 in debt forgiveness.

During 2012 and 2011, the City of Watonga made principal and interest payments of \$511,605 and \$-0- on behalf of the Authority.

During 2012 the Authority forgave physician debt of \$115,644 which is recorded in physician recruitment fees.

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Watonga Hospital Trust Authority (Authority) was created under a trust indenture dated February 19, 1991, as a public trust under the provisions of Title 60 of the Oklahoma State Statutes for the benefit of Watonga, Oklahoma. The Authority operates Watonga Memorial Hospital (the Hospital). The Hospital is a twenty five bed critical access hospital which primarily earns revenues by providing inpatient, outpatient, and emergency care services in Watonga, Oklahoma.

Propriety Fund Accounting

The Authority uses propriety fund method of accounting. Revenues and expenses are recognized on the accrual basis. Based on Governmental Accounting Standards Board Topic 1600, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Account*, 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.

Income Taxes

The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 of the Code and is not required to file federal income tax returns.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents consists of highly liquid investments with an original maturity of three months or less.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third party payors, are turned over to a collection agency if the receivables remain uncollected after the collection 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, the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's 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.

Other Receivable

The Authority provides an income guarantee to a physician, whereby the Authority pays the difference between the physicians income and the guaranteed amount. If the physicians' income exceeds the guaranteed amount or if the physician leaves before the term of the contract, repayment will be required for amounts advanced to the physician. If the physician meets the required service time commitment in the contract, amounts will be forgiven.

Supplies

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

Property and Equipment

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	3-15 years
Buildings and improvements	5-40 years
Equipment	5-20 years

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

Compensated Absences

The Authority's employees earn paid time off at varying rates depending on years of service. Paid time off does accumulate with certain limitations and any days not used at year-end do not roll over unless approved. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave.

Net Assets

Net assets are presented in the following two components:

Net Assets Invested in Capital Assets, Net of Related Debt - Invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation and reduced by the balance of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted Net Assets (Deficit) - Unrestricted net assets (deficit) are remaining net assets (deficit) that do not meet the definition of invested in capital assets net of related debt.

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 Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital 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 Hospital's charity care policy were approximately \$119,000 and \$95,000 for the years ended June 30, 2012 and 2011. Total estimated direct and indirect costs related to these foregone charges were approximately \$57,000 and \$57,000 for years ended June 30, 2012 and 2011, based on an average ratio of cost to gross charges.

Grants and Contributions

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

Advertising Costs

The Hospital expenses advertising costs as incurred.

Sales Tax Revenue

The Authority received approximately 11.09% and 8.54% of its financial support during 2012 and 2011 from a 2% city-wide sales tax. These funds were used to support operations. Revenue from sales tax is recognized in the year the tax is earned.

Reclassifications

Certain items in the prior year financial statements have been reclassified for comparability purposes with the current financial statements. These reclassifications did not affect the financial position or changes in net assets as previously reported.

Note 2 - Net Patient Service Revenue

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

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare administrative contractor. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through the year ended June 30, 2010. The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contact with the Authority.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic and other factors. Outpatient services are based on a predetermined fee per visit.

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 39% and 19% of the hospital's net patient service revenue for the year ended June 30, 2012 and 40% and 20% for the year ended June 30, 2011. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The 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 Hospital 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 patient service revenue and contractual adjustments for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Total patient service revenue	\$ 9,493,661	\$ 9,105,755
Reductions in revenue		
Medicare	1,505,367	1,099,878
Medicaid	1,281,901	1,308,685
Other	1,062,913	941,585
Provisions for bad debts	1,467,584	1,898,152
Total reductions in revenue	5,317,765	5,248,300
Net patient service revenue	\$ 4,175,896	\$ 3,857,455

Note 3 - Cash and Deposits

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

	2012	2011
Insured (FDIC)	\$ 250,000	\$ 114,741
Uncollateralized	338,884	-
Total	\$ 588,884	\$ 114,741
 Carrying value	 \$ 529,733	 \$ 87,050

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 by not in the Authority's name.

The Authority did not secure cash deposits in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized; the Authority does not have a formal policy for collateralizing cash deposits. At June 30, 2012 and 2011 the carrying amount of the Authority's deposits was \$588,884 and \$114,741 respectively. As of June 30, 2012, \$ 338,884 of the Authority's bank balances were uncollateralized and were at risk as of June 30, 2012.

Note 4 - Property and Equipment

A summary of property and equipment at June 30, 2012 and 2011 follows:

	Balance June 30, 2011	Additions	Disposals/ Transfers	Balance June 30, 2012
Non-depreciable capital assets				
Land	\$ 3,950	\$ -	\$ -	\$ 3,950
Construction in progress	10,816	182	10,998	-
Total non-depreciable capital assets	<u>\$ 14,766</u>	<u>\$ 182</u>	<u>\$ 10,998</u>	<u>\$ 3,950</u>
Depreciable capital assets				
Land improvements	\$ 61,658	\$ -	\$ -	\$ 61,658
Buildings	463,027	2,770	-	465,797
Equipment	1,972,317	-	286,717	1,685,600
Total depreciable capital assets	<u>2,497,002</u>	<u>2,770</u>	<u>286,717</u>	<u>2,213,055</u>
Less accumulated depreciation				
Land improvements	51,951	960	-	52,911
Buildings	452,544	1,681	-	454,225
Equipment	1,661,391	119,661	157,802	1,623,250
Total accumulated depreciation	<u>2,165,886</u>	<u>122,302</u>	<u>157,802</u>	<u>2,130,386</u>
Net depreciable capital assets	<u>\$ 331,116</u>	<u>\$ (119,532)</u>	<u>\$ 128,915</u>	<u>\$ 82,669</u>
Capital assets, net	<u>\$ 345,882</u>	<u>\$ (119,350)</u>	<u>\$ 139,913</u>	<u>\$ 86,619</u>

The Authority evaluates whether events and circumstances have occurred at the facility level that indicate remaining useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. During the current year, the Authority entered into an agreement to lease the Hospital upon which certain capital assets will be transferred at the commencement of the lease July 1, 2012. The remaining net book value of the transferred equipment is no longer considered recoverable in the normal course of operations of the Authority and is considered fully impaired and an impairment loss of \$128,915 has been recorded in the statement of revenues, expenses, and changes in net assets.

Watonga Municipal Hospital Authority
Notes to Financial Statements
June 30, 2012 and 2011

Construction in progress at June 30, 2011, represents a project to remodel the showers in the patient rooms. The project was abandoned in the current year and written off.

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2011</u>
Non-depreciable capital assets				
Land	\$ 3,950	\$ -	\$ -	\$ 3,950
Construction in progress	<u>8,228</u>	<u>2,588</u>	<u>-</u>	<u>10,816</u>
Total non-depreciable capital assets	<u>\$ 12,178</u>	<u>\$ 2,588</u>	<u>\$ -</u>	<u>\$ 14,766</u>
Depreciable capital assets				
Land improvements	\$ 61,658	\$ -	\$ -	\$ 61,658
Buildings	455,825	7,202	-	463,027
Equipment	<u>2,095,483</u>	<u>50,457</u>	<u>173,623</u>	<u>1,972,317</u>
Total depreciable capital assets	<u>2,612,966</u>	<u>57,659</u>	<u>173,623</u>	<u>2,497,002</u>
Less accumulated depreciation				
Land improvements	50,991	960	-	51,951
Buildings	451,740	804	-	452,544
Equipment	<u>1,692,307</u>	<u>142,707</u>	<u>173,623</u>	<u>1,661,391</u>
Total accumulated depreciation	<u>2,195,038</u>	<u>144,471</u>	<u>173,623</u>	<u>2,165,886</u>
Net depreciable capital assets	<u>\$ 417,928</u>	<u>\$ (86,812)</u>	<u>\$ -</u>	<u>\$ 331,116</u>
Capital assets, net	<u>\$ 430,106</u>	<u>\$ (84,224)</u>	<u>\$ -</u>	<u>\$ 345,882</u>

Note 5 - Debt

Short Term Debt

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Current Portion
Notes payable	\$ 379,225	\$ 162,082	\$ 541,307	\$ -	\$ -
	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Current Portion
Notes payable	\$ 19,048	\$ 440,245	\$ 80,068	\$ 379,225	\$ 379,225

The Authority established a line of credit with a financial institution for \$500,000 at variable interest rates ranging from 6% to 8%. The line of credit had a balance of \$-0- and \$379,225 at June 30, 2012 and 2011, respectively. The credit line expired during the year end June 30, 2012 and were not renewed.

The Authority has notes payable to insurance providers for insurance premiums, with interest ranging from 5% to 8%. At June 30, 2012 and 2011, the note had a balance of \$0 and \$9,225. The notes are unsecured.

Long Term Debt

	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	Current Portion
Notes Payable					
Capital lease obligations	\$ 137,577	\$ 3,267	\$ 112,706	\$ 28,138	\$ 28,138
Note payable, related party	195,442	-	-	195,442	195,442
Total notes	\$ 333,019	\$ 3,267	\$ 112,706	\$ 223,580	\$ 223,580
	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Current Portion
Notes Payable					
Capital lease obligation	\$ 246,630	\$ -	\$ 109,053	\$ 137,577	\$ 110,227
Notes Payable	20,241	-	20,241	-	-
Note payable, related party	195,442	-	-	195,442	44,565
Total notes	\$ 462,313	\$ -	\$ 129,294	\$ 333,019	\$ 154,792

The Authority obligated under leases for equipment that are accounted for as capital leases, at rates of 6.75 to 8.00 percent. Net book value of assets under capital leases at June 30, 2012 and 2011 totaled \$48,925 and \$122,747, net of accumulated depreciation of \$393,211 and \$477,191.

The Authority has a note payable to the City of Watonga, a related party, for debt related to utility service. At June 30, 2012 and 2011, the note had a balance of \$195,442 and \$195,442. See Note 12 to the financial statements for additional information and terms.

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

<u>Year Ending June 30:</u>	<u>Long-term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 195,442	\$ -	\$ 28,138	\$ 354
	<u>\$ 195,442</u>	<u>\$ -</u>	<u>\$ 28,138</u>	<u>\$ 354</u>

Note 6 - Commitments Under Non Cancelable Operating Leases

The Authority leases equipment and services under operating leases expiring at dates through October 2013. Total rental expense in 2012 and 2011, for all operating leases, was approximately \$49,000 and \$26,000, respectively. The following is a summary of the minimum lease payments for operating leases and service agreements which the Authority had entered into at June 30, 2012, that have initial lease terms in excess of one year:

<u>Year Ending June 30:</u>	
2013	\$ 5,152
2014	2,261
2015	<u>754</u>
Total minimum lease payments	<u>\$ 8,167</u>

Note 7 - Retirement Plan

The Authority participates in a defined contribution 403(b) annuity plan covering substantially all employees. The plan provides disability and survivor benefits in addition to retirement benefits. All full-time employees who have completed one year of service are eligible to participate in the plan. During 1998, the Authority eliminated its matching participant contributions, but may, at its discretion, reinstate matching at any time. For employer matching contributions, participants are fully vested after 6 years of continuous employment.

Note 8 - Concentrations of Credit Risk

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

Concentrations of Credit Risk	2012	2011
Medicare	17%	21%
Medicaid	5%	7%
Other third-party payors	22%	31%
Patients	56%	41%
	100%	100%

Note 9 - Related Party Transactions

On June 14, 2007, the Authority entered into a resolution with the City of Watonga authorizing the debt for utility serviced owed to the City of Watonga by the Authority in the amount of \$203,900 to be reduced to a promissory note. However, no note was executed pursuant to the resolution. Total payments to date have been made in the amount of \$8,458. During the years ended June 30, 2012 and 2011, no payments have been made towards the balance.

The City of Watonga paid \$500,000 in principle and \$11,605 in interest on the Authority's line of credit with a financial institution as a part of the Authority's lease agreement of the Hospital commencing July 1, 2012. The revenue from this transaction is reported as intergovernmental revenue on the Statement of Revenue, Expenses, and Changes in Net Assets.

The City of Watonga paid the Authority a non-capital improvement grant in the amount of \$128,315.

As of June 30, 2012 and 2011, the Authority received donations and contributions from the Watonga Municipal Hospital Foundation in the amount of \$4,352 and \$12,671, respectively

Note 10 - Contingencies

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.

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 Hospital.

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 and resident services.

Note 11 - Subsequent Events

On June 22, 2012 the Authority entered into an agreement to sublease the hospital for a seven year period commencing July 1, 2012 (initial term). The lease will be extended for thirteen additional one year terms unless the lessee gives written notice to the Authority at least 180 days prior to the end of the initial term or any renewal term of its desire to terminate the lease. Significant items from the lease agreement are highlighted below.

Long-term lease

The consideration for the lease is \$1 per year, for leasing the premises.

Current assets transfer

The Authority will transfer cash and equivalents, patient accounts receivable and supplies inventory, no consideration will be provided. The transfer will decrease the Authority's net assets subsequent to year end by \$1,149,683.

Cash and cash equivalents transferred at July 1, 2012	\$ 529,733
Net patient receivable transferred at July 1, 2012	519,191
Inventory transferred at July 1, 2012	100,759
Current assets to be transferred to Lessee	\$ 1,149,683

Employee compensation accruals transfer

The lessee will assume the Authority's accruals for salary expense, accrued employee benefits, and accrued compensated absences. The transfer will increase the Authority's net assets subsequent to year end by \$179,489.

Employee compensation accruals	
Wages	\$ 55,886
Accrued compensated absences	105,918
Accrued payroll tax and benefits	<u>17,685</u>
Accrued employee liabilities transferred to Lessee	<u><u>\$ 179,489</u></u>

Depreciable capital assets transfer

At the commencement of the lease July 1, 2012, the Authority will transfer title to all equipment used in the operation of the Hospital to the lessee and no consideration will be provided. As of June 30, 2012, the net book value of the transferred equipment is no longer considered recoverable in the normal course of operations of the Authority and is considered fully impaired and an impairment loss of \$128,915 has been recorded in the statement of revenues, expenses, and changes in net assets.

Depreciable capital assets	
NBV of equipment transferred	<u>\$ 128,915</u>
Impairment loss to Authority as of June 30, 2012	<u><u>\$ (128,915)</u></u>

Capital lease transfer

The existing agreements and associated capital assets which constitute capital leases to the Authority as of June 30, 2012 will be transferred to the lessee at the commencement of the lease term July 1, 2012.

Termination

The lessee is permitted to terminate the lease, either during the initial term or any renewal term, at any time upon 120 days written notice to Authority. Upon this sublease being terminated, the Authority will be obligated to purchase all of the lessee's property and equipment, inventory and supplies, and any other leased property at the Authority on the date of termination.



Supplementary Information
June 30, 2012 and 2011

Watonga Municipal Hospital Authority

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Watonga Municipal Hospital Authority
Watonga, Oklahoma

We have audited the financial statements of Watonga Municipal Hospital Authority as of and for the years ended June 30, 2012 and 2011, and our report thereon dated March 19, 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 on pages 24-26 are presented for the purpose 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 our audits 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 taken as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
March 19, 2013

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	2012		
	Inpatient	Outpatient	Total
Daily Patient Services			
Routine care	\$ 1,170,789	\$ -	\$ 1,170,789
Other Nursing Services			
Emergency room	142,127	3,322,926	3,465,053
Operating room	-	28,222	28,222
	<u>142,127</u>	<u>3,351,148</u>	<u>3,493,275</u>
Other Professional Services			
Ambulance	-	71,482	71,482
Electrocardiology	9,953	71,086	81,039
Laboratory	390,682	1,149,413	1,540,095
Medical supplies	47,200	83,241	130,441
Pharmacy	324,598	271,666	596,264
Physical therapy	162,700	383,992	546,692
Radiology	310,739	1,660,832	1,971,571
Respiratory therapy	9,868	1,441	11,309
	<u>1,255,740</u>	<u>3,693,153</u>	<u>4,948,893</u>
Charity Care	<u>(119,296)</u>	<u>-</u>	<u>(119,296)</u>
Total Patient Services Revenue	<u>\$ 2,449,360</u>	<u>\$ 7,044,301</u>	<u>9,493,661</u>
Reductions from Revenue			
Contractual adjustments			
Medicare			1,505,367
Medicaid			1,281,901
Other			1,062,913
Provision for bad debts			<u>1,467,584</u>
Total reductions from revenue			<u>5,317,765</u>
Net Patient Service Revenue			<u>\$ 4,175,896</u>

Watonga Municipal Hospital Authority
Schedules of Net Patient Service Revenue
Years Ended June 30, 2012 and 2011

2011		
Inpatient	Outpatient	Total
\$ 1,187,433	\$ -	\$ 1,187,433
194,010	2,737,810	2,931,820
3,495	26,736	30,231
197,505	2,764,546	2,962,051
-	291,738	291,738
11,497	60,659	72,156
401,650	1,070,794	1,472,444
87,013	60,940	147,953
399,547	229,478	629,025
81,598	460,488	542,086
303,562	1,574,789	1,878,351
5,614	11,893	17,507
1,290,481	3,760,779	5,051,260
(94,989)	-	(94,989)
\$ 2,580,430	\$ 6,525,325	9,105,755
		1,099,878
		1,308,685
		941,585
		1,898,152
		5,248,300
		\$ 3,857,455

Watonga Municipal Hospital Authority
Schedules of Other Revenue
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Other Revenue		
Cafeteria	\$ 18,310	\$ 9,867
Medical records	963	609
Miscellaneous	<u>4,365</u>	<u>25,720</u>
Total Other Revenue	<u>\$ 23,638</u>	<u>\$ 36,196</u>

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	2012		
	Salaries	Supplies and Expenses	Total
Daily Patient Services			
Routine care	\$ 856,095	\$ 78,114	\$ 934,209
Other Nursing Services			
Emergency room	66,156	601,687	667,843
Other Professional Services			
Ambulance	66,771	5,549	72,320
Laboratory	163,041	219,272	382,313
Medical records	77,146	30,148	107,294
Pharmacy	31,922	84,923	116,845
Physical therapy	29,275	137,425	166,700
Radiology	159,797	223,700	383,497
Respiratory therapy	-	15,717	15,717
	527,952	716,734	1,244,686
General Services			
Central supply	20,176	59,088	79,264
Dietary	58,633	53,979	112,612
Housekeeping	69,397	7,119	76,516
Laundry and linen	-	22,909	22,909
Operation of plant	36,562	100,348	136,910
	184,768	243,443	428,211
Administrative Services			
Administrative	214,604	783,058	997,662
Employee benefits	-	428,441	428,441
	214,604	1,211,499	1,426,103
Depreciation	-	122,302	122,302
Total Expenses	\$ 1,849,575	\$ 2,973,779	\$ 4,823,354

Watonga Municipal Hospital Authority
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

Salaries	2011 Supplies and Expenses	Total
\$ 1,033,316	\$ 37,229	\$ 1,070,545
63,142	784,700	847,842
246,009	24,497	270,506
169,506	194,232	363,738
89,655	42,106	131,761
33,118	105,671	138,789
86,871	56,440	143,311
201,337	228,026	429,363
-	15,998	15,998
826,496	666,970	1,493,466
5,121	38,864	43,985
56,829	49,929	106,758
72,674	10,373	83,047
-	18,771	18,771
61,811	132,080	193,891
196,435	250,017	446,452
321,154	703,831	1,024,985
-	443,617	443,617
321,154	1,147,448	1,468,602
-	144,471	144,471
\$ 2,440,543	\$ 3,030,835	\$ 5,471,378



CPAs & BUSINESS ADVISORS

**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***

The Board of Trustees
Watonga Hospital Trust Authority
Watonga, Oklahoma

We have audited the accompanying balance sheet of Watonga Hospital Trust Authority, a public trust, as of and for the year ended June 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 March 19, 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

Management of Watonga Hospital Trust Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Watonga Hospital Trust Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Watonga Hospital Trust Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Watonga Hospital Trust Authority's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as finding 2012-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as finding 2012-02 to be significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Watonga Hospital Trust 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedules of findings as items 2012-03 and 2012-04.

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

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

The image shows a handwritten signature in cursive script that reads "Eide Sallee LLP".

Oklahoma City, Oklahoma
March 19, 2013

2012-01 Preparation of Financial Statements

Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective controls over financial reporting.

Condition – The Hospital does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis.

Context - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Effect – Potentially material misstatements in the financial statements could occur and not be prevented or detected and corrected by management.

Cause – The Hospital staff does not have necessary training and education to satisfy the standards regarding preparation and review of the financial statements and the related notes.

Recommendation - 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 cost or other considerations.

Views of Responsible Officials and Planned Corrective Actions –

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2012-02 Supplies

Criteria or Specific Requirement –Management is responsible for conducting a year-end count of all supplies which support balances reported in the general ledger.

Condition –Certain departments did not have support for ending balances of supplies on hand as of June 30, 2012 and in certain instances the amount of supplies reported in the department did not agree to the associated count sheet.

Effect –Supplies reported could not be supported by underlying records or documents and departments with supply count sheets that did not agree to the amounts reported had to be reconciled to the underlying support.

Cause –Ineffective accounting procedures to ensure that amounts reported in the general ledger for supplies were agreed and reconciled to the year-end count of supplies on hand.

Recommendation –We recommend a policy be developed and a procedure implemented that ensures all supplies on hand are counted, evidence of the year-end count is retained, and the total is agreed to the amount reported in the general ledger.

Views of Responsible Officials and Planned Corrective Actions –

2012-03 Cash at Risk

Criteria or Specific Requirement –Management is responsible for ensuring that the public funds of the Authority do not exceed federally insured limits.

Condition –We found that the Authority had bank balances in excess of federally insured limits of \$250,000 without adequate collateral in place to cover the excess.

Effect –Cash at the bank exceeds federally insured limits without adequate collateral in place for the Authority to recover funds in the event of bank failure.

Cause– Ineffective compliance monitoring procedures to ensure that the Authority’s public funds are collateralized beyond federally insured limits

Recommendation– We recommend that policy is developed and followed that ensures collateral is in place at all institutions the Authority banks with that ensures that when cash balances exceed federally insured limits that the Authority is covered.

Views of Responsible Officials and Planned Corrective Actions

2012-04 Form 1099-Misc Required for the Forgiveness of Physician Debt

Criteria or Specific Requirement – Management is responsible for ensuring the Authority is in compliance with all regulations required by a federal agency.

Condition – A physician separated from the Authority in the current year that owed the Authority \$249,361 resulting from an agreement the physician had with the Authority which required amounts owed or due to the physician depending on the performance of the physicians practice. The performance of the physicians practice resulted in amounts due to the Authority. When the physician separated, the receivable was written off. The write off of the receivable constitutes income to the physician which is required to be filed with the IRS on form 1099-misc.

Effect –The Authority has not complied with regulations regarding the reporting of employee income.

Cause – Ineffective compliance monitoring procedures to ensure that the Authority adheres to regulations related to the reporting of taxable income.

Recommendation –We recommend the Authority file the 1099-misc with the IRS to report the income and develop policies and procedures which require future write offs of employee accounts receivable to be reported appropriately.

Views of Responsible Officials and Planned Corrective Actions –