



Management's Discussion and Analysis
and Financial Statements
December 31, 2013 and 2012

Craig County Hospital Authority

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Independent Auditor's Report

The Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of Craig County Hospital Authority (Authority) and its discretely presented component unit Craig County Healthcare Foundation, Inc. (Foundation), which comprise the balance sheets as of December 31, 2013 and 2012, 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 from material misstatement.

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 entity'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 entity'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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets and statement of financial position of Craig County Hospital Authority and its discretely presented component unit, Craig County Healthcare Foundation, Inc., as of December 31, 2013 and 2012, and the respective changes in financial position, and cash flows therefore for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, the Authority adopted GASB issued Statement No. 65: *Items previously Reported as Assets and Liabilities*. As discussed in Note 13 to the financial statements, the Authority has retroactively restated the previously reported net position to account for deferred financing costs in accounts with this statement. Our opinions are not modified with respect to this matter.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 14 to the financial statements, the Authority suffered a significant loss from operations and has not met the required covenants required by debt agreements. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

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 inquires 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 June 25, 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 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.

Eide Bailly LLP

Oklahoma City, Oklahoma
June 25, 2014

This discussion and analysis of the financial performance of Craig County Hospital Authority (Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2013 and 2012. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights - Financial statements

- The Authority's total assets decreased by \$2,110,326 or 9% in 2013 compared with a decrease of \$61,124 or 0.3% in 2012.
- The Authority's total liabilities increased by \$167,968 or 2% in 2013 compared with a decrease of \$798,123 or 8% in 2012.
- The Authority reported an operating loss in 2013 of \$1,971,816 and operating income of \$1,420,605 in 2012.

Organization Highlights

- The Authority attested to the second year Stage 1 "Meaningful Use" requirements and received funds of approximately \$1,100,000.
- The Authority enhanced its physical therapy and rehabilitation services through a contract with an established physical therapy company. The authority has seen a significant increase in patient satisfaction and revenue for these programs.
- The Authority expanded its behavior health services through a contract with a service provider to provide services in the authority's Rural Health Clinic and area schools.

Overview of the Financial Statements

The financial statements include the balance sheets, statements of revenues, expenses, and changes in net position, and statements of cash flows.

The balance sheet at December 31, 2013 and 2012 indicated total assets of \$21,060,460 and \$23,170,786, total liabilities of \$9,281,513 and \$9,113,545, and net position of \$11,778,947 and \$14,057,241. Total current assets were \$5,755,755 and \$7,231,579 and total current liabilities were \$6,879,207 and \$3,509,319 for a current ratio of 0.8 and 2.1.

The statements of revenues, expenses, and changes in net position for the year ended December 31, 2013 and 2012, indicated total operating revenues of \$26,126,204 and \$28,517,409 and operating expenses of \$28,098,020 and \$27,096,804, operating income (loss) of (\$1,971,816) and \$1,420,605 and non-operating revenues (expenses) of (\$306,478) and (\$774,113). The net position decreased \$2,278,294 from \$14,057,241 at December 31, 2012 to \$11,531,947 at December 31, 2013 and increased \$736,999 from \$13,320,242 at December 31, 2011 to \$14,057,241 at December 31, 2012.

As reported in the statement of cash flows, cash and cash equivalents decreased from \$2,100,616 at December 31, 2012 to \$989,638 at December 31, 2013 and increased from \$813,350 at December 31, 2011 to \$2,100,616 at December 31, 2012.

The following table summarizes the Authority's assets, liabilities, and net position at December 31:

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets		(Restated)	(Restated)
Current assets	\$ 5,755,755	\$ 7,231,579	\$ 6,266,341
Capital assets, net	14,919,436	15,374,934	16,043,938
Other noncurrent assets	385,269	564,273	921,631
Total assets	\$ 21,060,460	\$ 23,170,786	\$ 23,231,910
Liabilities			
Current liabilities	\$ 6,879,207	\$ 3,509,319	\$ 3,498,105
Long-term debt outstanding, net	2,402,306	5,604,226	6,413,563
Total liabilities	9,281,513	9,113,545	9,911,668
Net Position			
Net investment in capital assets	9,142,569	8,911,323	8,499,809
Restricted, expendable for debt service	319,141	336,487	519,427
Unrestricted	2,317,237	4,809,431	4,301,006
Total net position	11,778,947	14,057,241	13,320,242
Total liabilities and net position	\$ 21,060,460	\$ 23,170,786	\$ 23,231,910

The Authority's assets decreased by \$2,110,326 or 9% in 2013, and decreased by \$61,124 or 0.3% in 2012. The Authority's liabilities increased by \$167,968 or 2% in 2013, and decreased \$798,123 or 8% in 2012. The Authority's net position is the difference between its assets and liabilities. The Authority's net position decreased by \$2,278,294 or 16% in 2013, and increased by \$736,999 or 6% in 2012.

The following table summarizes the Authority's revenues, expenses, and changes in net position for the years ended December 31:

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues		(Restated)	(Restated)
Net patient service revenue	\$ 23,904,385	\$ 26,204,643	\$ 24,071,212
Other revenue	2,221,819	2,312,766	1,460,256
Total operating revenues	<u>26,126,204</u>	<u>28,517,409</u>	<u>25,531,468</u>
Operating Expenses			
Professional care of patients and other professional services	14,979,236	14,560,249	14,590,769
General services	3,089,513	2,834,367	2,646,757
Administrative services	8,730,418	8,243,968	7,316,284
Depreciation	1,298,853	1,458,220	1,657,736
Total operating expenses	<u>28,098,020</u>	<u>27,096,804</u>	<u>26,211,546</u>
Operating income (loss)	<u>(1,971,816)</u>	<u>1,420,605</u>	<u>(680,078)</u>
Nonoperating Revenues (Expenses)			
Investment income	23,678	33,356	64,019
Interest expense	(378,071)	(414,120)	(493,478)
Loss from joint ventures	(11,086)	(22,621)	(21,167)
Noncapital grant and contribution revenue	52,451	58,479	16,259
Gain (loss) on sale of asset	6,550	(429,207)	2,660
Total nonoperating revenues (expenses)	<u>(306,478)</u>	<u>(774,113)</u>	<u>(431,707)</u>
Revenues in excess of (less than) expenses before capital contributions	(2,278,294)	646,492	(1,111,785)
Capital Contribution	<u>-</u>	<u>90,507</u>	<u>32,000</u>
Change in Net Position	(2,278,294)	736,999	(1,079,785)
Net Position, Beginning of Year	<u>14,057,241</u>	<u>13,320,242</u>	<u>14,400,027</u>
Net Position, End of Year	<u>\$ 11,778,947</u>	<u>\$ 14,057,241</u>	<u>\$ 13,320,242</u>

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 Authority has reported operating loss of \$1,971,816 in 2013 and income of \$1,420,605 in 2012. The primary component of the income from operations was the decrease in net patient service revenue of \$2,300,258 or 10% compared with the prior year increase of \$2,133,431 or 8%.

Capital Assets

The Authority had capital assets net of accumulated depreciation at December 31, 2013, amounting to \$14,919,436. This investment in capital assets includes land, land improvements, buildings and improvements, equipment, and construction in progress.

Capital assets consist of the following at December 31:

Table 3: Capital Assets

	2013	2012	2011
Land	\$ 2,523,333	\$ 2,518,452	\$ 2,518,452
Land improvements	35,286	35,286	35,286
Buildings and improvements	15,964,873	15,499,231	15,044,039
Equipment	11,097,306	10,721,443	10,347,143
Construction in progress	367,405	378,453	485,985
Accumulated depreciation	(15,068,767)	(13,777,931)	(12,386,967)
Total capital assets, net	\$ 14,919,436	\$ 15,374,934	\$ 16,043,938

Debt

At December 31, 2013 and 2012, the Authority had \$5,776,867 and \$6,463,611 in bonds, notes and capital leases outstanding as detailed in Note 7 to the financial statements. The Authority issued \$2,127,395 and \$75,422 in new debt in 2013 and 2012.

Economic Factors and Next Year's Budget

The Authority continues to monitor costs throughout the year. The Authority's budgeted net revenue is \$29,972,260. The Authority's continued mission is to be a health care leader in the area, to create new ventures and to enhance services to customers in a fiscally responsible manner. The Authority strives to be conscientious, consumer oriented and dedicated to teamwork, leadership and education.

Requests for Information

This financial report is designed 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 Craig County Hospital Authority, 735 N. Foreman, P.O. Box 326, Vinita, Oklahoma 74301.

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	<u>2013</u>	<u>2012</u> (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 670,497	\$ 1,764,129
Restricted cash - held by trustee for debt service	170,000	160,000
Certificates of deposit	1,203,530	1,348,789
Receivables		
Patient, net of estimated uncollectibles		
of \$1,850,000 in 2013 and \$2,093,000 in 2012	2,553,613	3,010,261
Other	377,020	284,067
Supplies	539,341	490,618
Prepays	241,754	173,715
Total current assets	<u>5,755,755</u>	<u>7,231,579</u>
Restricted Cash		
Held by trustee for debt service, net of current portion	<u>149,141</u>	<u>176,487</u>
Capital Assets, Net		
Non-depreciable capital assets	2,890,738	2,896,905
Depreciable capital assets, net	<u>12,028,698</u>	<u>12,478,029</u>
Total capital assets, net	<u>14,919,436</u>	<u>15,374,934</u>
Other Assets		
Investment in joint ventures	236,128	247,214
Long-term investments	<u>-</u>	<u>140,572</u>
Total other assets	<u>236,128</u>	<u>387,786</u>
Total assets	<u>\$ 21,060,460</u>	<u>\$ 23,170,786</u>

See Notes to Financial Statements

Craig County Hospital Authority
Balance Sheets

December 31, 2013 and 2012

	2013	2012 (Restated)
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 3,374,561	\$ 859,385
Accounts payable	1,949,004	1,465,027
Accrued liabilities		
Salaries and benefits	476,410	417,788
Vacation	225,030	202,922
Other	275,202	254,197
Estimated third-party payor settlements	579,000	310,000
Total current liabilities	6,879,207	3,509,319
Long-Term Debt, Net	2,402,306	5,604,226
Total liabilities	9,281,513	9,113,545
Net Position		
Net investment in capital assets	9,142,569	8,911,323
Restricted, expendable for debt service	319,141	336,487
Unrestricted	2,317,237	4,809,431
Total net position	11,778,947	14,057,241
Total liabilities and net position	\$ 21,060,460	\$ 23,170,786

Craig County Hospital Authority
Statement of Financial Position – Discretely Presented Component Unit
Craig County Healthcare Foundation, Inc.
December 31, 2013

	<u>2013</u>
Assets	
Current Assets	
Cash	\$ 30,205
Certificates of deposit	189,545
Other receivables	<u>1,579</u>
Total current assets	<u>221,329</u>
Other Assets	
Pledge receivable	20,000
Other assets	<u>32,573</u>
Total other assets	<u>52,573</u>
Total assets	<u><u>\$ 273,902</u></u>
Unrestricted Net Assets	<u><u>\$ 273,902</u></u>

Craig County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2013 and 2012

	2013	2012 (Restated)
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$2,593,347 in 2013 and \$2,197,112 in 2012	\$ 23,904,385	\$ 26,204,643
Other revenue	2,221,819	2,312,766
Total operating revenues	26,126,204	28,517,409
Operating Expenses		
Nursing services	6,557,999	6,392,726
Other professional services	8,421,237	8,167,523
General services	3,089,513	2,834,367
Administrative services	8,730,418	8,243,968
Depreciation	1,298,853	1,458,220
Total operating expenses	28,098,020	27,096,804
Operating Income (Loss)	(1,971,816)	1,420,605
Nonoperating Revenues (Expenses)		
Investment income	23,678	33,356
Interest expense	(378,071)	(414,120)
Noncapital grant and contribution revenue	52,451	58,479
Loss from joint ventures	(11,086)	(22,621)
Gain (loss) on sale and abandonment of assets	6,550	(429,207)
Total nonoperating revenues (expenses)	(306,478)	(774,113)
Revenues in excess of (less than) expenses before capital contributions	(2,278,294)	646,492
Capital Contribution	-	90,507
Change in Net Position	(2,278,294)	736,999
Net Position, Beginning of Year	14,057,241	13,320,242
Net Position, End of Year	\$ 11,778,947	\$ 14,057,241

Craig County Hospital Authority
Statement of Activities – Discretely Presented Component Unit
Craig County Healthcare Foundation, Inc.
Year Ended December 31, 2013

	<u>2013</u>
Unrestricted Revenues and Other Support	
Contributions and other	\$ 272,916
Investment income	<u>1,021</u>
Total unrestricted revenues and other support	<u>273,937</u>
Expenses	
General	<u>35</u>
Revenues in Excess of Expenses	273,902
Net Assets, Beginning of Year	<u>-</u>
Net Assets, End of Year	<u><u>\$ 273,902</u></u>

Craig County Hospital Authority
Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 24,630,033	\$ 27,225,913
Payments to suppliers and others	(14,424,053)	(15,145,125)
Payments to employees	(11,906,164)	(10,436,367)
Other receipts	2,128,866	2,346,060
Net Cash From Operating Activities	428,682	3,990,481
Noncapital Financing Activity		
Principal payments on operating notes payable	-	(87,834)
Noncapital grants and contributions	52,451	58,479
Net Cash From (Used for) Noncapital Financing Activities	52,451	(29,355)
Capital and Capital Related Financing Activities		
Proceeds from issuance of long-term debt	1,896,345	-
Purchase of capital assets	(646,758)	(1,040,787)
Principal payments on long-term debt	(2,814,139)	(1,235,922)
Payment of interest on long-term debt	(378,071)	(414,120)
Proceeds from asset disposals	41,003	521
Net Cash Used for Capital and Capital Related Financing Activities	(1,901,620)	(2,690,308)
Investing Activities		
Purchase of investments	-	(16,908)
Proceeds from sales and maturities of investments	285,831	-
Investment income	23,678	33,356
Net Cash From Investing Activities	309,509	16,448
Net Change in Cash and Cash Equivalents	(1,110,978)	1,287,266
Cash and Cash Equivalents, Beginning of Year	2,100,616	813,350
Cash and Cash Equivalents, End of Year	\$ 989,638	\$ 2,100,616
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 670,497	\$ 1,764,129
Held by trustee for debt service - current	170,000	160,000
Held by trustee for debt service, net of current portion	149,141	176,487
Total Cash and Cash Equivalents	\$ 989,638	\$ 2,100,616

Craig County Hospital Authority
Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Operating Income to Net		
Cash from Operating Activities		
Operating income (loss)	\$ (1,971,816)	\$ 1,420,605
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation	1,298,853	1,458,220
Provision for bad debts	2,593,347	2,197,112
Changes in assets and liabilities		
Receivables		
Patients	(2,136,699)	(1,475,694)
Other	(92,953)	33,294
Supplies	(48,723)	(155,373)
Prepays	(68,039)	62,106
Accounts payable	483,977	(85,699)
Accrued liabilities	101,735	236,058
Estimated third-party payor settlement	269,000	299,852
Net Cash From Operating Activities	\$ 428,682	\$ 3,990,481
Supplemental Disclosure of Cash Flow Information		
Property and equipment purchased through capital leases	\$ 231,050	\$ 75,422
Property acquired by capital contribution	\$ -	\$ 90,507
Loss on impairment of construction in progress	\$ -	\$ 429,728
Goodwill impairment	\$ -	\$ 12,228
Loss from joint ventures	\$ 11,086	\$ 22,621

Note 1 - Organization and Significant Accounting Policies

Organization

The Craig County Hospital Authority (Authority) was created under a trust indenture dated June 14, 1993, as a public trust under provisions of Title 60 of the Oklahoma State Statutes for the benefit of Craig County, Oklahoma. The Authority operates Craig General Hospital (Hospital) under a bargain lease agreement with Craig County, Oklahoma dated July 19, 1993. The lease term is for a period of 50 years and may be renewed for an additional 50 year term. The Hospital, located in Vinita, Oklahoma, is a 62 bed general, short-term, Medicare certified facility.

The Hospital has a wholly owned subsidiary, H.C.D. Services, Inc. (H.C.D.) which was incorporated as a for-profit entity in June 1987. H.C.D. provides retail pharmacy and cleaning services. H.C.D. operates on a year end of June 30. All necessary adjustments are made to account for annual activity for H.C.D. using the Authority's year end of December 31. H.C.D. is a 40% owner of PentaStar properties, a land holding company. This does not represent a controlling interest in PentaStar and transactions are recorded under the equity method.

As required by accounting principles generally accepted in the United States of America, these financial statements include the Authority and its component units, the Hospital and H.C.D. The Hospital and H.C.D. are included in the Authority's reporting entity because of the operational and financial relationships with the Authority. The Hospital and H.C.D. are presented as blended component units. Separate financial statements of the Hospital and H.C.D. are not prepared.

The financial statements include the financial activity of the Authority, the Hospital, and H.C.D., (collectively, the Authority). All significant intercompany balances and transactions have been eliminated.

Discretely Presented Component Unit

Craig County Healthcare Foundation, Inc. (Foundation), a 501(c)(3) not-for-profit organization, was established to raise funds to support the operations of health care providers in Craig County, including Craig General Hospital. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61: *The Financial Reporting: Omnibus an amendment of GASB Statements No. 14 and No. 34*, the Foundation has been determined to be a component unit based on its nature and significance of its relationship with the Hospital. The Foundation's Board of Directors consists of eight members, three of which are also trustees of the Hospital Authority's Board. The Foundation is presented as a discretely presented component unit in the Authority's financial statements. Due to immateriality, the Foundation was not considered a discretely presented component unit in prior years.

In its general appeal for contributions to support the community's providers of health care services, the Foundation also solicits contributions for other health care institutions. In the absence of donor restrictions, the Foundation has discretionary control over the amounts to be distributed to the providers of health care services, the timing of such distributions, and the purposes for which such funds are to be used.

Enterprise Fund Accounting

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

December 31, 2013 and 2012

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 Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The Authority adopted the provisions of *GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AI CPA Pronouncements*, *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in 2013* and *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities in 2013*. Accordingly, the accounting change has been retrospectively applied to prior periods presented, as if the policy had always been used.

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.

The Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

H.C.D. Services, Inc. is taxed as a “C” corporation for federal and Oklahoma income tax purposes.

The Authority believes that they have appropriate support for any tax positions taken affecting its annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. The Authority would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. H.C.D. Services, Inc. is no longer subject to federal and state tax examinations by tax authorities for years before 2010.

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.

December 31, 2013 and 2012

Short-term Investments and Investment Income

Short-term investments include certificates of deposit with a maturity date of twelve months or less and are not considered to be a cash equivalent. Certificates of deposit are recorded at historical cost and interest income is reported as earned.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

Notes Receivable

The Authority issues notes to physicians as part of its recruitment process. Notes are repayable over a minimum of a two year period to a maximum three year period and are issued at current interest rates ranging from 2% to 4%. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven. At December 31, 2013 and 2012, notes receivable from physicians totaled \$318,973 and \$188,191.

The Authority issued a note to a vendor to finance the purchase of equipment from the Authority. The note has an interest rate of 4% and is repayable over a three year period. At December 31, 2013 and 2012, the balance totaled \$0 and \$46,634.

Supplies

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

Restricted Cash

Restricted cash consist of money market funds deposited with a trustee under terms of the bond indenture. The funds are backed by U.S. Treasury bills, notes and securities.

Capital Assets

Capital asset acquisitions in excess of \$3,000 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

Investments in Joint Ventures

Investments in entities in which the Authority has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting.

Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize their share of earnings and losses of those entities, net of any additional investments or distributions. Their share of net earnings or losses of the entities is included in nonoperating revenues (expenses).

Long term Investments

Long-term investments include certificates of deposit with a maturity date greater than twelve months and are not considered to be a cash equivalent. Certificates of deposit are recorded at historical cost and interest income is reported as earned.

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 three 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.

Restricted, Expendable for Debt Service consists of assets restricted for payment on long-term debt.

Unrestricted Net Position is remaining net position that does not meet the definition of net investment in capital assets or restricted for debt service.

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.

The Authority recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Authority recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Authority's uninsured and other self-pay patients will be unable or unwilling to pay for the services provided. Thus, the Authority records a significant provision for bad debts related to uninsured and other self-pay patients in the period the services are provided.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR “meaningful use” criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the year ended December 31, 2013 and 2012, the Authority recorded \$1,074,271 and \$1,407,942 related to the Medicare program in other operating revenue for meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

Amounts recognized represent management’s best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

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 or equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records payments to other expenses and receipts as net patient service revenue. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

The Authority made SHOPP payments totaling \$657,066, for the year ended December 31, 2013. In return, the Authority received \$1,029,475. The Authority made SHOPP payments totaling \$948,128, for the year ended December 31, 2012. In return, the Authority received \$1,480,925.

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. Because 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 \$1,422,000 and \$1,392,000 for the years ended December 31, 2013 and 2012. Total direct and indirect costs related to these foregone charges were approximately \$683,000 and \$651,000 at December 31, 2013 and 2012, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred \$25,254 and \$67,427 for advertising costs for the years ended December 31, 2013 and 2012.

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.

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.

Note 2 - Net Patient Service Revenue

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

Medicare: Inpatient acute care and outpatient services rendered to Medicare 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. The clinics are designated as a Provider Based Rural Health Clinics by the Medicare program. As a result, clinical services rendered to Medicare program beneficiaries are reimbursed at cost (subject to various limits). The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2009.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 48% and 17% of the Authority's net patient service revenue for the year ended December 31, 2013, and 50% and 17% for the year ended December 31, 2012. 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 are reviewed by contractors for validity, accuracy, and proper documentation. The Authority has accrued \$228,000 and \$129,000 for RAC liabilities at December 31, 2013 and 2012. The estimate is included in the estimate third party settlements account on the balance sheets.

December 31, 2013 and 2012

A summary of patient service revenue and contractual adjustments for the years ended December 31, 2013 and 2012, is as follows:

	2013	2012
Total patient service revenue	\$ 54,021,993	\$ 54,712,971
Contractual adjustments		
Medicare	(11,185,621)	(10,909,483)
Medicaid	(6,341,120)	(5,933,758)
Other	(9,997,520)	(9,467,975)
Total contractual adjustments	(27,524,261)	(26,311,216)
Provision for bad debts	(2,593,347)	(2,197,112)
Net patient service revenue	\$ 23,904,385	\$ 26,204,643

Note 3 - Deposits, Investments and Investment Income

State statutes authorize the Authority to invest its excess cash balances generally in time deposits, open accounts, certificates of deposit or certain repurchase agreements of commercial banks or trust companies, state or generally chartered savings and loan associations or generally chartered savings banks having offices in the state and in certain circumstances, specified United States Treasury obligations.

The bank balances of the Authority's deposits and investments are included in the balance sheets at December 31, 2013 and 2012:

	2013	2012
Insured	\$ 1,170,128	\$ 1,014,746
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	1,165,703	2,794,579
Total bank balance	\$ 2,335,831	\$ 3,809,325
Carrying value	\$ 2,193,168	\$ 3,589,977

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. At December 31, 2013 and 2012, the Authority had no bank balances exposed to custodial credit risk.

December 31, 2013 and 2012

Short-term Investments

Short-term investments include investments with an original maturity date between three and twelve months. Short-term investments are stated at historical cost and include the following at December 31, 2013 and 2012:

	2013	2012
Certificates of deposit	\$ 1,203,530	\$ 1,348,789

Long-term Investments

Long-term investments are stated at historical cost and include the following at December 31, 2013 and 2012:

	2013	2012
Certificates of deposit	\$ -	\$ 140,572

Credit Risk

Statutes require that investments be made only in U.S. government obligations and that all bank balances be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. The Authority's investments (recorded at market in accordance with GASB Codification Section Reference: I50, Accounting and Financial Reporting for Certain Investments and for External Investment Pools) at December 31, 2013 and 2012, are shown above. All of the investments were held by the Authority's custodial bank in the Authority's name.

Interest Rate Risk

Authority's investment policy limits investments to certificates of deposit issued by state and national banks domiciled in the United States. The Authority's investment policy does not provide specific maturity limits in certificates of deposits to manage exposure to fair value losses arising from changing interest rates.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

The carrying amount of deposits and investments included in the Authority's balance sheet as follows:

	2013	2012
Carrying amount		
Cash deposits in banks	\$ 989,638	\$ 2,100,616
Certificates of deposit	1,203,530	1,489,361
	\$ 2,193,168	\$ 3,589,977
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 670,497	\$ 1,764,129
Certificates of deposit	1,203,530	1,348,789
Held by trustee for debt service, current portion	170,000	160,000
Held by trustee for debt service, net of current portion	149,141	176,487
Long-term investments	-	140,572
	\$ 2,193,168	\$ 3,589,977

Investment Income

Investment income on cash equivalents and other investments consists of the following for the years ending December 31, 2013 and 2012:

	2013	2012
Interest income	\$ 23,678	\$ 33,356

Note 4 - Investments in Joint Ventures

The Authority uses the equity and cost methods to account for the joint venture investments listed below. At December 31, 2013 and 2012, the Authority's investments in joint ventures consisted of the following:

	2013	2012
LHC, Inc.	\$ 100,420	\$ 112,116
PentaStar, LLC	35,708	35,098
Serenity Hospice, Inc.	100,000	100,000
Total joint ventures	\$ 236,128	\$ 247,214

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

Joint venture income, distributions, and contributions balances for the years ended December 31, 2013 and 2012 is as follows:

	Balance December 31, 2012	Income/ (Loss)	Distributions	Purchase/ Contributions	Balance December 31, 2013
Investment in LHC, Inc.	\$ 112,116	\$ (11,696)	\$ -	\$ -	\$ 100,420
Investment in PentaStar, LLC	35,098	610	-	-	35,708
Investment in Serenity Hospice, Inc.	100,000	-	-	-	100,000
Total	<u>\$ 247,214</u>	<u>\$ (11,086)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 236,128</u>

	Balance December 31, 2011	Income/ (Loss)	Distributions	Purchase/ Contributions	Balance December 31, 2012
Investment in LHC, Inc.	\$ 135,029	\$ (22,913)	\$ -	\$ -	\$ 112,116
Investment in PentaStar, LLC	34,806	292	-	-	35,098
Investment in Serenity Hospice, Inc.	100,000	-	-	-	100,000
Total	<u>\$ 269,835</u>	<u>\$ (22,621)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 247,214</u>

LHC Group, Inc. (LHC) was established July 2010 to provide home health services to the residents of Craig County, Oklahoma and surrounding areas. Craig County Hospital Authority is a 25 percent owner of LHC. In its general appeal to capture all the business formerly provided by the Authority, LHC solicits to serve everyone in the community. As of December 31, 2013, the Authority owed LHC \$20,925, included in accounts payable. As of December 31, 2012, LHC owed the Authority \$30,212, included in other current assets. LHC paid the Authority for services of \$0 and \$106,603 during the years ending December 31, 2013 and 2012.

PentaStar Properties, LLC was acquired by Craig General Hospital Authority's wholly owned subsidiary H.C.D. Services. H.C.D Services is a 40 percent owner in PentaStar Properties, LLC.

The Authority owns 150 shares of common stock of Serenity Hospice of Claremore, Inc. (Serenity) which represents a 10% ownership share. Serenity engages in the provision of hospice services in Craig and the surrounding counties in Northeast Oklahoma.

December 31, 2013 and 2012

Note 5 - Capital Assets

Capital asset additions, transfers, retirements, and balances for the year ended December 31, 2013, are as follows:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Non-depreciable capital assets					
Land	\$ 2,518,452	\$ 4,881	\$ -	\$ -	\$ 2,523,333
Construction in progress	378,453	367,053	-	(378,101)	367,405
Total non-depreciable capital assets	2,896,905	\$ 371,934	\$ -	\$ (378,101)	2,890,738
Depreciable capital assets					
Land improvements	35,286	\$ -	\$ -	\$ -	35,286
Buildings and improvements	15,499,231	110,070	(22,529)	378,101	15,964,873
Equipment	10,721,443	395,804	(19,941)	-	11,097,306
Total depreciable capital assets	26,255,960	\$ 505,874	\$ (42,470)	\$ 378,101	27,097,465
Less accumulated depreciation					
Land improvements	(36,799)	\$ (1,753)	\$ -	\$ -	(38,552)
Buildings and improvements	(4,836,526)	(507,174)	2,567	-	(5,341,133)
Equipment	(8,904,606)	(789,926)	5,450	-	(9,689,082)
Total accumulated depreciation	(13,777,931)	\$ (1,298,853)	\$ 8,017	\$ -	(15,068,767)
Net depreciable capital assets	12,478,029				12,028,698
Capital assets, net	\$ 15,374,934				\$ 14,919,436

The majority of the construction in progress at December 31, 2013, represents costs related to the operating room project. The operating room project is expected to be completed in the summer 2014. The costs to complete the operating room project is approximately \$50,000 and will be financed with internal funds.

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

Capital asset additions, transfers, retirements, and balances for the year ended December 31, 2012, are as follows:

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Non-depreciable capital assets					
Land	\$ 2,518,452	\$ -	\$ -	\$ -	\$ 2,518,452
Construction in progress	485,985	586,324	(429,728)	(264,128)	378,453
Total non-depreciable capital assets	3,004,437	\$ 586,324	\$ (429,728)	\$ (264,128)	2,896,905
Depreciable capital assets					
Land improvements	35,286	\$ -	\$ -	\$ -	35,286
Buildings and improvements	15,044,039	191,064	-	264,128	15,499,231
Equipment	10,347,143	429,328	(55,028)	-	10,721,443
Total depreciable capital assets	25,426,468	\$ 620,392	\$ (55,028)	\$ 264,128	26,255,960
Less accumulated depreciation					
Land improvements	(35,412)	\$ (1,387)	\$ -	\$ -	(36,799)
Buildings and improvements	(4,381,040)	(455,486)	-	-	(4,836,526)
Equipment	(7,970,515)	(989,119)	55,028	-	(8,904,606)
Total accumulated depreciation	(12,386,967)	\$ (1,445,992)	\$ 55,028	\$ -	(13,777,931)
Net depreciable capital assets	13,039,501				12,478,029
Capital assets, net	\$ 16,043,938				\$ 15,374,934

Note 6 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense at December 31, 2013 and 2012, for all operating leases were \$131,253 and \$113,318. The capitalized leased assets consist of:

	2013	2012
Major movable equipment	\$ 2,380,974	\$ 2,332,930
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(1,961,974)	(1,629,783)
	\$ 419,000	\$ 703,147

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

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

<u>Year Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2014	\$ 256,675	\$ 130,942
2015	98,895	99,901
2016	<u>16,726</u>	<u>77,729</u>
Total minimum lease payments	372,296	<u>\$ 308,572</u>
Less interest	<u>(15,065)</u>	
Present value of minimum lease payments - Note 7	<u>\$ 357,231</u>	

Note 7 - Long-Term Debt

Long-term debt consist of:

	<u>Balance 12/31/12</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>	<u>Amounts Due Within One Year</u>
Notes payable:					
Series 1998 Bonds (1)	\$ 1,115,000	\$ -	\$ 160,000	\$ 955,000	\$ 170,000
Note payable to bank (3)	1,627,956	-	58,980	1,568,976	62,773
Note payable to bank (4)	1,988,195	-	1,988,195	-	-
Note payable to bank (5)	1,083,117	-	67,725	1,015,392	1,015,392
Not payable to bank (7)	<u>-</u>	<u>1,896,345</u>	<u>16,077</u>	<u>1,880,268</u>	<u>1,880,268</u>
Total notes payable	5,814,268	1,896,345	2,290,977	5,419,636	3,128,433
Capitalized lease obligations (8) - Note 6	<u>649,343</u>	<u>231,050</u>	<u>523,162</u>	<u>357,231</u>	<u>246,128</u>
Total long-term debt	<u>\$ 6,463,611</u>	<u>\$ 2,127,395</u>	<u>\$ 2,814,139</u>	<u>\$ 5,776,867</u>	<u>\$ 3,374,561</u>
	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/12</u>	<u>Amounts Due Within One Year</u>
Notes payable:					
Series 1998 Bonds (1)	\$ 1,270,000	\$ -	\$ 155,000	\$ 1,115,000	\$ 160,000
Series 2002 Bonds (2)	172,924	-	172,924	-	-
Note payable to bank (3)	1,683,372	-	55,416	1,627,956	58,980
Note payable to bank (4)	2,116,857	-	128,662	1,988,195	139,152
Note payable to bank (5)	1,148,665	-	65,548	1,083,117	69,771
Note payable to individual (6)	<u>79,982</u>	<u>-</u>	<u>79,982</u>	<u>-</u>	<u>-</u>
Total notes payable	6,471,800	-	657,532	5,814,268	427,903
Capitalized lease obligations (8) - Note 6	<u>1,152,311</u>	<u>75,422</u>	<u>578,390</u>	<u>649,343</u>	<u>431,482</u>
Total long-term debt	<u>\$ 7,624,111</u>	<u>\$ 75,422</u>	<u>\$ 1,235,922</u>	<u>\$ 6,463,611</u>	<u>\$ 859,385</u>

December 31, 2013 and 2012

The terms and due dates of the Authority's long-term debt at December 31, 2013 and 2012, are as follows:

- (1) 1998 Series Revenue Bonds, with varying interest rates ranging from 5.70% to 5.8%, due June 2018, varying annual principal payments and semi annual interest payments, secured by a mortgage and funds held by trustee.
- (2) 2002 Series Revenue Bonds, 7.31% interest rate, paid in full October 2012.
- (3) Note payable to bank, 6.25% interest rate, due in monthly installments of \$13,255 including interest to August 2029, collateralized with land.
- (4) Note payable to bank, 5.95% interest rate, refinanced with Note(7) in October 2013.
- (5) Note payable to bank, 5.81% interest rate, due in monthly installments of \$10,894 including interest with a balloon payment due May 2014, collateralized with land and certificate of deposit. Subsequent to December 31, 2013, the Authority signed an agreement to extend the due date to September 2014.
- (6) Note payable to individual, 5.00% interest rate, paid in full in 2012.
- (7) Note payable to bank, 3.43% interest rate, due in monthly installments of \$13,538 including interest with a balloon payment due October 2018, collateralized with building. Due to the event discussed below, the entire balance is shown as current.
- (8) Capital leases with varying interest rates from 3.98% to 7.00%; collateralized by the associated equipment.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Long-Term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2014	\$ 3,128,433	\$ 234,663	\$ 3,363,096
2015	246,812	192,802	439,614
2016	261,109	174,420	435,529
2017	275,683	154,644	430,327
2018	295,551	125,936	421,487
2019-2023	377,458	258,770	636,228
2024-2028	625,517	169,768	795,285
2029-2032	209,073	9,354	218,427
Total	<u>\$ 5,419,636</u>	<u>\$ 1,320,357</u>	<u>\$ 6,739,993</u>

The provisions of the indenture related to Craig County Hospital Authority Revenue Bond 1998 Series, contain covenants pertaining to reporting requirements and maintaining a minimum debt service coverage ratio. For the years ended December 31, 2013 and 2012, the Authority did not meet the debt service coverage ratio covenant. The Authority obtained a waiver from the trustee requiring the Authority to obtain an independent consultant for the year ending December 31, 2012. No waiver was obtained for the year ending December 31, 2013. Under the terms of the agreement, the Authority is to retain independent consultant to make recommendations to increase the debt service ratio to required levels.

The provisions of the 5.81% note payable contain covenants pertaining to reporting requirements and maintaining a minimum debt service coverage ratio. For the years ended December 31, 2013 and 2012, the Authority did not meet the debt service coverage ratio covenant. The Authority is in default of the note payable. The lender may, at its discretion, pursue any remedies available under the agreement or applicable law. The lender, at its discretion, can accelerate the note.

December 31, 2013 and 2012

The provisions of the 3.43% note payable contain covenants pertaining to maintaining a minimum current ratio and maximum debt to equity ratio. For the year ended December 31, 2013, the Authority did not meet the minimum current ratio covenant. The lender has granted the Authority 180 days from the date of notification to obtain the minimum current ratio. If the Authority fails to meet the minimum current ratio, the Authority would be in default. The lender, at its discretion, can accelerate the note. The entire amount will be listed as current

Note 8 - Pension Plan

The Authority participates in the Oklahoma Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit plan administered by the State of Oklahoma. The OPERS covers substantially all state and county employees, as well as employees of cities and towns and county hospitals which may elect to participate. The plan was established by the State of Oklahoma. The State of Oklahoma sponsors multiple-employer plan and a schedule of funding progress is available for the plan. The OPERS issues a publicly available financial report that includes financial statements and required supplementary information for participating employees. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 Broadway Extension, Suite 400 Oklahoma City, Oklahoma 73118-7484.

The retirement plan administered by OPERS is a defined benefit, contributory plan which covers participants with retirement, death and disability benefits. Employees contribute 8.5% of compensation and may elect to contribute higher amounts. The Authority's and employees' contributions to OPERS in dollars and as a percentage of considered payrolls were as follows:

	2013	%	2012	%
Employer	\$ 1,096,768	11.5%	\$ 999,959	11.5%
Employee	815,795	8.5%	740,002	8.5%
Total	\$ 1,912,563		\$ 1,739,961	

Normal monthly retirement benefits are one-twelfth of 2% of final average compensation multiplied by number of years of credited service, subject to a defined minimum benefit. A vested severance benefit applies after eight years of credited service (six years for elected officials).

At June 30, 2013 (the latest actuarial valuation date), the approximate underfunded pension benefit obligation of OPERS was:

	2013	2012
Net position available for benefits, at market value	\$ 6,978,873,421	\$ 6,682,200,296
Pension benefit obligation	8,556,121,906	8,334,637,900
Underfunded pension benefit obligation	\$ 1,577,248,485	\$ 1,652,437,604

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases. It is independent of the funding method used to determine contributions to the plan. Additional information about OPERS' progress toward funding pension obligations as they become due can be obtained by reference to historical information included in OPERS' separately issued financial statements.

Note 9 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2013 and 2012, was as follows:

	2013	2012
Medicare	34%	28%
Medicaid	7%	9%
Other third-party payors	25%	27%
Patients	34%	36%
	<u>100%</u>	<u>100%</u>

Note 10 - Management Agreement

The Board of Trustees has a management agreement with Applied Healthcare Solutions, LLC (AHS). This agreement is a defined service agreement for managing the day-to-day operations of the Authority through December 31, 2015. During the years ended December 31, 2013 and 2012, the Authority incurred fees to AHS for management services of \$717,970 and \$682,214. The Authority pays AHS for contract labor. During the years ended December 31, 2013 and 2012, the Authority incurred fees to AHS for contract labor of \$377,888 and \$341,037. The Authority has signed an agreement with AHS to outsource the central business office (CBO) function through January 1, 2019. During the years ended December 31, 2013 and 2012, the Authority incurred fees to AHS for the CBO of \$677,021 and \$388,094. At December 31, 2013 and 2012, the Authority owed AHS \$5,278 and \$22,708.

Note 11 - Presentation of Blended Component Units

Craig General Hospital (Hospital) and H.C.D. Services, Inc. (H.C.D.) are considered a blended component unit of the Authority due to the operational and financial relationships with the Authority. The Hospital and H.C.D. are separate legal entities from the Authority, but control of the Hospital and H.C.D. resides with the Authority.

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

The following summarized combining information for the Hospital and H.C.D., which has been presented as a blended component unity, as of and for the year ended December 31, 2013:

Table 1: Assets, Liabilities and Net Position

	<u>Hospital</u>	<u>H.C.D.</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current Assets	\$ 5,872,895	\$ 7,384	\$ (124,524)	\$ 5,755,755
Restricted cash, less current portion	149,141	-	-	149,141
Capital assets, net	14,838,004	81,432	-	14,919,436
Other noncurrent assets	200,420	35,708	-	236,128
Total assets	<u>\$ 21,060,460</u>	<u>\$ 124,524</u>	<u>\$ (124,524)</u>	<u>\$ 21,060,460</u>
Liabilities				
Current liabilities	\$ 6,879,207	\$ 386,930	\$ (386,930)	6,879,207
Long-term debt, less current maturities	2,402,306	-	-	2,402,306
Total liabilities	<u>9,281,513</u>	<u>386,930</u>	<u>(386,930)</u>	<u>9,281,513</u>
Net Position				
Net investment in capital assets	9,061,137	81,432	-	9,142,569
Restricted, expendable for debt service	319,141	-	-	319,141
Unrestricted	2,398,669	(343,838)	262,406	2,317,237
Total net position	<u>11,778,947</u>	<u>(262,406)</u>	<u>262,406</u>	<u>11,778,947</u>
Total liabilities and net position	<u>\$ 21,060,460</u>	<u>\$ 124,524</u>	<u>\$ (124,524)</u>	<u>\$ 21,060,460</u>

Table 2: Operating Results and Changes in Net Position

	<u>Hospital</u>	<u>H.C.D.</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ 23,904,385	\$ -	\$ -	\$ 23,904,385
Other revenue	2,221,819	-	-	2,221,819
Total operating revenues	<u>26,126,204</u>	<u>-</u>	<u>-</u>	<u>26,126,204</u>
Operating expenses				
Depreciation	1,298,853	8,728	(8,728)	1,298,853
Other operating expenses	26,799,167	1,025	(1,025)	26,799,167
Total operating expenses	<u>28,098,020</u>	<u>9,753</u>	<u>(9,753)</u>	<u>28,098,020</u>
Operating income (loss)	(1,971,816)	(9,753)	9,753	(1,971,816)
Nonoperating revenues (expenses)	(306,478)	610	(610)	(306,478)
Revenues in excess of expenses	(2,278,294)	(9,143)	9,143	(2,278,294)
Capital contributions	-	-	-	-
Change in Net position	(2,278,294)	(9,143)	9,143	(2,278,294)
Net position, beginning of year	14,057,241	(253,263)	253,263	14,057,241
Net position, end of year	<u>\$ 11,778,947</u>	<u>\$ (262,406)</u>	<u>\$ 262,406</u>	<u>\$ 11,778,947</u>

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

Table 3: Statement of Cash Flows

	<u>Hospital</u>	<u>H.C.D.</u>	<u>Eliminations</u>	<u>Total</u>
Net cash from operating activities	\$ 429,707	\$ (1,025)	\$ -	\$ 428,682
Net cash from noncapital financing activities	52,451	-	-	52,451
Net cash used for capital and related financing activities	(1,901,620)	-	-	(1,901,620)
Net cash from investing activities	<u>309,509</u>	<u>-</u>	<u>-</u>	<u>309,509</u>
Net change in cash and cash equivalents	(1,109,953)	(1,025)	-	(1,110,978)
Cash and cash equivalents, beginning of year	<u>2,095,947</u>	<u>4,669</u>	<u>-</u>	<u>2,100,616</u>
Cash and cash equivalents, end of year	<u>\$ 985,994</u>	<u>\$ 3,644</u>	<u>\$ -</u>	<u>\$ 989,638</u>

Summarized combining information as of and for the year ended December 31, 2012:

Table 1: Assets, Liabilities and Net Position

	<u>Hospital (Restated)</u>	<u>H.C.D.</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current Assets	\$ 7,356,420	\$ 8,409	\$ (133,250)	\$ 7,231,579
Restricted cash, less current portion	176,487	-	-	176,487
Capital assets, net	15,284,774	90,160	-	15,374,934
Other noncurrent assets	<u>353,105</u>	<u>35,098</u>	<u>(417)</u>	<u>387,786</u>
Total assets	<u>\$ 23,170,786</u>	<u>\$ 133,667</u>	<u>\$ (133,667)</u>	<u>\$ 23,170,786</u>
Liabilities				
Current liabilities	\$ 3,509,319	\$ 386,930	\$ (386,930)	3,509,319
Long-term debt, less current maturities	<u>5,604,226</u>	<u>-</u>	<u>-</u>	<u>5,604,226</u>
Total liabilities	<u>9,113,545</u>	<u>386,930</u>	<u>(386,930)</u>	<u>9,113,545</u>
Net Position				
Net investment in capital assets	8,821,163	90,160	-	8,911,323
Restricted, expendable for debt service	336,487	-	-	336,487
Unrestricted	<u>4,899,591</u>	<u>(343,423)</u>	<u>253,263</u>	<u>4,809,431</u>
Total net position	<u>14,057,241</u>	<u>(253,263)</u>	<u>253,263</u>	<u>14,057,241</u>
Total liabilities and net position	<u>\$ 23,170,786</u>	<u>\$ 133,667</u>	<u>\$ (133,667)</u>	<u>\$ 23,170,786</u>

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

Table 2: Operating Results and Changes in Net Position

	<u>Hospital (Restated)</u>	<u>H.C.D.</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ 26,204,643	\$ -	\$ -	\$ 26,204,643
Other revenue	2,312,766	-	-	2,312,766
Total operating revenues	<u>28,517,409</u>	<u>-</u>	<u>-</u>	<u>28,517,409</u>
Operating expenses				
Depreciation	1,458,220	10,183	(10,183)	1,458,220
Other operating expenses	25,638,584	11,426	(11,426)	25,638,584
Total operating expenses	<u>27,096,804</u>	<u>21,609</u>	<u>(21,609)</u>	<u>27,096,804</u>
Operating income (loss)	1,420,605	(21,609)	21,609	1,420,605
Nonoperating revenues (expenses)	<u>(774,113)</u>	<u>292</u>	<u>(292)</u>	<u>(774,113)</u>
Revenues in excess of expenses	646,492	(21,317)	21,317	646,492
Capital contributions	<u>90,507</u>	<u>-</u>	<u>-</u>	<u>90,507</u>
Change in Net position	736,999	(21,317)	21,317	736,999
Net position, beginning of year	<u>13,320,242</u>	<u>(231,946)</u>	<u>231,946</u>	<u>13,320,242</u>
Net position, end of year	<u>\$ 14,057,241</u>	<u>\$ (253,263)</u>	<u>\$ 253,263</u>	<u>\$ 14,057,241</u>

Table 3: Statement of Cash Flows

	<u>Hospital</u>	<u>H.C.D.</u>	<u>Eliminations</u>	<u>Total</u>
Net cash from operating activities	\$ 3,991,701	\$ (1,220)	\$ -	\$ 3,990,481
Net cash used for noncapital financing activities	(29,355)	-	-	(29,355)
Net cash used for capital and related financing activities	(2,690,308)	-	-	(2,690,308)
Net cash from investing activities	<u>16,448</u>	<u>-</u>	<u>-</u>	<u>16,448</u>
Net change in cash and cash equivalents	1,288,486	(1,220)	-	1,287,266
Cash and cash equivalents, beginning of year	<u>807,461</u>	<u>5,889</u>	<u>-</u>	<u>813,350</u>
Cash and cash equivalents, end of year	<u>\$ 2,095,947</u>	<u>\$ 4,669</u>	<u>\$ -</u>	<u>\$ 2,100,616</u>

Note 12 - Contingencies

Malpractice Insurance

The Authority has malpractice 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 \$2 million per claim and annual aggregate limit of \$2 million under a claims-made 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 13 - Restatement

In March 2012, the GASB issued Statement No. 65: Items Previously Reported as Assets and Liabilities. This standard establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This standard was implemented by the Authority during the year ended December 31, 2013 and was applied retroactively by restating the financial statements for all periods presented.

The provisions of GASB 65 require that bond costs (deferred financing costs) be recognized as an expense in the period incurred. The implementation resulted in the removal of previously recognized bond costs totaling \$113,297 and reduction in net position of \$113,297 as of January 1, 2012 and reduction of depreciation and amortization expense and increase in operating income of \$15,524 for the year ended December 31, 2012.

Craig County Hospital Authority
Notes to Financial Statements

December 31, 2013 and 2012

	Amounts as Previously Reported	Change in Accounting Principle	Amounts as Restated
Balance Sheet			
Assets			
Deferred financing costs, net of accumulated amortization of \$212,701	\$ 97,773	\$ (97,773)	\$ -
Total assets	\$ 23,268,559	\$ (97,773)	\$ 23,170,786
Liabilities and Net Position			
Net position unrestricted	\$ 4,907,204	\$ (97,773)	\$ 4,809,431
Total net position	\$ 14,155,014	\$ (97,773)	\$ 14,057,241
Total liabilities and net position	\$ 23,268,559	\$ (97,773)	\$ 23,170,786
Statement of Revenues, Expenses, and Changes in Net Position			
Operating Expenses	\$ 27,112,328	\$ (15,524)	\$ 27,096,804
Increase in Net Position	\$ 630,968	\$ 15,524	\$ 646,492
Net position, beginning of year	\$ 13,433,539	\$ (113,297)	\$ 13,320,242
Net position, end of year	\$ 14,155,014	\$ (97,773)	\$ 14,057,241

Note 14 - Going Concern

As indicated in its financial statements, the Authority incurred a loss of \$2,278,294 for the year ended December 31, 2013. The Authority did not meet the required covenants required by debt agreements as noted in Note 7. The Authority is required to hire a consultant to review operations and make recommendations for improvements. Also, the Authority is in default on two note payables. Management of the Authority has implemented many efforts for cost reduction, evaluating the pricing structure, considering the sale of non-operating assets and trying to refinance the 5.81% note payable. The financial statements do not include any adjustments that might be necessary should the Hospital be unable to continue as a going concern.

Note 15 - Subsequent Events

The Authority has evaluated subsequent events through June 25, 2014, the date which the financial statements were available to be issued.



Supplementary Information
December 31, 2013 and 2012

Craig County Hospital Authority



Independent Auditor's Report on Supplementary Information

The Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

Our report on our audits of the basic financial statements of the Craig County Hospital Authority as of and for the years ended December 31, 2013 and 2012, and our report thereon dated June 25, 2014, which expressed an unqualified opinion on those financial statements, appears on pages 1 through 3. 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
June 25, 2014

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2013

	Craig General Hospital	H.C.D. Services, Inc.	Eliminations	Combined
Assets				
Current Assets				
Cash and cash equivalents	\$ 666,853	\$ 3,644	\$ -	\$ 670,497
Restricted cash - held by trustee for debt service	170,000	-	-	170,000
Short-term investments	1,203,530	-	-	1,203,530
Receivables				-
Patient, net	2,553,613	-	-	2,553,613
Other	377,020	-	-	377,020
Due from subsidiary	124,524	-	(124,524)	-
Supplies	539,341	-	-	539,341
Prepays	238,014	3,740	-	241,754
	<u>5,872,895</u>	<u>7,384</u>	<u>(124,524)</u>	<u>5,755,755</u>
Restricted Cash				
Held by trustee for debt service, net of current portion	149,141	-	-	149,141
Capital Assets, Net				
Non-depreciable capital assets	2,890,738	-	-	2,890,738
Depreciable capital assets, net	11,947,266	81,432	-	12,028,698
	<u>14,838,004</u>	<u>81,432</u>	<u>-</u>	<u>14,919,436</u>
Other Assets				
Investment in PentaStar	-	35,708	-	35,708
Investment in LHC	100,420	-	-	100,420
Investment in Serenity	100,000	-	-	100,000
	<u>200,420</u>	<u>35,708</u>	<u>-</u>	<u>236,128</u>
	<u>\$ 21,060,460</u>	<u>\$ 124,524</u>	<u>\$ (124,524)</u>	<u>\$ 21,060,460</u>

Craig County Hospital Authority
Combining Schedule of Balance Sheet Information

December 31, 2013

	2013			
	Craig General Hospital	H.C.D. Services, Inc.	Eliminations	Combined
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 3,374,561	\$ -	\$ -	\$ 3,374,561
Accounts payable	1,949,004	-	-	1,949,004
Accrued liabilities				-
Salaries and benefits	476,410	-	-	476,410
Vacation	225,030	-	-	225,030
Other	275,202	-	-	275,202
Due to parent	-	386,930	(386,930)	-
Estimated third-party payor settlements	579,000	-	-	579,000
Total current liabilities	6,879,207	386,930	(386,930)	6,879,207
Long-Term Debt, Net	2,402,306	-	-	2,402,306
Total liabilities	9,281,513	386,930	(386,930)	9,281,513
Net Position				
Net investment in capital assets	9,061,137	81,432	-	9,142,569
Restricted, expendable for debt service	319,141	-	-	319,141
Unrestricted	2,398,669	(343,838)	262,406	2,317,237
Total net position	11,778,947	(262,406)	262,406	11,778,947
Total liabilities and net position	\$ 21,060,460	\$ 124,524	\$ (124,524)	\$ 21,060,460

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2012

Assets	Craig General Hospital (Restated)	H.C.D. Services, Inc.	Eliminations	Combined
Current Assets				
Cash and cash equivalents	\$ 1,759,460	4,669	\$ -	\$ 1,764,129
Restricted cash - held by trustee for debt service	160,000	-	-	160,000
Short-term investments	1,348,789	-	-	1,348,789
Receivables				
Patient, net	3,010,261	-	-	3,010,261
Other	284,067	-	-	284,067
Due from subsidiary	133,250	-	(133,250)	-
Supplies	490,618	-	-	490,618
Prepays	169,975	3,740	-	173,715
	<u>7,356,420</u>	<u>8,409</u>	<u>(133,250)</u>	<u>7,231,579</u>
Restricted Cash				
Held by trustee for debt service, net of current portion	176,487	-	-	176,487
Capital Assets, Net				
Non-depreciable capital assets	2,896,905	-	-	2,896,905
Depreciable capital assets, net	12,387,869	90,160	-	12,478,029
	<u>15,284,774</u>	<u>90,160</u>	<u>-</u>	<u>15,374,934</u>
Other Assets				
Investment in H.C.D.	417	-	(417)	-
Investment in PentaStar	-	35,098	-	35,098
Investment in LHC	112,116	-	-	112,116
Investment in Serenity	100,000	-	-	100,000
Long-term investments	140,572	-	-	140,572
	<u>353,105</u>	<u>35,098</u>	<u>(417)</u>	<u>387,786</u>
Total other assets	<u>353,105</u>	<u>35,098</u>	<u>(417)</u>	<u>387,786</u>
Total assets	<u>\$ 23,170,786</u>	<u>\$ 133,667</u>	<u>\$ (133,667)</u>	<u>\$ 23,170,786</u>

Craig County Hospital Authority
Combining Schedule of Balance Sheet Information

December 31, 2012

	2012			
	Craig General Hospital (Restated)	H.C.D. Services, Inc.	Eliminations	Combined
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 859,385	\$ -	\$ -	\$ 859,385
Accounts payable	1,465,027	-	-	1,465,027
Accrued liabilities				
Salaries and benefits	417,788	-	-	417,788
Vacation	202,922	-	-	202,922
Other	254,197	-	-	254,197
Due to parent	-	386,930	(386,930)	-
Estimated third-party payor settlements	310,000	-	-	310,000
Total current liabilities	3,509,319	386,930	(386,930)	3,509,319
Long-Term Debt, Net	5,604,226	-	-	5,604,226
Total liabilities	9,113,545	386,930	(386,930)	9,113,545
Net Position				
Net investment in capital assets	8,821,163	90,160	-	8,911,323
Restricted, expendable for debt service	336,487	-	-	336,487
Unrestricted	4,899,591	(343,423)	253,263	4,809,431
Total net position	14,057,241	(253,263)	253,263	14,057,241
Total liabilities and net position	\$ 23,170,786	\$ 133,667	\$ (133,667)	\$ 23,170,786

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2013

	Craig General Hospital	H.C.D. Services, Inc.	Eliminations	Combined
Operating Revenues				
Net patient service revenue	\$ 23,904,385	\$ -	\$ -	\$ 23,904,385
Other revenue	2,221,819	-	-	2,221,819
Total operating revenues	<u>26,126,204</u>	<u>-</u>	<u>-</u>	<u>26,126,204</u>
Operating Expenses				
Nursing services	6,557,999	-	-	6,557,999
Other professional services	8,421,237	-	-	8,421,237
General services	3,089,513	-	-	3,089,513
Administrative services	8,730,418	1,025	(1,025)	8,730,418
Depreciation	1,298,853	8,728	(8,728)	1,298,853
Total operating expenses	<u>28,098,020</u>	<u>9,753</u>	<u>(9,753)</u>	<u>28,098,020</u>
Operating Income (Loss)	<u>(1,971,816)</u>	<u>(9,753)</u>	<u>9,753</u>	<u>(1,971,816)</u>
Non Operating Revenues (Expenses)				
Investment income	23,678	-	-	23,678
Interest	(378,071)	-	-	(378,071)
Noncapital grant revenue and contributions	52,451	-	-	52,451
Gain (loss) from joint ventures	(11,086)	610	(610)	(11,086)
Gain (loss) on sale of asset	6,550	-	-	6,550
Total non-operating revenues (expenses)	<u>(306,478)</u>	<u>610</u>	<u>(610)</u>	<u>(306,478)</u>
Revenues in excess of (less than) expenses before capital contributions	<u>(2,278,294)</u>	<u>(9,143)</u>	<u>9,143</u>	<u>(2,278,294)</u>
Capital Contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>(2,278,294)</u>	<u>(9,143)</u>	<u>9,143</u>	<u>(2,278,294)</u>
Net Position, Beginning of Year	<u>14,057,241</u>	<u>(253,263)</u>	<u>253,263</u>	<u>14,057,241</u>
Net Position, End of Year	<u>\$ 11,778,947</u>	<u>\$ (262,406)</u>	<u>\$ 262,406</u>	<u>\$ 11,778,947</u>

Craig County Hospital Authority
Combining Schedules of Revenues, Expenses and Changes in Net Asset Information

Years Ended December 31, 2013 and 2012

2012			
Craig General Hospital (Restated)	H.C.D. Services, Inc.	Eliminations	Combined
\$ 26,204,643	\$ -	\$ -	\$ 26,204,643
2,312,766	-	-	2,312,766
28,517,409	-	-	28,517,409
6,392,726	-	-	6,392,726
8,167,523	-	-	8,167,523
2,834,367	-	-	2,834,367
8,243,968	11,426	(11,426)	8,243,968
1,458,220	10,183	(10,183)	1,458,220
27,096,804	21,609	(21,609)	27,096,804
1,420,605	(21,609)	21,609	1,420,605
33,356	-	-	33,356
(414,120)	-	-	(414,120)
58,479	-	-	58,479
(22,621)	292	(292)	(22,621)
(429,207)	-	-	(429,207)
(774,113)	292	(292)	(774,113)
646,492	(21,317)	21,317	646,492
90,507	-	-	90,507
736,999	(21,317)	21,317	736,999
13,320,242	(231,946)	231,946	13,320,242
\$ 14,057,241	\$ (253,263)	\$ 253,263	\$ 14,057,241

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	2013		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 1,699,365	\$ -	\$ 1,699,365
Labor and delivery	140,877	-	140,877
Swing bed	144,300	-	144,300
Geri psych	2,805,578	-	2,805,578
	<u>4,790,120</u>	<u>-</u>	<u>4,790,120</u>
Other nursing services			
Operating room	512,756	4,243,731	4,756,487
Central service supplies	336,451	665,323	1,001,774
Emergency room	1,461,793	6,710,597	8,172,390
	<u>2,311,000</u>	<u>11,619,651</u>	<u>13,930,651</u>
Other professional services			
Laboratory	2,668,541	5,657,294	8,325,835
Electrocardiology	289,539	2,090,324	2,379,863
Radiology	1,257,906	11,135,512	12,393,418
Pharmacy	2,965,000	1,788,150	4,753,150
Anesthesiology	180,658	315,206	495,864
Respiratory therapy	1,817,135	289,822	2,106,957
Physical therapy	260,197	2,121,623	2,381,820
Durable medical equipment	-	932,347	932,347
Outpatient psych	-	112,089	112,089
Clinics	-	2,841,683	2,841,683
	<u>9,438,976</u>	<u>27,284,050</u>	<u>36,723,026</u>
Patient service revenue	<u>\$ 16,540,096</u>	<u>\$ 38,903,701</u>	55,443,797
Charity care			<u>(1,421,804)</u>
Gross Patient Service Revenue			<u>54,021,993</u>
Contractual Adjustments and Provisions for Bad Debts			
Medicare			(11,185,621)
Medicaid			(6,341,120)
Other			(9,997,520)
Provision for bad debts			<u>(2,593,347)</u>
Total contractual adjustments and provisions for bad debts			<u>(30,117,608)</u>
Net Patient Service Revenue			<u>\$ 23,904,385</u>

Craig County Hospital Authority
Schedules of Hospital Net Patient Service Revenue

Years Ended December 31, 2013 and 2012

2012		
Inpatient	Outpatient	Total
\$ 2,058,348	\$ -	\$ 2,058,348
131,654	-	131,654
120,000	-	120,000
2,535,265	-	2,535,265
4,845,267	-	4,845,267
397,181	3,924,797	4,321,978
399,896	650,170	1,050,066
1,574,940	6,882,844	8,457,784
2,372,017	11,457,811	13,829,828
3,476,358	5,104,078	8,580,436
525,883	2,234,191	2,760,074
1,493,844	10,547,479	12,041,323
3,417,044	1,443,269	4,860,313
117,337	299,325	416,662
2,061,391	283,714	2,345,105
209,570	2,483,432	2,693,002
-	885,667	885,667
-	79,052	79,052
-	2,768,449	2,768,449
11,301,427	26,128,656	37,430,083
\$ 18,518,711	\$ 37,586,467	56,105,178
		(1,392,207)
		54,712,971
		(10,909,483)
		(5,933,758)
		(9,467,975)
		(2,197,112)
		(28,508,328)
		\$ 26,204,643

Craig County Hospital Authority
Schedules of Hospital Other Revenue

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Other Revenue		
Cafeteria	\$ 351,660	\$ 328,705
Rental income	585,656	402,770
Government incentive for electronic health records	1,074,271	1,407,942
Miscellaneous	<u>210,232</u>	<u>173,349</u>
Total Other Revenue	<u>\$ 2,221,819</u>	<u>\$ 2,312,766</u>

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	2013		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Medical and surgical	\$ 1,034,568	\$ 159,212	\$ 1,193,780
Labor and delivery	194,539	16,310	210,849
Geri psych	1,642,554	489,229	2,131,783
Operating room	249,857	445,447	695,304
Central service supplies	-	176,165	176,165
Emergency room	1,408,190	741,928	2,150,118
	<u>4,529,708</u>	<u>2,028,291</u>	<u>6,557,999</u>
Other Professional Services			
Laboratory	779,159	715,580	1,494,739
Electrocardiography	-	55,545	55,545
Radiology	806,459	637,283	1,443,742
Pharmacy	95,443	637,488	732,931
Anesthesiology	117	391,487	391,604
Respiratory therapy	173,520	53,696	227,216
Physical therapy	-	491,046	491,046
Durable medical equipment	139,950	241,845	381,795
Outpatient psych	205,968	10,550	216,518
Sleep Studies	-	63,533	63,533
Clinics	1,804,754	1,117,814	2,922,568
	<u>4,005,370</u>	<u>4,415,867</u>	<u>8,421,237</u>
General Services			
Medical records	800,184	305,322	1,105,506
Dietary	420,781	538,019	958,800
Plant operations	139,150	191,238	330,388
Maintenance	-	218,425	218,425
Housekeeping	296,431	72,683	369,114
Informatics	-	35,331	35,331
Security	-	1,556	1,556
Laundry and linen	-	70,393	70,393
	<u>1,656,546</u>	<u>1,432,967</u>	<u>3,089,513</u>
Administrative Services			
Administration and office	1,793,980	4,333,631	6,127,611
Employee benefits	-	2,495,031	2,495,031
Auxiliary	22,295	85,481	107,776
	<u>1,816,275</u>	<u>6,914,143</u>	<u>8,730,418</u>
Depreciation	-	1,298,853	1,298,853
	<u>\$ 12,007,899</u>	<u>\$ 16,090,121</u>	<u>\$ 28,098,020</u>

Craig County Hospital Authority
Schedules of Hospital Expenses

Years Ended December 31, 2013 and 2012

2012		
Salaries	Supplies & Expenses (Restated)	Total
\$ 1,023,425	\$ 204,782	\$ 1,228,207
198,984	22,010	220,994
1,400,849	544,304	1,945,153
196,146	344,183	540,329
-	283,583	283,583
1,458,009	716,451	2,174,460
4,277,413	2,115,313	6,392,726
465,401	944,836	1,410,237
-	90,168	90,168
838,946	731,712	1,570,658
78,040	742,524	820,564
1,401	451,093	452,494
150,196	67,646	217,842
-	594,849	594,849
119,554	235,855	355,409
155,291	22,538	177,829
-	-	-
1,439,194	1,038,279	2,477,473
3,248,023	4,919,500	8,167,523
717,944	319,375	1,037,319
389,798	538,954	928,752
118,041	340,190	458,231
-	-	-
259,480	74,652	334,132
-	-	-
-	-	-
-	75,933	75,933
1,485,263	1,349,104	2,834,367
1,641,818	4,343,412	5,985,230
-	2,150,530	2,150,530
19,908	88,300	108,208
1,661,726	6,582,242	8,243,968
-	1,458,220	1,458,220
<u>\$ 10,672,425</u>	<u>\$ 16,424,379</u>	<u>\$ 27,096,804</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
Craig County Hospital Authority
Vinita, 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 Craig County Hospital Authority (Authority) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 25, 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 to be material weaknesses: 2013-A and 2013-C.

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 response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

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

Oklahoma City, Oklahoma
June 25, 2014

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2013-A Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Authority. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

Auditor's Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Management Response: This finding and recommendation is not a result of any change in the Authority's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

2013-B Calculation of Contractual Allowances

Criteria: Accountings standards require an entity to estimate an allowance on the collectability of receivables. The allowance should be based on historical data and current reimbursement rates.

Condition: The Authority has developed a calculation for contractual allowances.

Cause: The allowance calculation included an error in the percentage used to calculate the contractual allowances.

Effect: The Authority's initial contractual allowance was understated by approximately \$1,100,000.

Auditor's Recommendation: We recommend the Authority review the accuracy of the calculation of contractual allowances. The Authority should also review the contractual adjustments regularly for unusual fluctuations.

Management Response: With consultation from our auditors, the Authority will continue to monitor the accuracy of the allowance calculations. Further, the Authority will use data for the calculation in accordance with the methodology used by our auditors and the audited financial statements. Additionally, on a semi-annually basis, the Authority will provide our auditors interim financial statements for review and analysis. The Authority will modify allowances, if necessary, as a result of this review.

2013-C Recording SHOPP Receipts

Criteria: Accountings standards allow an entity to record a receivable for SHOPP receipts when CMS approves the amount to be paid to the Authority.

Condition: The Authority correctly recorded a receivable for SHOPP revenue.

Cause: When the Authority received SHOPP revenue, the Authority did not offset the receivable.

Effect: The Authority's revenue was overstated by approximately \$1,000,000.

Auditor's Recommendation: We recommend the Authority review revenue amounts when received to determine if a receivable should be offset.

Management Response: The authority will follow recommendations from our auditors to review revenue amounts when received and determine if a receivable should be offset. The authority will also submit interim financial statements to our auditors for review of this classification.