



Management's Discussion and Analysis
and Financial Statements
June 30, 2014 and 2013

Coal County Healthcare Authority

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Independent Auditor's Report

Board of Trustees
Coal County Healthcare Authority
Coalgate, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of Coal County Healthcare Authority (Authority), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of Coal County Healthcare Authority as of June 30, 2014 and 2013, and the results of its operations, changes in net position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
November 14, 2014

Introduction

Our discussion and analysis for Coal County Healthcare Authority (Authority) provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position increased by \$1,602,281 or 84% in 2014 and decreased \$99,307 or 5% in 2013.
- The Authority reported an operating income in 2014 of \$229,372 and operating loss of \$79,372 in 2013. During 2014, operating income increased by \$308,744 or 389% compared to 2013 and operating loss decreased by \$576,134 or 88% in 2013 compared to 2012.
- Net nonoperating income increased by \$650,724 or 818% in 2014 compared to 2013 and increased \$53,960 or 211% in 2013 compared to 2012.

Using This Annual Report

The Authority's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement 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 Sheet and Statement of Revenues, Expenses, and Changes in Net Position

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 Sheet and the Statement of Revenues, Expenses, and Changes in Net Position 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 position and changes in them. You can think of the Authority's net position - 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 position 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 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 Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position increased by \$1,602,281 or 84% in 2014 and decreased \$99,307 or 5% in 2013 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

| | <u>2014</u> | <u>2,013</u> | <u>2,012</u> |
|---|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets | \$ 3,262,630 | \$ 1,936,895 | \$ 1,959,979 |
| Capital assets, net | 1,166,637 | 1,132,910 | 1,189,325 |
| Other noncurrent assets | 123,846 | 90,513 | 90,513 |
| | <u>\$ 4,553,113</u> | <u>\$ 3,160,318</u> | <u>\$ 3,239,817</u> |
| Liabilities | | | |
| Current liabilities | \$ 848,982 | \$ 1,056,061 | \$ 1,058,115 |
| Long-term debt, less current maturities | 202,644 | 205,051 | 183,189 |
| | <u>1,051,626</u> | <u>1,261,112</u> | <u>1,241,304</u> |
| Net Position | | | |
| Net investment in capital assets | 805,815 | 801,626 | 905,426 |
| Unrestricted | 2,695,672 | 1,097,580 | 1,093,087 |
| | <u>3,501,487</u> | <u>1,899,206</u> | <u>1,998,513</u> |
| | <u>\$ 4,553,113</u> | <u>\$ 3,160,318</u> | <u>\$ 3,239,817</u> |

Assets, Liabilities and Net Position

The Authority's assets increased by \$1,392,795 or 44% in 2014 and decreased \$79,499 or 2% in 2013. The Authority's liabilities decreased by \$209,486 or 17% in 2014 and increased \$19,808 or 2% in 2013.

Table 2: Operating Results and Changes in Net Position

| | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|---------------------|
| Operating Revenues | | | |
| Net patient and resident service revenue | \$ 7,857,932 | \$ 7,292,384 | \$ 7,246,581 |
| Electronic health records incentive | - | - | 290,674 |
| Other revenues | 399,834 | 264,323 | 427,477 |
| Total operating revenues | <u>8,257,766</u> | <u>7,556,707</u> | <u>7,674,058</u> |
| Operating Expenses | | | |
| Nursing services | 3,292,124 | 3,142,374 | 3,802,298 |
| Other professional services | 1,328,782 | 1,277,373 | 1,291,933 |
| General services | 851,602 | 835,029 | 811,846 |
| Administrative services | 2,244,898 | 2,099,601 | 2,150,345 |
| Depreciation | 310,988 | 281,702 | 273,142 |
| Total operating expenses | <u>8,028,394</u> | <u>7,636,079</u> | <u>8,329,564</u> |
| Operating Income (Loss) | <u>229,372</u> | <u>(79,372)</u> | <u>(655,506)</u> |
| Nonoperating Revenues (Expenses) | | | |
| Sales tax | 750,790 | 96,296 | - |
| Investment income | 261 | 418 | 365 |
| Interest expense | (20,782) | (17,169) | (23,833) |
| Other gains and losses | - | - | 49,053 |
| Total nonoperating revenues, net | <u>730,269</u> | <u>79,545</u> | <u>25,585</u> |
| Revenues in Excess of Expenses | 959,641 | 173 | (629,921) |
| Discontinued Home Health and Hospice Services | | | |
| Gain (Loss) from operations discontinued | (6,820) | (99,480) | 54,510 |
| Gain on the disposal of operations | 649,460 | - | - |
| Changes in Net Position | 1,602,281 | (99,307) | (575,411) |
| Net Position, Beginning of Year | <u>1,899,206</u> | <u>1,998,513</u> | <u>2,573,924</u> |
| Net Position, End of Year | <u>\$ 3,501,487</u> | <u>\$ 1,899,206</u> | <u>\$ 1,998,513</u> |

Operating Results

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating income for 2014 increased by \$308,744 or 389% as compared to 2013 and operating loss decreased in 2013 by \$576,134 or 88% compared to 2012. The primary components of the decreased operating income are:

- An increase in patient revenue, net of uncollectible accounts, of \$565,548 or 8% as compared to an increase in 2013 of \$45,803 or 1% as compared to 2012.
- An increase in other revenue of \$135,511 or 51% as compared to a decrease in 2013 of \$163,154 or 38% as compared to 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of sales tax revenue, interest expense and investment income. Sales tax revenues increased in 2014 by \$654,494 or 680% and increased \$96,296 or 100% in 2013. The interest expense increased in 2014 by \$3,613 or 21% and decreased \$6,664 or 28% in 2013.

The Authority's Cash Flows

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

Capital Asset and Debt Administration

At the end of 2014 and 2013, the Authority had \$1,166,637 and \$1,132,910 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets costing \$165,899 and \$63,398 during 2014 and 2013. The Authority leased new capital assets costing \$178,816 and \$165,238 during 2014 and 2013.

Debt

At June 30, 2014 and 2013, the Authority had \$360,822 and \$331,284 in capital lease obligations outstanding as detailed in Note 6. At June 30, 2014 and 2013, the Authority had \$100,010 and \$250,000 in notes payable outstanding as detailed in Note 6.

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 administration by calling 580-927-2327.

Coal County Healthcare Authority
Balance Sheets
June 30, 2014 and 2013

| | 2014 | 2013 |
|---|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 604,263 | \$ 305,207 |
| Accounts receivables | | |
| Patient and resident, net of estimated uncollectibles of approximately \$850,000 in 2014 and \$744,000 in 2013 | 2,243,343 | 1,427,028 |
| Estimated third-party payor settlements | 153,870 | - |
| Sales tax | 155,558 | 96,296 |
| Other | 7,671 | 1,132 |
| Supplies | 97,925 | 104,172 |
| Prepays | - | 3,060 |
| Total current assets | 3,262,630 | 1,936,895 |
| Capital Assets, Net | | |
| Non-depreciable capital assets | 188,563 | 124,063 |
| Depreciable capital assets | 978,074 | 1,008,847 |
| Total capital assets, net | 1,166,637 | 1,132,910 |
| Other Assets | 123,846 | 90,513 |
| Total assets | \$ 4,553,113 | \$ 3,160,318 |
| Liabilities and Net Position | | |
| Current Liabilities | | |
| Current portion of long-term debt | \$ 158,178 | \$ 126,233 |
| Notes payable | 100,010 | 250,000 |
| Accounts payable | 410,009 | 169,741 |
| Accrued liabilities | 175,200 | 195,739 |
| Estimated third-party payor settlements | - | 308,819 |
| Deposits from residents | 5,585 | 5,529 |
| Total current liabilities | 848,982 | 1,056,061 |
| Long-Term Debt, Net | 202,644 | 205,051 |
| Total liabilities | 1,051,626 | 1,261,112 |
| Net Position | | |
| Net investment in capital assets | 805,815 | 801,626 |
| Unrestricted | 2,695,672 | 1,097,580 |
| Total net position | 3,501,487 | 1,899,206 |
| Total liabilities and net position | \$ 4,553,113 | \$ 3,160,318 |

Coal County Healthcare Authority
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|--|--------------|--------------|
| Operating Revenues | | |
| Net patient and resident service revenue, net of provision for bad debts of \$438,088 in 2014 and \$383,100 in 2013 | \$ 7,857,932 | \$ 7,292,384 |
| Other revenues | 399,834 | 264,323 |
| Total operating revenues | 8,257,766 | 7,556,707 |
| Operating Expenses | | |
| Nursing services | 3,292,124 | 3,142,374 |
| Other professional services | 1,328,782 | 1,277,373 |
| General services | 851,602 | 835,029 |
| Administrative services | 2,244,898 | 2,099,601 |
| Depreciation | 310,988 | 281,702 |
| Total operating expenses | 8,028,394 | 7,636,079 |
| Operating Income (Loss) | 229,372 | (79,372) |
| Nonoperating Revenues (Expenses) | | |
| Sales tax | 750,790 | 96,296 |
| Investment income | 261 | 418 |
| Interest expense | (20,782) | (17,169) |
| Total nonoperating revenues, net | 730,269 | 79,545 |
| Revenues in Excess of Expenses | 959,641 | 173 |
| Discontinued Home Health and Hospice Services | | |
| Loss from operations discontinued | (6,820) | (99,480) |
| Gain on the disposal of operations | 649,460 | - |
| Change in Net Position | 1,602,281 | (99,307) |
| Net Position, Beginning of Year | 1,899,206 | 1,998,513 |
| Net Position, End of Year | \$ 3,501,487 | \$ 1,899,206 |

Coal County Healthcare Authority
 Statements of Cash Flows
 Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|--------------|--------------|
| Operating Activities | | |
| Receipts from and on behalf of patients and residents | \$ 6,578,984 | \$ 6,858,220 |
| Other receipts and payments, net | 393,295 | 264,259 |
| Payments to suppliers and contractors | (3,369,831) | (3,163,109) |
| Payments to employees | (4,118,539) | (4,261,553) |
| | (516,091) | (302,183) |
| Net Cash Used for Operating Activities | | |
| Noncapital Financing Activities | | |
| Proceeds from sales tax | 691,528 | - |
| Proceeds from short-term obligation | 195,000 | 250,000 |
| Repayment of short-term obligation | (344,990) | - |
| Interest paid on short term obligations | (6,412) | (5,639) |
| | 535,126 | 244,361 |
| Net Cash From Noncapital Financing Activities | | |
| Capital and Capital Related Financing Activities | | |
| Purchase of property and equipment | (165,899) | (63,398) |
| Principal payments on capital lease obligations | (149,278) | (117,853) |
| Proceeds from the sale of capital assets | - | 3,349 |
| Interest paid on debt obligations | (14,370) | (11,530) |
| | (329,547) | (189,432) |
| Net Cash Used for Capital and Capital Related Financing Activities | | |
| Investing Activities | | |
| Investment income | 261 | 418 |
| Discontinued operations | 609,307 | (99,480) |
| | 609,568 | (99,062) |
| Net Cash From (Used by) Investing Activities | | |
| Increase (Decrease) in Cash and Cash Equivalents | 299,056 | (346,316) |
| Cash and Cash Equivalents, Beginning | 305,207 | 651,523 |
| Cash and Cash Equivalents, Ending | \$ 604,263 | \$ 305,207 |

Coal County Healthcare Authority
 Statements of Cash Flows
 Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|--|-------------|-------------|
| Reconciliation of Operating Loss to Net Cash | | |
| Used for Operating Activities | \$ 229,372 | \$ (79,372) |
| Adjustments to reconcile change in net position to net cash used for operating activities | | |
| Provision for bad debt | 438,088 | 383,100 |
| Depreciation | 310,988 | 281,702 |
| Changes in assets and liabilities | | |
| Patient receivables | (1,254,403) | (618,974) |
| Other receivables | (6,539) | (64) |
| Supplies | 6,247 | (9,478) |
| Prepays | 3,060 | 18,480 |
| Accounts payable | 240,268 | (91,305) |
| Accrued liabilities | (20,539) | 12,018 |
| Deposits from patients | 56 | (946) |
| Estimated third-party settlements | (462,689) | (197,344) |
| Net Cash Used for Operating Activities | (516,091) | (302,183) |
| Supplemental Disclosure of Non-cash Investing and Financing Activity | | |
| Equipment financed through capital lease arrangements | \$ 178,816 | \$ 165,238 |

Note 1 - Organization and Significant Accounting Policies

Organization

Coal County Healthcare Authority (Authority) is a public trust created on April 1, 2013, under the provisions of Title 60, Oklahoma Statutes, the Oklahoma Trust Act, and other applicable laws and statutes of the State of Oklahoma. The Authority's sole activity is the operation a 20 bed critical access hospital and a 75 bed nursing home facility to provide quality medical, surgical, hospital, and nursing care services for the residents of Coal County.

Blended Component Units

Coal County General Hospital Holding Company (Holding Company), Coal County General Hospital, Inc. (Hospital) and Coal County Extended Care, Inc. (Nursing Home) have been included as blended component units because the Authority is financially accountable for the Holding Company, Hospital and Nursing Home. Since the Hospital, Nursing Home and Holding Company perform health care related functions exclusively for the Authority. The blending method has been used to incorporate their financial statements into the Authority's financial statements under the blending method, transactions between the companies and the Authority that generate intercompany receivables, payables, revenues and expenses are eliminated. After eliminations, the remaining balances and transactions of the Hospital, Nursing Home and Holding Company are included in the Authority's assets, liabilities, revenues and expenses.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

Income Taxes

The Authority is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma.

Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include 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 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.

Supplies

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

Capital Assets

Capital asset 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 in the financial statements. The estimated useful lives of capital assets are as follows:

| | |
|----------------------------|------------|
| Buildings and improvements | 5-50 years |
| Equipment | 3-20 years |

Investment in Joint Ventures

Joint ventures in which the Authority has less than 20% ownership are stated at cost and dividends are recorded as investment income in the financial statements.

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position is presented in the following components:

Net Investments in Capital Assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Unrestricted Net Position is remaining net position that does not meet the definition of net investment in capital assets.

Net Patient and Resident 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 and resident 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.

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 receipts to contractual adjustments. The Authority received \$66,768 and \$79,970 during the years ended June 30, 2014 and 2013.

Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

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 approximately \$54,000 and \$70,000 for the years ended June 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were approximately \$32,000 and \$44,000 at June 30, 2014 and 2013, based on an average ratio of cost to gross charges.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position 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, other than financing costs, incurred to provide health care services.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

Sales Tax

Effective April 1, 2013, the citizens of Coal County, Oklahoma, approved a 1% sales tax for the support of the Authority. The Authority received approximately 8% of its financial support from county appropriations related to sales tax in 2014 and 1% in 2013. These funds were used for operations, maintenance, and improvement of the Authority.

Grants and Contributions

From time to time, the Authority receives grants as well as 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Reclassifications have been made to the June 30, 2013 financial information to make it conform to the current year presentation. The reclassification had no effect on previously reported operating results or changes in net Position.

Note 2 - Net Patient and Resident 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:

Coal County General Hospital, Inc.

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under cost reimbursement policy with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2012.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge or established fee schedules.

Other carriers: The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Coal County Extended Care, Inc.

Medicare: Inpatient skilled care, hospice and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates.

Medicaid: Medicaid services are paid at prospectively determined rates.

Other carriers: The Nursing Home has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Nursing Home under these agreements includes prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 38% and 24% of the Authority's net patient and resident service revenue for the year ended June 30, 2014 and 49% and 22% for the year ended June 30, 2013. 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 June 30, 2014 and 2013 increased approximately \$27,000 and \$59,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2014 and 2013 is as follows:

| | 2014 | 2013 |
|--|---------------|---------------|
| Total patient and resident service revenue | \$ 13,079,656 | \$ 12,105,480 |
| Contractual adjustments and provisions for bad debt | | |
| Contractual adjustments | (4,783,636) | (4,429,996) |
| Provisions for bad debt | (438,088) | (383,100) |
| Total contractual adjustments and provisions for bad debts | (5,221,724) | (4,813,096) |
| Net patient and resident service revenue | 7,857,932 | 7,292,384 |

Note 3 - Deposits

State statutes require public trusts to invest monies 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. The following is a summary of deposits and investments at June 30, 2014 and 2013:

| | 2014 | 2013 |
|--|------------|------------|
| Total Bank Balance | | |
| Insured (FDIC) | \$ 260,939 | \$ 259,593 |
| Collateralized with securities held by the Authority's agent in the Authority's name | 470,070 | 140,012 |
| | \$ 731,009 | \$ 399,605 |
| Total Carrying Value | | |
| Cash and cash equivalents | \$ 604,263 | \$ 305,207 |

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 U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2014 and 2013, no amounts were uncollateralized.

Note 4 - Capital Assets

Capital asset additions, transfers, retirements, and balances for the year ended June 30, 2014, are as follows:

| | Balance June 30, 2013 | Additions | Retirements | Transfers | Balance June 30, 2014 |
|---|-----------------------------|-------------------|-------------|-------------|-----------------------------|
| Non-depreciable capital assets | | | | | |
| Land | \$ 124,063 | \$ - | \$ - | \$ - | \$ 124,063 |
| Construction in progress | - | 64,500 | - | - | 64,500 |
| Total non-depreciable capital assets | \$ 124,063 | \$ 64,500 | \$ - | \$ - | \$ 188,563 |
| Depreciable capital assets | | | | | |
| Building and building improvements | \$ 2,665,081 | \$ - | \$ - | \$ - | \$ 2,665,081 |
| Equipment | 2,620,579 | 101,399 | - | - | 2,721,978 |
| Equipment under capital obligations | 712,218 | 178,816 | - | - | 891,034 |
| Total depreciable capital assets | 5,997,878 | \$ 280,215 | \$ - | \$ - | 6,278,093 |
| Less accumulated depreciation | | | | | |
| Building and building improvements | 2,442,068 | \$ 29,320 | \$ - | \$ - | \$ 2,471,388 |
| Equipment | 2,197,251 | 115,694 | - | - | 2,312,945 |
| Equipment under capital obligations | 349,712 | 165,974 | - | - | 515,686 |
| Total accumulated depreciation | 4,989,031 | \$ 310,988 | \$ - | \$ - | 5,300,019 |
| Depreciable capital assets, net | \$ 1,008,847 | | | | \$ 978,074 |
| Capital assets, net | \$ 1,132,910 | | | | \$ 1,166,637 |

Construction in progress at June 30, 2014, represents costs related to the implementation of new software. The new software is expected to be completed in Spring 2015. The cost to complete the new software implementation is approximately \$500,000 and will be financed with long-term debt.

Coal County Healthcare Authority
Notes to Financial Statements
June 30, 2014 and 2013

Capital asset additions, transfers, retirements, and balances for the year ended June 30, 2013, are as follows:

| | Balance June 30, 2012 | Additions | Retirements | Transfers | Balance June 30, 2013 |
|--------------------------------------|-----------------------------|-------------------|--------------------|-------------------|-----------------------------|
| Non-depreciable capital assets | | | | | |
| Land | \$ 124,063 | \$ - | \$ - | \$ - | \$ 124,063 |
| Construction in progress | 7,000 | - | - | (7,000) | - |
| Total non-depreciable capital assets | <u>\$ 131,063</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (7,000)</u> | <u>\$ 124,063</u> |
| Depreciable capital assets | | | | | |
| Building and building improvements | \$ 2,665,081 | \$ - | \$ - | \$ - | \$ 2,665,081 |
| Equipment | 2,641,762 | 63,398 | (91,581) | 7,000 | 2,620,579 |
| Equipment under capital obligations | 546,980 | 165,238 | - | - | 712,218 |
| Total depreciable capital assets | <u>5,853,823</u> | <u>\$ 228,636</u> | <u>\$ (91,581)</u> | <u>\$ 7,000</u> | <u>5,997,878</u> |
| Less accumulated depreciation | | | | | |
| Building and building improvements | 2,408,602 | \$ 33,466 | \$ - | \$ - | \$ 2,442,068 |
| Equipment | 2,158,780 | 126,703 | (88,232) | - | 2,197,251 |
| Equipment under capital obligations | 228,179 | 121,533 | - | - | 349,712 |
| Total accumulated depreciation | <u>4,795,561</u> | <u>\$ 281,702</u> | <u>\$ (88,232)</u> | <u>\$ -</u> | <u>4,989,031</u> |
| Depreciable capital assets, net | <u>\$ 1,058,262</u> | | | | <u>\$ 1,008,847</u> |
| Capital assets, net | <u>\$ 1,189,325</u> | | | | <u>\$ 1,132,910</u> |

Note 5 - 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 under operating leases was approximately \$110,000 and \$175,000 for the years ended June 30, 2014 and 2013, respectively. The capitalized leased assets consist of:

| | 2014 | 2013 |
|-------------------------------|-------------------|-------------------|
| Major Movable Equipment | \$ 891,034 | \$ 712,218 |
| Less Accumulated Amortization | <u>(515,686)</u> | <u>(349,712)</u> |
| | <u>\$ 375,348</u> | <u>\$ 362,506</u> |

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

| Year Ending June 30, | Operating Leases |
|----------------------------------|-----------------------------|
| 2015 | \$ 38,200 |
| 2016 | 18,008 |
| Total minimum lease payments | <u><u>\$ 56,208</u></u> |

For future maturities of capital leases, see Note 6.

Note 6 - Notes Payable and Long-Term Debt

Notes payable consist of:

| | Balance June 30, 2013 | Additions | Reductions | Balance June 30, 2014 | Amounts Due Within One Year |
|--------------------|-----------------------------|-------------------|---------------------|-----------------------------|-----------------------------------|
| Line of credit (1) | \$ 250,000 | 95,000 | (344,990) | 10 | 10 |
| Line of credit (2) | - | 100,000 | - | 100,000 | 100,000 |
| | <u>\$ 250,000</u> | <u>\$ 195,000</u> | <u>\$ (344,990)</u> | <u>\$ 100,010</u> | <u>\$ 100,010</u> |
| | Balance June 30, 2012 | Additions | Reductions | Balance June 30, 2013 | Amounts Due Within One Year |
| Line of credit (1) | \$ - | \$ 250,000 | \$ - | \$ 250,000 | \$ 250,000 |

(1) Line of credit up to \$250,100, 5% interest rate, due February 25, 2015, collateralized by inventory and accounts receivable.

(2) Line of credit up to \$442,600, 5% interest rate, due February 25, 2015, collateralized by inventory and accounts receivable.

The Hospital has a third line of credit up to \$400,270 with a bank dated December 12, 2013 and maturing December 12, 2014, at 5.25%, collateralized by inventory. No amounts were outstanding at June 30, 2014.

Coal County Healthcare Authority
Notes to Financial Statements
June 30, 2014 and 2013

Long-term debt consists of:

| | Balance June 30, 2013 | Additions | Reductions | Balance June 30, 2014 | Amounts Due Within One Year |
|-------------------------------|-----------------------------|------------|--------------|-----------------------------|-----------------------------------|
| Capital lease obligations (1) | \$ 331,284 | \$ 178,816 | \$ (149,278) | \$ 360,822 | \$ 158,178 |
| | Balance June 30, 2012 | Additions | Reductions | Balance June 30, 2013 | Amounts Due Within One Year |
| Capital lease obligations (1) | \$ 283,899 | \$ 165,238 | \$ (117,853) | \$ 331,284 | \$ 126,233 |

(1) Capital leases with varying interest rates from 3.65% to 5.51%, collateralized by associated equipment, with varying maturity dates from May 1, 2015 through October 23, 2018.

Long-term debt maturities are as follows:

| Year Ending June 30, | Long-Term Debt | | Total |
|----------------------|----------------|-----------|------------|
| | Principal | Interest | |
| 2015 | \$ 158,178 | \$ 10,429 | \$ 168,607 |
| 2016 | 70,430 | 6,220 | 76,650 |
| 2017 | 69,040 | 3,680 | 72,720 |
| 2018 | 51,418 | 1,328 | 52,746 |
| 2019 | 11,756 | 84 | 11,840 |
| Total | \$ 360,822 | \$ 21,741 | \$ 382,563 |

Note 7 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients and residents, most of who are insured under third-party payor agreements. The mix of receivables for third party payors, patients and residents at June 30, 2014 and 2013, was as follows:

| | 2014 | 2013 |
|--------------------------|------|------|
| Medicare | 65% | 56% |
| Medicaid | 8% | 8% |
| Other third-party payors | 19% | 8% |
| Patients | 9% | 28% |
| | 100% | 100% |

Note 8 - Related Party Transactions

Due to the size of Coal County, the Board consists of community leaders who from time to time are involved in transactions with the Authority. It is management's intention and belief that all transactions are arm's length transactions.

Note 9 - Contingencies

Malpractice Insurance

The Authority has professional liability insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The policy covers individual claims made and reported to the insurer during the policy term. In addition the Authority also maintains an umbrella policy subject to a limit of \$1 million per claim and annual aggregate limit of \$3 million under an occurrence based policy. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon a review of the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

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 10 - Discontinued Operations

In December 2013, the Home Health Agency was sold to New Horizons Home Health, LLC, a newly formed corporation, and the Authority retained a 10% ownership interest which is included in other assets and accounted for under the cost method of accounting. During the year ended June 30, 2014, the Authority recognized a gain on discontinued operations of \$499,460 from the disposal of its Home Health Agency and is included in the statement of changes in revenues, expenses, and net assets. The Authority's 2014 and 2013 expenses related the Home Health Agency operations totaled \$519,240 and \$771,940. The Authority's 2014 and 2013 net patient revenues related the Home Health Agency operations totaled \$570,778 and \$835,158. The Home Health Agency's 2014 and 2013 operations have been reclassified to include all revenues and expenses of the Home Health Agency in discontinued operations.

In December 2013, the Hospice Agency was sold to Harmony Hospice, LLC. During the year ended June 30, 2014, the Authority recognized a gain on discontinued operations of \$150,000 from the disposal of its Hospice Agency and is included in the statement of changes in revenues, expenses, and net assets. The Authority's 2014 and 2013 expenses related the Hospice Agency operations totaled \$85,576 and \$146,563. The Authority's 2014 and 2013 net patient revenues related the Hospice operations totaled \$27,218 and (\$16,135). During 2013, the Authority had gross revenues related to Hospice operations totaling approximately \$70,000. The Authority had approximately \$81,000 in Hospice bad debt write-offs during 2013 relating to 2012 account receivables. The Authority had approximately \$5,000 in Hospice contractual adjustments during 2013. The Hospice Agency's 2014 and 2013 operations have been reclassified to include all revenues and expenses of the Hospice Agency in discontinued operations.

Note 11 - Presentation of Blended Component Units

The following summarized combining information for the Hospital, Nursing Home and Holding Company, which has been presented as blended component units, as of and for the year ended June 30, 2014:

Table 1: Assets, Liabilities and Net Position

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Eliminations | Total |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------|---------------------|
| Assets | | | | | |
| Current Assets | \$ 2,865,138 | \$ 665,412 | \$ - | \$ (267,920) | \$ 3,262,630 |
| Capital assets, net | 753,776 | 95,106 | 317,755 | - | 1,166,637 |
| Other noncurrent assets | 90,513 | 33,333 | - | - | 123,846 |
| Total assets | \$ 3,709,427 | \$ 793,851 | \$ 317,755 | \$ (267,920) | \$ 4,553,113 |
| Liabilities | | | | | |
| Current liabilities | \$ 468,439 | \$ 648,463 | \$ - | \$ (267,920) | \$ 848,982 |
| Long-term debt, less current maturities | 184,436 | 18,208 | - | - | 202,644 |
| Total liabilities | 652,875 | 666,671 | - | (267,920) | 1,051,626 |
| Net Position | | | | | |
| Net investment in capital assets | 317,546 | 70,514 | 317,755 | - | 705,815 |
| Unrestricted | 2,739,006 | 56,666 | - | - | 2,795,672 |
| Total net position | 3,056,552 | 127,180 | 317,755 | - | 3,501,487 |
| Total liabilities and net position | \$ 3,709,427 | \$ 793,851 | \$ 317,755 | \$ (267,920) | \$ 4,553,113 |

Coal County Healthcare Authority
Notes to Financial Statements
June 30, 2014 and 2013

Table 2: Operating Results and Changes in Net Position

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Eliminations | Total |
|---|------------------------------------|---------------------------------|-----------------------------------|--------------|---------------------|
| Operating Revenues | | | | | |
| Net patient service revenue | \$ 4,816,374 | \$ 3,041,558 | \$ - | \$ - | \$ 7,857,932 |
| Other revenue | 25,669 | 374,165 | - | - | 399,834 |
| Total operating revenues | 4,842,043 | 3,415,723 | - | - | 8,257,766 |
| Operating expenses | | | | | |
| Depreciation | 248,518 | 33,150 | 29,320 | - | 310,988 |
| Other operating expenses | 4,246,402 | 3,471,004 | - | - | 7,717,406 |
| Total operating expenses | 4,494,920 | 3,504,154 | 29,320 | - | 8,028,394 |
| Operating income (loss) | 347,123 | (88,431) | (29,320) | - | 229,372 |
| Nonoperating revenues (expenses) | 731,370 | (1,101) | - | - | 730,269 |
| Revenues in excess of (less than) expenses | 1,078,493 | (89,532) | (29,320) | - | 959,641 |
| Discontinued Home Health and Hospice Services | - | 642,640 | - | - | 642,640 |
| Change in Net position | 1,078,493 | 553,108 | (29,320) | - | 1,602,281 |
| Net position, beginning of year | 1,978,059 | (425,928) | 347,075 | - | 1,899,206 |
| Net position, end of year | <u>\$ 3,056,552</u> | <u>\$ 127,180</u> | <u>\$ 317,755</u> | <u>\$ -</u> | <u>\$ 3,501,487</u> |

Table 3: Cash Flows

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Eliminations | Total |
|--|------------------------------------|---------------------------------|-----------------------------------|--------------|-------------------|
| Net cash used for operating activities | \$ (222,569) | \$ (293,522) | \$ - | \$ - | \$ (516,091) |
| Net cash from (used for) noncapital financing activities | 541,538 | (6,412) | - | - | 535,126 |
| Net cash used for capital and related financing activities | (310,303) | (19,244) | - | - | (329,547) |
| Net cash from investing activities | 261 | 609,307 | - | - | 609,568 |
| Net change in cash and cash equivalents | 8,927 | 290,129 | - | - | 299,056 |
| Cash and cash equivalents, beginning of year | 292,933 | 12,274 | - | - | 305,207 |
| Cash and cash equivalents, end of year | <u>\$ 301,860</u> | <u>\$ 302,403</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 604,263</u> |

Coal County Healthcare Authority
Notes to Financial Statements
June 30, 2014 and 2013

The following is summarized information as of and for the year ended June 30, 2013:

Table 1: Assets, Liabilities and Net Position

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Eliminations | Total |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------|---------------------|
| Assets | | | | | |
| Current Assets | \$ 2,249,418 | \$ 455,514 | \$ - | \$ (768,037) | \$ 1,936,895 |
| Capital assets, net | 675,978 | 109,857 | 347,075 | - | 1,132,910 |
| Other noncurrent assets | 90,513 | - | - | - | 90,513 |
| Total assets | \$ 3,015,909 | \$ 565,371 | \$ 347,075 | \$ (768,037) | \$ 3,160,318 |
| Liabilities | | | | | |
| Current liabilities | \$ 857,391 | \$ 966,707 | \$ - | \$ (768,037) | \$ 1,056,061 |
| Long-term debt, less current maturities | 180,459 | 24,592 | - | - | 205,051 |
| Total liabilities | 1,037,850 | 991,299 | - | (768,037) | 1,261,112 |
| Net Position | | | | | |
| Net investment in capital assets | 375,442 | 79,109 | 347,075 | - | 801,626 |
| Unrestricted | 1,602,617 | (505,037) | - | - | 1,097,580 |
| Total net position | 1,978,059 | (425,928) | 347,075 | - | 1,899,206 |
| Total liabilities and net position | \$ 3,015,909 | \$ 565,371 | \$ 347,075 | \$ (768,037) | \$ 3,160,318 |

Table 2: Operating Results and Changes in Net Position

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Eliminations | Total |
|---|------------------------------------|---------------------------------|-----------------------------------|--------------|---------------------|
| Operating Revenues | | | | | |
| Net patient service revenue | \$ 4,761,845 | \$ 2,530,539 | \$ - | \$ - | \$ 7,292,384 |
| Other revenue | 81,770 | 182,553 | - | - | 264,323 |
| Total operating revenues | 4,843,615 | 2,713,092 | - | - | 7,556,707 |
| Operating expenses | | | | | |
| Depreciation | 221,626 | 26,610 | 33,466 | - | 281,702 |
| Other operating expenses | 4,256,792 | 3,097,585 | - | - | 7,354,377 |
| Total operating expenses | 4,478,418 | 3,124,195 | 33,466 | - | 7,636,079 |
| Operating income (loss) | 365,197 | (411,103) | (33,466) | - | (79,372) |
| Nonoperating revenues (expenses) | 79,629 | (84) | - | - | 79,545 |
| Revenues in excess of (less than) expenses | 444,826 | (411,187) | (33,466) | - | 173 |
| Discontinued Home Health and Hospice Services | - | (99,480) | - | - | (99,480) |
| Change in Net position | 444,826 | (510,667) | (33,466) | - | (99,307) |
| Net position, beginning of year | 1,533,233 | 84,739 | 380,541 | - | 1,998,513 |
| Net position, end of year | \$ 1,978,059 | \$ (425,928) | \$ 347,075 | \$ - | \$ 1,899,206 |

Table 3: Cash Flows

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Eliminations | Total |
|--|------------------------------------|---------------------------------|-----------------------------------|--------------|-------------------|
| Net cash from (used for) operating activities | \$ (351,651) | \$ 49,468 | \$ - | \$ - | \$ (302,183) |
| Net cash from (used for) noncapital financing activities | 246,448 | (2,087) | - | - | 244,361 |
| Net cash used for capital and related financing activities | (146,478) | (42,954) | - | - | (189,432) |
| Net cash used for investing activities | <u>(99,062)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(99,062)</u> |
| Net change in cash and cash equivalents | (350,743) | 4,427 | - | - | (346,316) |
| Cash and cash equivalents, beginning of year | <u>643,676</u> | <u>7,847</u> | <u>-</u> | <u>-</u> | <u>651,523</u> |
| Cash and cash equivalents, end of year | <u>\$ 292,933</u> | <u>\$ 12,274</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 305,207</u> |

Note 12 - Subsequent Events

The Authority has evaluated subsequent events through November 14, 2014, the date which the financial statements were available to be issued.

On July 23, 2014, the Authority made a draw on their line of credit in the amount of \$100,000. The funds were used for the purchase of new software.



Supplementary Information
June 30, 2014 and 2013

Coal County Healthcare Authority



Independent Auditor's Report on Supplementary Information

Board of Trustees
Coal County Healthcare Authority
Coalgate, Oklahoma

Our report on our audits of the basic financial statements of the Coal County Healthcare Authority as of and for the years ended June 30, 2014 and 2013, and our report thereon dated November 14, 2014, which expressed an unmodified opinion on those financial statements, appears on pages 1 through 2. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining schedules of balance sheet information, combining schedules of revenues, expenses, and changes in net position information, and schedules of hospital net patient service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the basic 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
November 14, 2014

Coal County Healthcare Authority
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|--|--------------|--------------|
| Daily Patient Services | | |
| Medical and surgical | \$ 4,927,455 | \$ 4,423,341 |
| Swing bed | 394,400 | 426,900 |
| | 5,321,855 | 4,850,241 |
| Other Nursing Services | | |
| Central service supplies | 372,910 | 301,914 |
| Emergency services | 697,652 | 672,200 |
| | 1,070,562 | 974,114 |
| Other Professional Services | | |
| Ultrasound | 392,720 | 457,680 |
| Respiratory Therapy | 3,769 | 7,254 |
| Speech Therapy | - | 121,409 |
| Laboratory | 1,908,230 | 1,975,962 |
| Pharmacy | 1,386,181 | 1,231,581 |
| Physical therapy | 643,432 | 442,451 |
| Radiology | 2,260,958 | 2,114,465 |
| Pain management | 145,816 | - |
| | 6,741,106 | 6,350,802 |
| Charity Care | (53,867) | (69,677) |
| Total patient and resident service revenue | 13,079,656 | 12,105,480 |
| Reductions from Revenue | | |
| Contractual adjustments | 4,783,636 | 4,429,996 |
| Bad debt expense | 438,088 | 383,100 |
| Total reductions from revenue | 5,221,724 | 4,813,096 |
| Net Patient and Resident Service Revenue | \$ 7,857,932 | \$ 7,292,384 |

Coal County Healthcare Authority
Schedules of Other Operating Revenue
Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---------------------|-------------------|-------------------|
| Other Revenue | | |
| Focus on Excellence | \$ 350,206 | \$ 154,738 |
| Miscellaneous | <u>49,628</u> | <u>109,585</u> |
| Total Other Revenue | <u>\$ 399,834</u> | <u>\$ 264,323</u> |

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| | 2014 | | |
|-----------------------------|---------------------|---------------------|---------------------|
| | Salaries | Other | Total |
| Nursing Services | | | |
| Medical and surgical | \$ 1,602,885 | \$ 1,237,480 | \$ 2,840,365 |
| Emergency services | 30,836 | 420,923 | 451,759 |
| | <u>\$ 1,633,721</u> | <u>\$ 1,658,403</u> | <u>\$ 3,292,124</u> |
| Other Professional Services | | | |
| Ultrasound | \$ 22,056 | \$ 21,664 | \$ 43,720 |
| Laboratory | 293,119 | 323,252 | 616,371 |
| Pharmacy | 85,814 | 172,688 | 258,502 |
| Physical therapy | 48,726 | 140,363 | 189,089 |
| Radiology | 120,605 | 63,976 | 184,581 |
| Respiratory Therapy | 9,143 | 18,857 | 28,000 |
| Pain Management | 1,086 | 7,433 | 8,519 |
| Speech Therapy | - | - | - |
| | <u>\$ 580,549</u> | <u>\$ 748,233</u> | <u>\$ 1,328,782</u> |
| General Services | | | |
| Dietary | \$ 199,619 | \$ 201,659 | \$ 401,278 |
| Housekeeping | 168,416 | 59,547 | 227,963 |
| Medical records | 73,229 | 21,066 | 94,295 |
| Plant operations | 118,647 | 9,419 | 128,066 |
| | <u>\$ 559,911</u> | <u>\$ 291,691</u> | <u>\$ 851,602</u> |
| Administrative Services | | | |
| Administrative and office | \$ 554,834 | \$ 921,079 | \$ 1,475,913 |
| Employee benefits | 768,985 | - | 768,985 |
| | <u>\$ 1,323,819</u> | <u>\$ 921,079</u> | <u>\$ 2,244,898</u> |
| Depreciation | <u>\$ -</u> | <u>\$ 310,988</u> | <u>\$ 310,988</u> |

Coal County Healthcare Authority
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

| 2013 | | |
|--------------|--------------|--------------|
| Salaries | Other | Total |
| \$ 1,676,315 | \$ 954,000 | \$ 2,630,315 |
| 40,998 | 471,061 | 512,059 |
| \$ 1,717,313 | \$ 1,425,061 | \$ 3,142,374 |
| \$ 23,381 | \$ 21,971 | \$ 45,352 |
| 273,022 | 312,149 | 585,171 |
| 95,807 | 153,528 | 249,335 |
| 70,700 | 123,886 | 194,586 |
| 120,972 | 42,428 | 163,400 |
| 20,188 | 18,719 | 38,907 |
| - | - | - |
| 622 | - | 622 |
| \$ 604,692 | \$ 672,681 | \$ 1,277,373 |
| \$ 186,522 | \$ 178,100 | \$ 364,622 |
| 169,480 | 67,455 | 236,935 |
| 85,690 | 20,891 | 106,581 |
| 115,624 | 11,267 | 126,891 |
| \$ 557,316 | \$ 277,713 | \$ 835,029 |
| \$ 543,034 | \$ 705,351 | \$ 1,248,385 |
| 851,216 | - | 851,216 |
| \$ 1,394,250 | \$ 705,351 | \$ 2,099,601 |
| \$ - | \$ 281,702 | \$ 281,702 |

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Coal County Healthcare Authority
Combining Schedule – Balance Sheet Information
June 30, 2014

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Total of Companies | Eliminations | Combined Total |
|---|------------------------------------|---------------------------------|-----------------------------------|-----------------------|---------------------|---------------------|
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | \$ 301,860 | \$ 302,403 | \$ - | \$ 604,263 | \$ - | \$ 604,263 |
| Accounts receivables | | | | | | |
| Patient and resident, net of estimated uncollectibles | 1,885,532 | 357,811 | - | 2,243,343 | - | 2,243,343 |
| Estimated third-party payor settlements | 153,870 | - | - | 153,870 | - | 153,870 |
| Sales tax | 155,558 | - | - | 155,558 | - | 155,558 |
| Other | 7,671 | - | - | 7,671 | - | 7,671 |
| Supplies | 92,727 | 5,198 | - | 97,925 | - | 97,925 |
| Prepays | - | - | - | - | - | - |
| Due from related party | 267,920 | - | - | 267,920 | (267,920) | - |
| Total current assets | 2,865,138 | 665,412 | - | 3,530,550 | (267,920) | 3,262,630 |
| Capital Assets, Net | 753,776 | 95,106 | 317,755 | 1,166,637 | - | 1,166,637 |
| Other Assets | 90,513 | 33,333 | - | 123,846 | - | 123,846 |
| Total assets | \$ 3,709,427 | \$ 793,851 | \$ 317,755 | \$ 4,821,033 | \$ (267,920) | \$ 4,553,113 |

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Total of Companies | Eliminations | Combined Total |
|-------------------------------------|------------------------------------|---------------------------------|-----------------------------------|-----------------------|--------------|-------------------|
| Liabilities and Net Position | | | | | | |
| Current Liabilities | | | | | | |
| Current portion of long-term debt | \$ 151,794 | 6,384 | \$ - | \$ 158,178 | \$ - | \$ 158,178 |
| Notes payable | 100,010 | - | - | 100,010 | - | 100,010 |
| Accounts payable | 103,057 | 306,952 | - | 410,009 | - | 410,009 |
| Accrued liabilities | 113,578 | 61,622 | - | 175,200 | - | 175,200 |
| Deposits from patients | - | 5,585 | - | 5,585 | - | 5,585 |
| Due to related party | - | 267,920 | - | 267,920 | (267,920) | - |
| Total current liabilities | 468,439 | 648,463 | - | 1,116,902 | (267,920) | 848,982 |
| Long-Term Debt, Net | 184,436 | 18,208 | - | 202,644 | - | 202,644 |
| Total liabilities | 652,875 | 666,671 | - | 1,319,546 | (267,920) | 1,051,626 |
| Net Position | | | | | | |
| Net investment in capital assets | 317,546 | 70,514 | 317,755 | 705,815 | - | 705,815 |
| Unrestricted | 2,739,006 | 56,666 | - | 2,795,672 | - | 2,795,672 |
| Total net position | 3,056,552 | 127,180 | 317,755 | 3,501,487 | - | 3,501,487 |
| Total liabilities and net position | \$ 3,709,427 | \$ 793,851 | \$ 317,755 | \$ 4,821,033 | \$ (267,920) | \$ 4,553,113 |

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Coal County Healthcare Authority
Combining Schedule – Balance Sheet Information
June 30, 2013

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Total of Companies | Eliminations | Combined Total |
|---|------------------------------------|---------------------------------|-----------------------------------|-----------------------|---------------------|---------------------|
| Assets | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | \$ 292,933 | \$ 12,274 | \$ - | \$ 305,207 | \$ - | \$ 305,207 |
| Accounts receivables | | | | | | |
| Patient and resident, net of estimated uncollectibles | 988,106 | 438,922 | - | 1,427,028 | - | 1,427,028 |
| Sales tax | 96,296 | - | - | 96,296 | - | 96,296 |
| Other | 1,132 | - | - | 1,132 | - | 1,132 |
| Supplies | 99,854 | 4,318 | - | 104,172 | - | 104,172 |
| Prepays | 3,060 | - | - | 3,060 | - | 3,060 |
| Due from related party | 768,037 | - | - | 768,037 | (768,037) | - |
| Total current assets | 2,249,418 | 455,514 | - | 2,704,932 | (768,037) | 1,936,895 |
| Capital Assets, Net | 675,978 | 109,857 | 347,075 | 1,132,910 | - | 1,132,910 |
| Other Assets | 90,513 | - | - | 90,513 | - | 90,513 |
| Total assets | <u>\$ 3,015,909</u> | <u>\$ 565,371</u> | <u>\$ 347,075</u> | <u>\$ 3,928,355</u> | <u>\$ (768,037)</u> | <u>\$ 3,160,318</u> |

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Total of Companies | Eliminations | Combined Total |
|---|------------------------------------|---------------------------------|-----------------------------------|-----------------------|--------------|-------------------|
| Liabilities and Net Position | | | | | | |
| Current Liabilities | | | | | | |
| Current portion of long-term debt | \$ 120,077 | \$ 6,156 | \$ - | \$ 126,233 | \$ - | \$ 126,233 |
| Notes payable | 250,000 | - | - | 250,000 | - | 250,000 |
| Accounts payable | 64,545 | 105,196 | - | 169,741 | - | 169,741 |
| Accrued liabilities | 113,950 | 81,789 | - | 195,739 | - | 195,739 |
| Estimated third-party payor settlements | 308,819 | - | - | 308,819 | - | 308,819 |
| Deposits from patients | - | 5,529 | - | 5,529 | - | 5,529 |
| Due to related party | - | 768,037 | - | 768,037 | (768,037) | - |
| Total current liabilities | 857,391 | 966,707 | - | 1,824,098 | (768,037) | 1,056,061 |
| Long-Term Debt, Net | 180,459 | 24,592 | - | 205,051 | - | 205,051 |
| Total liabilities | 1,037,850 | 991,299 | - | 2,029,149 | (768,037) | 1,261,112 |
| Net Position | | | | | | |
| Net investment in capital assets | 375,442 | 79,109 | 347,075 | 801,626 | - | 801,626 |
| Unrestricted | 1,602,617 | (505,037) | - | 1,097,580 | - | 1,097,580 |
| Total net position | 1,978,059 | (425,928) | 347,075 | 1,899,206 | - | 1,899,206 |
| Total liabilities and net position | \$ 3,015,909 | \$ 565,371 | \$ 347,075 | \$ 3,928,355 | \$ (768,037) | \$ 3,160,318 |

Coal County Healthcare Authority
Combining Schedule –Operations and Changes in Net Position Information
Year Ended June 30, 2014

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Total of Companies | Eliminations | Combined Total |
|---|------------------------------------|---------------------------------|-----------------------------------|-----------------------|--------------|---------------------|
| Operating Revenues | | | | | | |
| Net patient and resident service revenue | \$ 4,816,374 | 3,041,558 | \$ - | \$ 7,857,932 | \$ - | \$ 7,857,932 |
| Other revenues | 25,669 | 374,165 | - | 399,834 | - | 399,834 |
| Total operating revenues | <u>4,842,043</u> | <u>3,415,723</u> | <u>-</u> | <u>8,257,766</u> | <u>-</u> | <u>8,257,766</u> |
| Operating Expenses | | | | | | |
| Nursing services | 1,584,778 | 1,707,346 | - | 3,292,124 | - | 3,292,124 |
| Other professional services | 1,053,415 | 275,367 | - | 1,328,782 | - | 1,328,782 |
| General services | 334,141 | 517,461 | - | 851,602 | - | 851,602 |
| Administrative services | 1,274,068 | 970,830 | - | 2,244,898 | - | 2,244,898 |
| Depreciation | 248,518 | 33,150 | 29,320 | 310,988 | - | 310,988 |
| Total operating expenses | <u>4,494,920</u> | <u>3,504,154</u> | <u>29,320</u> | <u>8,028,394</u> | <u>-</u> | <u>8,028,394</u> |
| Operating Income (Loss) | <u>347,123</u> | <u>(88,431)</u> | <u>(29,320)</u> | <u>229,372</u> | <u>-</u> | <u>229,372</u> |
| Nonoperating Revenues (Expenses) | | | | | | |
| Sales tax | 750,790 | - | - | 750,790 | - | 750,790 |
| Investment income | 261 | - | - | 261 | - | 261 |
| Interest expense | (19,681) | (1,101) | - | (20,782) | - | (20,782) |
| Total nonoperating revenues | <u>731,370</u> | <u>(1,101)</u> | <u>-</u> | <u>730,269</u> | <u>-</u> | <u>730,269</u> |
| Expenses in Excess of Revenues | 1,078,493 | (89,532) | (29,320) | 959,641 | - | 959,641 |
| Discontinued Home Health and Hospice Services | | | | | | |
| Loss from operations discontinued | - | (6,820) | - | (6,820) | - | (6,820) |
| Gain on the disposal of operations | - | 649,460 | - | 649,460 | - | 649,460 |
| Changes in Net Assets | 1,078,493 | 553,108 | (29,320) | 1,602,281 | - | 1,602,281 |
| Net Position, Beginning of Year | <u>1,978,059</u> | <u>(425,928)</u> | <u>347,075</u> | <u>1,899,206</u> | <u>-</u> | <u>1,899,206</u> |
| Net Position, End of Year | <u>\$ 3,056,552</u> | <u>\$ 127,180</u> | <u>\$ 317,755</u> | <u>\$ 3,501,487</u> | <u>\$ -</u> | <u>\$ 3,501,487</u> |

Coal County Healthcare Authority
Combining Schedule –Operations and Changes in Net Position Information
Year Ended June 30, 2013

| | Coal County General Hospital | Coal County Extended Care | Coal County Holding Company | Total of Companies | Eliminations | Combined Total |
|---|------------------------------------|---------------------------------|-----------------------------------|-----------------------|--------------|---------------------|
| Operating Revenues | | | | | | |
| Net patient and resident service revenue | \$ 4,761,845 | \$ 2,530,539 | \$ - | \$ 7,292,384 | \$ - | \$ 7,292,384 |
| Other revenues | 81,770 | 182,553 | - | 264,323 | - | 264,323 |
| Total operating revenues | <u>4,843,615</u> | <u>2,713,092</u> | <u>-</u> | <u>7,556,707</u> | <u>-</u> | <u>7,556,707</u> |
| Operating Expenses | | | | | | |
| Nursing services | 1,686,214 | 1,456,160 | - | 3,142,374 | - | 3,142,374 |
| Other professional services | 1,041,153 | 236,220 | - | 1,277,373 | - | 1,277,373 |
| General services | 333,439 | 501,590 | - | 835,029 | - | 835,029 |
| Administrative services | 1,195,986 | 903,615 | - | 2,099,601 | - | 2,099,601 |
| Depreciation | 221,626 | 26,610 | 33,466 | 281,702 | - | 281,702 |
| Total operating expenses | <u>4,478,418</u> | <u>3,124,195</u> | <u>33,466</u> | <u>7,636,079</u> | <u>-</u> | <u>7,636,079</u> |
| Operating Income (Loss) | <u>365,197</u> | <u>(411,103)</u> | <u>(33,466)</u> | <u>(79,372)</u> | <u>-</u> | <u>(79,372)</u> |
| Nonoperating Revenues (Expenses) | | | | | | |
| Sales tax | 96,296 | - | - | 96,296 | - | 96,296 |
| Investment income | 418 | - | - | 418 | - | 418 |
| Interest expense | (17,085) | (84) | - | (17,169) | - | (17,169) |
| Total nonoperating revenues | <u>79,629</u> | <u>(84)</u> | <u>-</u> | <u>79,545</u> | <u>-</u> | <u>79,545</u> |
| Expenses in Excess of Revenues | 444,826 | (411,187) | (33,466) | 173 | - | 173 |
| Discontinued Home Health and Hospice Services | | | | | | |
| Loss from operations discontinued | - | (99,480) | - | (99,480) | - | (99,480) |
| Gain on the disposal of operations | - | - | - | - | - | - |
| Changes in Net Assets | 444,826 | (510,667) | (33,466) | (99,307) | - | (99,307) |
| Net Position, Beginning of Year | <u>1,533,233</u> | <u>84,739</u> | <u>380,541</u> | <u>1,998,513</u> | <u>-</u> | <u>1,998,513</u> |
| Net Position, End of Year | <u>\$ 1,978,059</u> | <u>\$ (425,928)</u> | <u>\$ 347,075</u> | <u>\$ 1,899,206</u> | <u>\$ -</u> | <u>\$ 1,899,206</u> |



**Independent Auditor's 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
Coal County Healthcare Authority
Coalgate, Oklahoma

We have audited, 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, the financial statements of Coal County Healthcare Authority (Authority) which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses: 2014-A through 2014-D.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma
November 14, 2014

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2014-A Segregation of Duties

Condition and criteria: Certain employees perform duties that are incompatible. 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.

2014-B Preparation of Financial Statements

Condition and criteria: 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.

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

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

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

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this 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.

2014-C Bad Debt and Contractual Allowances

Condition and criteria: During our audit of accounts receivable and the related allowances, we noted a standard percentage is applied to estimate bad debt but this percentage is not reviewed for comparison to actual results.

Effect: Interim financial statements may not be properly stated. A material audit adjustment was made to the allowance accounts.

Cause: Historical collection averages are not reviewed and considered in determining the potential impacts of contractual adjustments or bad debt write-offs.

Recommendation: We recommend that management develop a worksheet to estimate the impact of contractual adjustments and bad debt over an extended period and apply these estimates to the accounts receivable balances each month. The allowance accounts should be reviewed each month as well for reasonableness in relation to the accounts receivable and revenue.

Management Response: Management will develop an estimate based on historical collection percentages.

2014-D Cost Report Estimate

Condition and criteria: During the current year, the Authority recorded an estimate for the Medicare cost report settlement for the current year. However, the estimate was different from the filed cost report.

Effect: This resulted in a material adjusting journal entry to properly state the current year settlement.

Cause: The Authority's accounting staff believed they properly reserved the estimated settlement on the information they had at the time.

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

Management Response: Prior estimating methods have produced reasonable results; however with the change in Fiscal Intermediaries, management will assess the need to purchase estimating software to more accurately reflect the Medicare Cost Report Settlements. The key to the assessment will be weighing cost versus the financial benefit of this purchase.