



Management's Discussion and Analysis
and Financial Statements
December 31, 2014 and 2013

Craig County Hospital Authority

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Independent Auditor's Report

To the Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Craig County Hospital Authority (Authority) and its discretely presented component unit Craig County Healthcare Foundation, Inc. (Foundation), as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and statements of 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Craig County Hospital Authority and its discretely presented component unit, Craig County Healthcare Foundation, Inc., as of December 31, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 13 to the financial statements, the Authority has not met the required covenants required by debt agreements. As part of management's plan, the Authority filed for Chapter 9 Bankruptcy subsequent to year end. 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 13. 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 7 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 inquires, 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 May 28, 2015 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.

Handwritten signature of Eric Sully in cursive script, followed by the letters "LLP".

Oklahoma City, Oklahoma
May 28, 2015

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, 2014, 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 increased by \$658,216 or 3% in 2014 compared with a decrease of \$2,110,326 or 9% in 2013.
- The Authority's total liabilities increased by \$287,311 or 3% in 2014 compared with an increase of \$167,968 or 2% in 2013.
- The Authority reported an operating income in 2014 of \$465,814 and operating loss of \$1,987,416 in 2013.

Overview of the Financial Statements

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

The statements of net position at December 31, 2014 and 2013 indicated total assets of \$21,718,676 and \$21,060,460, total liabilities of \$9,568,824 and \$9,281,513, and net position of \$12,149,852 and \$11,778,947. Total current assets were \$5,917,427 and \$5,755,755 and total current liabilities were \$5,481,297 and \$6,879,207 for a current ratio of 1.1 and 0.8.

The statements of revenues, expenses, and changes in net position for the years ended December 31, 2014 and 2013, indicated total operating revenues of \$28,253,199 and \$26,119,348 and operating expenses of \$27,787,385 and \$28,091,164, operating income (loss) of \$465,814 and \$(1,971,816) and non-operating revenues (expenses) of (\$94,909) and (\$306,478). The net position increased \$370,905 from \$11,778,947 at December 31, 2013 to \$12,149,852 at December 31, 2014 and decreased \$2,278,294 from \$14,057,241 at December 31, 2012 to \$11,778,947 at December 31, 2013.

As reported in the statements of cash flows, cash and cash equivalents increased from \$989,638 at December 31, 2013 to \$1,056,811 at December 31, 2014 and decreased from \$2,100,616 at December 31, 2012 to \$989,638 at December 31, 2013.

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

Table 1: Assets, Liabilities and Net Position

	2014	2013	2012
Assets			
Current assets	\$ 5,917,427	\$ 5,755,755	\$ 7,231,579
Capital assets, net	15,287,608	14,919,436	15,374,934
Other noncurrent assets	513,641	385,269	564,273
Total assets	<u>\$ 21,718,676</u>	<u>\$ 21,060,460</u>	<u>\$ 23,170,786</u>
Liabilities			
Current liabilities	\$ 5,481,297	\$ 6,879,207	\$ 3,509,319
Long-term debt outstanding, net	4,087,527	2,402,306	5,604,226
Total liabilities	<u>9,568,824</u>	<u>9,281,513</u>	<u>9,113,545</u>
Net Position			
Net investment in capital assets	9,649,087	9,142,569	8,911,323
Restricted, expendable for debt service	320,094	319,141	336,487
Unrestricted	2,180,671	2,317,237	4,809,431
Total net position	<u>12,149,852</u>	<u>11,778,947</u>	<u>14,057,241</u>
Total liabilities and net position	<u>\$ 21,718,676</u>	<u>\$ 21,060,460</u>	<u>\$ 23,170,786</u>

The Authority's assets increased by \$658,216 or 3% in 2014, and decreased by \$2,110,326 or 9% in 2013. The Authority's liabilities increased by \$287,311 or 3% in 2014, and increased \$167,968 or 2% in 2013. The Authority's net position is the difference between its assets and liabilities. The Authority's net position increased by \$370,905 or 3% in 2014, and decreased by \$2,278,294 or 16% in 2013.

A significant component of the change in the Authority's assets is the increase in capital assets. Capital assets increased in 2014 by \$368,172 or 3% compared to a decrease of \$455,498 or 3% in 2013. Current certificates of deposits decreased \$845,850 or 70% in 2014 compared to 2013 which decreased \$145,259 or 11%.

A significant component of the change in the Authority's liabilities is the increase in long-term debt outstanding, net. Long-term debt outstanding, net increased in 2014 by \$1,685,221 or 70% compared to a decrease of \$3,201,920 or 57% in 2013. Estimated third-party settlements increased \$1,399,359 or 217% in 2014 compared to 2013 which decreased \$269,000 or 87%.

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

	2014	2013	2012
Operating Revenues			
Net patient service revenue	\$ 26,535,060	\$ 23,919,576	\$ 26,204,643
Other revenue	1,718,139	2,199,772	2,312,766
Total operating revenues	<u>28,253,199</u>	<u>26,119,348</u>	<u>28,517,409</u>
Operating Expenses			
Professional care of patients and other professional services	14,927,676	14,972,477	14,560,249
General services	3,176,780	3,088,664	2,834,367
Administrative services	8,374,459	8,731,170	8,243,968
Depreciation	1,308,470	1,298,853	1,458,220
Total operating expenses	<u>27,787,385</u>	<u>28,091,164</u>	<u>27,096,804</u>
Operating income (loss)	<u>465,814</u>	<u>(1,971,816)</u>	<u>1,420,605</u>
Nonoperating Revenues (Expenses)			
Investment income	4,299	23,678	33,356
Interest expense	(353,631)	(378,071)	(414,120)
Loss from joint ventures	(7,999)	(11,086)	(22,621)
Noncapital contributions and grants	262,422	52,451	58,479
Gain (loss) on sale of asset	-	6,550	(429,207)
Total nonoperating revenues (expenses)	<u>(94,909)</u>	<u>(306,478)</u>	<u>(774,113)</u>
Revenues in excess of (less than) expenses before capital contributions	370,905	(2,278,294)	646,492
Capital Contribution	<u>-</u>	<u>-</u>	<u>90,507</u>
Change in Net Position	370,905	(2,278,294)	736,999
Net Position, Beginning of Year	<u>11,778,947</u>	<u>14,057,241</u>	<u>13,320,242</u>
Net Position, End of Year	<u><u>\$ 12,149,852</u></u>	<u><u>\$ 11,778,947</u></u>	<u><u>\$ 14,057,241</u></u>

Operating Income

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

The operating income for 2014 increased by \$2,437,630 or 124% as compared to 2013 and decreased in 2013 by \$3,392,421 or 239% compared to 2012. The primary components of the increased operating income are:

- An increase in net patient service revenue of \$2,615,484 or 10% as compared to a decrease in 2013 of \$2,285,067 or 10%.
- A decrease in other revenue of \$481,633 or 22% as compared to a decrease in 2013 of \$112,994 or 5%.
- A decrease in administrative services of \$356,711 or 4% as compared to an increase in 2013 of \$487,202 or 6%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of contributions and interest expense. Noncapital contributions increased \$209,971 or 400% from 2013 to 2014, and decreased \$6,028 or 10% from 2012 to 2013. Interest expense decreased \$24,440 or 6% from 2013 to 2014, and increased \$36,049 or 9% from 2012 to 2013.

Capital Assets

The Authority had capital assets net of accumulated depreciation at December 31, 2014, amounting to \$15,287,608. 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

	2014	2013	2012
Land	\$ 2,523,333	\$ 2,523,333	\$ 2,518,452
Land improvements	35,286	35,286	35,286
Buildings and improvements	17,000,690	15,964,873	15,499,231
Equipment	11,852,818	11,097,306	10,721,443
Construction in progress	252,718	367,405	378,453
Accumulated depreciation	(16,377,237)	(15,068,767)	(13,777,931)
Total capital assets, net	<u>\$ 15,287,608</u>	<u>\$ 14,919,436</u>	<u>\$ 15,374,934</u>

Debt

At December 31, 2014 and 2013, the Authority had \$5,933,244 and \$5,776,867 in bonds, notes and capital leases outstanding as detailed in Note 7 to the financial statements. The Authority issued \$901,201 and \$2,127,395 in new debt in 2014 and 2013.

Economic Factors and Next Year's Budget

The Authority continues to monitor costs throughout the year. The Authority's budgeted net revenue is \$26,297,202. 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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	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 736,717	\$ 670,497
Cash restricted for debt service	180,000	170,000
Certificates of deposits	357,680	1,203,530
Receivables		
Patient, net of estimated uncollectibles		
of \$1,264,000 in 2014 and \$1,850,000 in 2013	2,691,582	2,553,613
Estimated third-party payor settlements	820,359	-
Other	365,173	377,020
Supplies	617,831	539,341
Prepays	148,085	241,754
Total current assets	5,917,427	5,755,755
Noncurrent Cash and Deposits		
Restricted by trustee for debt service, net of current portion	140,094	149,141
Certificates of deposits	145,418	-
Total noncurrent cash and deposits	285,512	149,141
Capital Assets		
Capital assets not being depreciated	2,776,051	2,890,738
Capital assets being depreciated, net	12,511,557	12,028,698
Total capital assets, net	15,287,608	14,919,436
Other Assets		
Investment in joint ventures	228,129	236,128
Total assets	\$ 21,718,676	\$ 21,060,460

See Notes to Financial Statements

Craig County Hospital Authority
Statements of Net Position
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Liabilities and Net Position		
Current Liabilities		
Note payable	\$ 294,723	\$ -
Current maturities of long-term debt	1,550,994	3,374,561
Accounts payable		
Trade	2,798,578	1,950,504
Estimated third-party payor settlements	-	579,000
Accrued liabilities		
Salaries and benefits	483,121	476,410
Vacation	164,303	225,030
Other	189,578	273,702
Total current liabilities	<u>5,481,297</u>	<u>6,879,207</u>
Long-Term Debt, Less Current Maturities	<u>4,087,527</u>	<u>2,402,306</u>
Total liabilities	<u>9,568,824</u>	<u>9,281,513</u>
Net Position		
Net investment in capital assets	9,649,087	9,142,569
Restricted, expendable for debt service	320,094	319,141
Unrestricted	<u>2,180,671</u>	<u>2,317,237</u>
Total net position	<u>12,149,852</u>	<u>11,778,947</u>
Total liabilities and net position	<u>\$ 21,718,676</u>	<u>\$ 21,060,460</u>

Craig County Healthcare Foundation, Inc.
Statements of Financial Position – Discretely Presented Component Unit
December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash	\$ 10,253	\$ 30,205
Short-term investments	63,846	189,545
Other receivables	<u>-</u>	<u>1,579</u>
Total current assets	<u>74,099</u>	<u>221,329</u>
Other Assets		
Pledge receivable	-	20,000
Other assets	<u>32,573</u>	<u>32,573</u>
Total other assets	<u>32,573</u>	<u>52,573</u>
Total assets	<u><u>\$ 106,672</u></u>	<u><u>\$ 273,902</u></u>
Unrestricted Net Assets	<u><u>\$ 106,672</u></u>	<u><u>\$ 273,902</u></u>

Craig County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$3,009,105 in 2014 and \$2,593,347 in 2013	\$ 26,535,060	\$ 23,919,576
Other revenue	<u>1,718,139</u>	<u>2,199,772</u>
Total operating revenues	<u>28,253,199</u>	<u>26,119,348</u>
Operating Expenses		
Nursing services	6,363,881	6,557,999
Other professional services	8,563,795	8,414,478
General services	3,176,780	3,088,664
Administrative services	8,374,459	8,731,170
Depreciation	<u>1,308,470</u>	<u>1,298,853</u>
Total operating expenses	<u>27,787,385</u>	<u>28,091,164</u>
Operating Income (Loss)	<u>465,814</u>	<u>(1,971,816)</u>
Nonoperating Revenues (Expenses)		
Investment income	4,299	23,678
Interest expense	(353,631)	(378,071)
Noncapital contributions and grants	262,422	52,451
Loss from joint ventures	(7,999)	(11,086)
Gain on sale of capital assets	<u>-</u>	<u>6,550</u>
Total nonoperating revenues (expenses)	<u>(94,909)</u>	<u>(306,478)</u>
Change in Net Position	370,905	(2,278,294)
Net Position, Beginning of Year	<u>11,778,947</u>	<u>14,057,241</u>
Net Position, End of Year	<u><u>\$ 12,149,852</u></u>	<u><u>\$ 11,778,947</u></u>

Craig County Healthcare Foundation, Inc.
Statements of Activities – Discretely Presented Component Unit
Year Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted Net Assets		
Support and revenue		
Contributions and other	\$ 31,911	\$ 272,916
Investment income	<u>894</u>	<u>1,021</u>
Total unrestricted revenues and other support	<u>32,805</u>	<u>273,937</u>
Expenses		
Contributions to Craig County Hospital Authority	200,000	-
General	<u>35</u>	<u>35</u>
Total expenses	<u>200,035</u>	<u>35</u>
Increase (Decrease) in Unrestricted Net Assets	(167,230)	273,902
Net Assets, Beginning of Year	<u>273,902</u>	<u>-</u>
Net Assets, End of Year	<u><u>\$ 106,672</u></u>	<u><u>\$ 273,902</u></u>

Craig County Hospital Authority
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	\$ 24,997,732	\$ 24,645,224
Payments to suppliers and contractors	(14,071,928)	(14,638,623)
Payments to and on behalf of employees	(11,681,874)	(11,684,738)
Other receipts and payments, net	1,729,986	2,106,819
Net Cash from Operating Activities	973,916	428,682
Noncapital Financing Activity		
Proceeds from revolving line of credit	294,723	-
Noncapital contributions and grants	262,422	52,451
Net Cash from Noncapital Financing Activities	557,145	52,451
Capital and Capital Related Financing Activities		
Proceeds from issuance of long-term debt	-	1,896,345
Purchase of capital assets	(1,070,164)	(646,758)
Principal payments on long-term debt	(744,824)	(2,814,139)
Payment of interest on long-term debt	(353,631)	(378,071)
Proceeds from asset disposals	-	41,003
Net Cash used for Capital and Capital Related Financing Activities	(2,168,619)	(1,901,620)
Investing Activities		
Purchase of certificates of deposit	(503,098)	-
Proceeds from maturities of certificates of deposits	1,203,530	285,831
Investment income	4,299	23,678
Net Cash from Investing Activities	704,731	309,509
Net Change in Cash and Cash Equivalents	67,173	(1,110,978)
Cash and Cash Equivalents, Beginning of Year	989,638	2,100,616
Cash and Cash Equivalents, End of Year	<u>\$ 1,056,811</u>	<u>\$ 989,638</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 736,717	\$ 670,497
Cash restricted for debt service - current	180,000	170,000
Restricted by trustee for debt service, net of current portion	140,094	149,141
Total cash and cash equivalents	<u>\$ 1,056,811</u>	<u>\$ 989,638</u>

Craig County Hospital Authority
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Income (Loss) to Net		
Cash from Operating Activities		
Operating income (loss)	\$ 465,814	\$ (1,971,816)
Adjustments to reconcile operating income (loss)		
to net cash from operating activities		
Depreciation	1,308,470	1,298,853
Provision for bad debts	3,009,105	2,593,347
Changes in assets and liabilities		
Receivables		
Patients	(3,147,074)	(2,136,699)
Other	11,847	(92,953)
Supplies	(78,490)	(48,723)
Prepays	93,669	(68,039)
Accounts payable	848,074	485,477
Accrued liabilities	(138,140)	100,235
Estimated third-party payor settlement	(1,399,359)	269,000
Net Cash From Operating Activities	<u>\$ 973,916</u>	<u>\$ 428,682</u>
Supplemental Disclosure of Noncash Capital and Capital Related		
Financing Activities		
Equipment financed through capital lease arrangement	<u>\$ 606,478</u>	<u>\$ 231,050</u>
Loss from joint ventures	<u>\$ 7,999</u>	<u>\$ 11,086</u>

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Craig County Hospital Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

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 is a 62-bed acute care hospital located in Vinita, Oklahoma. The Authority is a public trust created under the laws of the State of Oklahoma, for the hospital facilities and equipment located in the city of Vinita, Oklahoma. The city of Vinita is beneficiary of the trust.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and Authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These Criteria include appointing a voting majority of the organization's governing body and (1) the ability of the Authority impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority.

Blended Component Unit

H.C.D. Services, Inc. (H.C.D.) was incorporated as a for-profit entity in June 1987. H.C.D. is included as a blended component unit of the Authority. 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. 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. The financial statements include the financial activity of the Authority, the Hospital, and H.C.D., collectively referred to as the Authority. Financial statements of H.C.D. can be obtained by contacting the Authority's Controller.

Discretely Presented Component Unit

Craig County Healthcare Foundation, Inc. (Foundation), was established for health care purposes and to advance and assist in the development, growth, and operation of the Authority. The Foundation has been determined to be a component unit and is presented as a discretely presented component unit in the Authority's financial statements. Financial statements of the Foundation are prepared under a separate cover and can be obtained by contacting the Authority's Controller.

Income Taxes

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 2011.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority’s assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets or the related debt obligations related to those assets or debt obligations.

Restricted, expendable for debt service consists of assets restricted to payment of long-term debt.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority’s policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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 reporting 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, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

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

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

Supplies

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

Noncurrent Cash and Deposits

Certificates of deposit and other deposits are recorded at historical cost. Other investments are measured at fair value.

Investment Income

Interest on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment 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 capital assets are as follows:

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Investment in Joint Venture

Joint ventures in which the Authority has an equity interest and either an ongoing financial interest or an ongoing financial responsibility are reported originally at cost and adjusted for changes in the equity interest in accordance with the joint venture agreement and for any other transactions, such as a return on capital. Equity earnings from joint ventures are included in nonoperating revenues (expenses).

Notes Receivable

The Authority issues notes to physicians as part of its recruitment process. Notes are repayable over a three-year period and are issued with market interest rates. The notes are issued with forgiveness provisions over the life of the note to encourage retention. It is anticipated that the balance of the notes will be forgiven over time.

At December 31, 2014 and 2013, notes receivable from physicians totaled \$301,244 and \$318,973.

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 statement of net position date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

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 and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

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

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than 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 \$1,250,000 and \$1,422,000 for the years ended December 31, 2014 and 2013. Total direct and indirect costs related to these foregone charges were approximately \$541,000 and \$662,000 at December 31, 2014 and 2013, based on an average ratio of cost to gross charges.

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.

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 demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

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

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

The Authority recognized revenue of \$840,230 and \$1,074,271 for the years December 31, 2014 and 2013 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

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 \$672,672, for the year ended December 31, 2014. In return, the Authority received \$1,226,634. The Authority made SHOPP payments totaling \$657,066, for the year ended December 31, 2013. In return, the Authority received \$1,029,475.

Reclassifications

Reclassifications have been made to the December 31, 2013 financial information to make it conform to the current year presentation. The reclassification had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

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

Medicare: Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which includes capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through September 30, 2011.

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.

Concentration of gross charges by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Medicare	44%	42%
Medicaid	14%	15%
Blue Cross and other commercial payors	25%	25%
Self pay and other	<u>17%</u>	<u>18%</u>
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended December 31, 2014 and 2013, increased approximately \$500,000 and \$22,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Authority has accrued \$50,000 and \$228,000 for RAC liability as of December 31, 2014 and 2013. The estimate is based on historical overpayments identified.

Note 3 - Deposits

The carrying amounts of deposits as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Carrying amount		
Cash deposits in banks	\$ 1,056,811	\$ 989,638
Certificates of deposit	<u>503,098</u>	<u>1,203,530</u>
	<u>\$ 1,559,909</u>	<u>\$ 2,193,168</u>

Deposits are reported in the following statement of net position captions:

	2014	2013
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 736,717	\$ 670,497
Short-term investments	357,680	1,203,530
Cash restricted for debt service - current	180,000	170,000
Restricted by trustee for debt service, net of current portion	140,094	149,141
Long-term investments	145,418	-
	<u>\$ 1,559,909</u>	<u>\$ 2,193,168</u>

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. Statutes also require that the market value of the collateral be at least 110% of the excess deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

The Authority's deposits in banks at December 31, 2014 and 2013 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Hospital's name.

Certificates of Deposit

Short-term certificates of deposits have an original maturity of three to twelve months. Long-term certificates of deposit have a maturity of over twelve months. Certificates of deposit are stated at historical cost and include the following at December 31, 2014 and 2013:

	2014	2013
Short-term	\$ 357,680	\$ 1,203,530
Long-term	145,418	-
Total	<u>\$ 503,098</u>	<u>\$ 1,203,530</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The 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 does not have a formally adopted investment policy for managing concentration of credit risk.

Investment Income

Investment income, primarily interest income, for the years ending December 31, 2014 and 2013 was \$4,299 and \$23,678.

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, 2014 and 2013, the Authority's investments in joint ventures consisted of the following:

	2014	2013
LHC, Inc.	\$ 91,761	\$ 100,420
PentaStar, LLC	36,368	35,708
Serenity Hospice, Inc.	100,000	100,000
Total joint ventures	<u>\$ 228,129</u>	<u>\$ 236,128</u>

Joint venture income, distributions, and contributions balances for the years ended December 31, 2014 and 2013 is as follows:

	Balance December 31, 2013	Income/ (Loss)	Distributions	Purchase/ Contributions	Balance December 31, 2014
Investment in LHC, Inc.	\$ 100,420	\$ (8,659)	\$ -	\$ -	\$ 91,761
Investment in PentaStar, LLC	35,708	660	-	-	36,368
Investment in Serenity Hospice, Inc.	100,000	-	-	-	100,000
Total	<u>\$ 236,128</u>	<u>\$ (7,999)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,129</u>

	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>

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% 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, 2014 and 2013, the Authority owed LHC \$0 and \$20,925, included in accounts payable.

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% 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.

Note 5 - Capital Assets

Capital asset additions, transfers, retirements, and balances for the year ended December 31, 2014, are as follows:

	Balance December 31, 2013	Additions	Transfers and Retirements	Balance December 31, 2014
Capital assets not being depreciated				
Land	\$ 2,523,333	\$ -	\$ -	\$ 2,523,333
Construction in progress	367,405	892,766	(1,007,453)	252,718
Total capital assets not being depreciated	<u>\$ 2,890,738</u>	<u>\$ 892,766</u>	<u>\$ (1,007,453)</u>	<u>\$ 2,776,051</u>
Capital assets being depreciated				
Land improvements	\$ 35,286	\$ -	\$ -	\$ 35,286
Buildings and improvements	15,964,873	28,364	1,007,453	17,000,690
Equipment	11,097,306	755,512	-	11,852,818
Total depreciable capital assets	<u>27,097,465</u>	<u>\$ 783,876</u>	<u>\$ 1,007,453</u>	<u>28,888,794</u>
Less accumulated depreciation for				
Land improvements	(38,552)	\$ (1,387)	\$ -	(39,939)
Buildings and improvements	(5,341,133)	(520,806)	-	(5,861,939)
Equipment	(9,689,082)	(786,277)	-	(10,475,359)
Total accumulated depreciation	<u>(15,068,767)</u>	<u>\$ (1,308,470)</u>	<u>\$ -</u>	<u>(16,377,237)</u>
Net capital assets being depreciated	<u>\$ 12,028,698</u>			<u>\$ 12,511,557</u>
Capital assets, net	<u>\$ 14,919,436</u>			<u>\$ 15,287,608</u>

Construction in progress consists of various projects to be completed with internal funds.

Craig County Hospital Authority
Notes to Financial Statements
December 31, 2014 and 2013

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

	Balance December 31, 2012	Additions	Transfers and Retirements	Balance December 31, 2013
Capital assets not being depreciated				
Land	\$ 2,518,452	\$ 4,881	\$ -	\$ 2,523,333
Construction in progress	378,453	367,053	(378,101)	367,405
Total capital assets not being depreciated	<u>\$ 2,896,905</u>	<u>\$ 371,934</u>	<u>\$ (378,101)</u>	<u>\$ 2,890,738</u>
Capital assets being depreciated				
Land improvements	\$ 35,286	\$ -	\$ -	\$ 35,286
Buildings and improvements	15,499,231	110,070	355,572	15,964,873
Equipment	10,721,443	395,804	(19,941)	11,097,306
Total depreciable capital assets	<u>26,255,960</u>	<u>\$ 505,874</u>	<u>\$ 335,631</u>	<u>27,097,465</u>
Less accumulated depreciation for				
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	<u>(13,777,931)</u>	<u>\$ (1,298,853)</u>	<u>\$ 8,017</u>	<u>(15,068,767)</u>
Net capital assets being depreciated	<u>\$ 12,478,029</u>			<u>\$ 12,028,698</u>
Capital assets, net	<u>\$ 15,374,934</u>			<u>\$ 14,919,436</u>

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, 2014 and 2013, for all operating leases were \$220,532 and \$131,253. The capitalized leased assets consist of:

	2014	2013
Major movable equipment	\$ 2,987,452	\$ 2,380,974
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(2,277,891)</u>	<u>(1,961,974)</u>
	<u>\$ 709,561</u>	<u>\$ 419,000</u>

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>
2015	\$ 279,683	\$ 213,500
2016	197,514	191,328
2017	121,672	-
Total minimum lease payments	598,869	\$ 404,828
Less interest	(20,590)	
Present value of minimum lease payments - Note 7	<u>\$ 578,279</u>	

Note 7 - Notes Payable and Long-Term Debt

A schedule of changes in the Authority's notes payable for 2014 is as follows:

	<u>Balance 12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/14</u>
Notes payable:				
Line of credit (1)	<u>\$ -</u>	<u>\$ 294,723</u>	<u>\$ -</u>	<u>\$ 294,723</u>

- (1) Revolving line of credit, interest paid quarterly, unpaid principal and accrued interest due February 5, 2015; interest at 2.25%; secured by certificate of deposit.

A schedule of changes in the Authority's long-term debt for 2014 and 2013 is as follows:

	<u>Balance 12/31/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/14</u>	<u>Amounts Due Within One Year</u>
Notes payable:					
Series 1998 Bonds (1)	\$ 955,000	\$ -	\$ 170,000	\$ 785,000	\$ 180,000
Note payable to bank (2)	1,568,976	-	29,112	1,539,864	48,851
Note payable to bank (4)	1,015,392	-	61,651	953,741	953,741
Note payable to bank (5)	1,880,268	-	98,631	1,781,637	102,116
Total notes payable	5,419,636	-	359,394	5,060,242	1,284,708
Capitalized lease obligations (6) - Note 6	357,231	606,478	385,430	578,279	266,286
Total long-term debt	<u>\$ 5,776,867</u>	<u>\$ 606,478</u>	<u>\$ 744,824</u>	<u>\$ 5,638,521</u>	<u>\$ 1,550,994</u>

Craig County Hospital Authority
Notes to Financial Statements
December 31, 2014 and 2013

	Balance 12/31/12	Additions	Reductions	Balance 12/31/13	Amounts Due Within One Year
Notes payable:					
Series 1998 Bonds (1)	\$ 1,115,000	\$ -	\$ 160,000	\$ 955,000	\$ 170,000
Note payable to bank (2)	1,627,956	-	58,980	1,568,976	62,773
Note payable to bank (3)	1,988,195	-	1,988,195	-	-
Note payable to bank (4)	1,083,117	-	67,725	1,015,392	1,015,392
Note payable to bank (5)	-	1,896,345	16,077	1,880,268	1,880,268
Total notes payable	5,814,268	1,896,345	2,290,977	5,419,636	3,128,433
Capitalized lease obligations (6) - Note 6	649,343	231,050	523,162	357,231	246,128
Total long-term debt	\$ 6,463,611	\$ 2,127,395	\$ 2,814,139	\$ 5,776,867	\$ 3,374,561

The terms and due dates of the Authority's long-term debt at December 31, 2014 and 2013, 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) Note payable to bank, 6.25% interest rate, due in monthly installments of \$13,297 including interest to December 2029, collateralized with land.
- (3) Note payable to bank, 5.95% interest rate, refinanced with Note(5) in October 2013.
- (4) Note payable to bank, 5.81% interest rate, due in monthly installments of \$10,840 including interest with a balloon payment due September 2015, collateralized with land and certificate of deposit.
- (5) 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.
- (6) Capital leases with varying interest rates from 2.50% to 5.45%; collateralized by the associated equipment.

Scheduled principal and interest repayments on long-term debt are as follows (excluding capital leases):

Year Ending December 31,	Long-Term Debt		Total
	Principal	Interest	
2015	\$ 1,284,708	\$ 258,961	\$ 1,543,669
2016	364,353	177,246	541,599
2017	382,670	157,619	540,289
2018	1,757,430	129,069	1,886,499
2019	82,937	76,627	159,564
2020-2024	501,910	295,913	797,823
2025-2029	686,234	112,349	798,583
Total	\$ 5,060,242	\$ 1,207,784	\$ 6,268,026

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, 2014 and 2013, the Authority did not meet certain financial covenants. 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, 2014 and 2013, the Authority did not meet certain financial covenants. 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.

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, 2014 and 2013, the Authority did not meet certain financial covenants. The Authority is in default of the note payable. The lender, at its discretion, can accelerate the agreement, but is restricted pending the bankruptcy filing discussed in Note 13.

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:

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Employer	\$ 1,031,027	11.5%	\$ 1,096,768	11.5%
Employee	<u>766,990</u>	8.5%	<u>815,795</u>	8.5%
Total	<u>\$ 1,798,017</u>		<u>\$ 1,912,563</u>	

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, 2014 (the latest actuarial valuation date), the approximate underfunded pension benefit obligation of OPERS was:

	<u>2014</u>	<u>2013</u>
Net position available for benefits, at market value	\$ 7,759,257,716	\$ 6,978,873,421
Pension benefit obligation	<u>8,753,669,153</u>	<u>8,556,121,906</u>
Underfunded pension benefit obligation	<u>\$ 994,411,437</u>	<u>\$ 1,577,248,485</u>

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 - 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, 2014 and 2013, the Authority incurred fees to AHS for management services of \$634,471 and \$717,970. The Authority pays AHS for contract labor. During the years ended December 31, 2014 and 2013, the Authority incurred fees to AHS for contract labor of \$284,313 and \$377,888. 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, 2014 and 2013, the Authority incurred fees to AHS for the CBO of \$682,123 and \$677,021. At December 31, 2014 and 2013, the Authority owed AHS \$0 and \$5,278.

Note 10 - 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, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	36%	34%
Medicaid	7%	7%
Other third-party payors	32%	25%
Patients	<u>25%</u>	<u>34%</u>
	<u>100%</u>	<u>100%</u>

Note 11 - Contingencies

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.

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. 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.

Litigations, Claims, and Disputes

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

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

Note 12 - Presentation of Blended Component Units

The following summarizes combining information for the Hospital and H.C.D., which has been presented as a blended component unit, as of and for the year ended December 31, 2014:

Statement of net position as of December 31, 2014:

	Hospital	H.C.D.	Eliminations	Total
Assets				
Current Assets	\$ 6,032,318	\$ 6,384	\$ (121,275)	\$ 5,917,427
Noncurrent cash and deposits	285,512	-	-	285,512
Capital assets, net	15,209,085	78,523	-	15,287,608
Other noncurrent assets	191,761	36,368	-	228,129
Total assets	\$ 21,718,676	\$ 121,275	\$ (121,275)	\$ 21,718,676
Liabilities				
Current liabilities	\$ 5,481,297	\$ 386,930	\$ (386,930)	5,481,297
Long-term debt, less current maturities	4,087,527	-	-	4,087,527
Total liabilities	9,568,824	386,930	(386,930)	9,568,824
Net Position				
Net investment in capital assets	9,570,564	78,523	-	9,649,087
Restricted, expendable for debt service	320,094	-	-	320,094
Unrestricted	2,259,194	(344,178)	265,655	2,180,671
Total net position	12,149,852	(265,655)	265,655	12,149,852
Total liabilities and net position	\$ 21,718,676	\$ 121,275	\$ (121,275)	\$ 21,718,676

Operating results and changes in net position for the year ended December 31, 2014:

	Hospital	H.C.D.	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 26,535,060	\$ -	\$ -	\$ 26,535,060
Other revenue	1,718,139	-	-	1,718,139
Total operating revenues	28,253,199	-	-	28,253,199
Operating expenses				
Depreciation	1,308,470	2,909	(2,909)	1,308,470
Other operating expenses	26,478,915	1,000	(1,000)	26,478,915
Total operating expenses	27,787,385	3,909	(3,909)	27,787,385
Operating income (loss)	465,814	(3,909)	3,909	465,814
Nonoperating revenues (expenses)	(94,909)	660	(660)	(94,909)
Change in Net position	370,905	(3,249)	3,249	370,905
Net position, beginning of year	11,778,947	(262,406)	262,406	11,778,947
Net position, end of year	\$ 12,149,852	\$ (265,655)	\$ 265,655	\$ 12,149,852

Craig County Hospital Authority
Notes to Financial Statements
December 31, 2014 and 2013

Cash flows for the year ended December 31, 2014:

	Hospital	H.C.D.	Eliminations	Total
Net cash from operating activities	\$ 974,916	\$ (1,000)	\$ -	\$ 973,916
Net cash from noncapital financing activities	557,145	-	-	557,145
Net cash used for capital and related financing activities	(2,168,619)	-	-	(2,168,619)
Net cash from investing activities	704,731	-	-	704,731
Net change in cash and cash equivalents	68,173	(1,000)	-	67,173
Cash and cash equivalents, beginning of year	985,994	3,644	-	989,638
Cash and cash equivalents, end of year	<u>\$ 1,054,167</u>	<u>\$ 2,644</u>	<u>\$ -</u>	<u>\$ 1,056,811</u>

The following summarizes 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:

Statement of net position as of December 31, 2013:

	Hospital	H.C.D.	Eliminations	Total
Assets				
Current Assets	\$ 5,872,895	\$ 7,384	\$ (124,524)	\$ 5,755,755
Noncurrent cash and deposits	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>

Craig County Hospital Authority
Notes to Financial Statements
December 31, 2014 and 2013

Operating results and changes in net position for the year ended December 31, 2013:

	Hospital	H.C.D.	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 23,919,576	\$ -	\$ -	\$ 23,919,576
Other revenue	2,199,772	-	-	2,199,772
Total operating revenues	26,119,348	-	-	26,119,348
Operating expenses				
Depreciation	1,298,853	8,728	(8,728)	1,298,853
Other operating expenses	26,792,311	1,025	(1,025)	26,792,311
Total operating expenses	28,091,164	9,753	(9,753)	28,091,164
Operating income (loss)	(1,971,816)	(9,753)	9,753	(1,971,816)
Nonoperating revenues (expenses)	(306,478)	610	(610)	(306,478)
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>

Cash flows for the year ended December 31, 2013:

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

Note 13 - Going Concern

The Authority did not meet the required covenants required by debt agreements as noted in Note 7 for the years ending December 31, 2014 and 2013. 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 notes payable.

On March 6, 2015, the Authority filed a petition for relief under Chapter 9 of the United States Bankruptcy Code in the United States Bankruptcy Court of the Northern District of Oklahoma. Management is petitioning for relief in order to restrict certain contracts and obligations. As of May, 28, 2015, management is unable to assess the impact of the filing of Chapter 9 Bankruptcy.

The financial statements do not include any adjustments that might be necessary should the Hospital be unable to continue as a going concern.

Note 14 - Subsequent Events

The Authority has evaluated subsequent events through May 28, 2014, the date which the financial statements were available to be issued.

Subsequent to year end, the Authority filed for Chapter 9 Bankruptcy, as discussed in Note 13.

On February 10, 2015, the Authority sold an apartment building for \$430,000. This resulted in a gain of approximately \$190,000.

On May 7, 2015 Serenity Hospice, Inc. transferred operations and sold their assets to a third-party. The Authority will receive approximately \$150,000. This will result in a gain of approximately \$50,000.

Subsequent to year end, the Authority paid the remaining balance of the Series 1998 bonds and the revolving line of credit listed in Note 7.



Supplementary Information
December 31, 2014 and 2013

Craig County Hospital Authority



Independent Auditor's Report on Supplementary Information

The Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

We have audited the financial statements of Craig County Hospital Authority as of and for the years ended December 31, 2014 and 2013, and our report thereon dated May 28, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 through 2. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining statements of net position information, combining statements of revenues, expenses and changes in net position information, and schedules of Hospital net patient service revenue, Hospital other operating revenue, and Hospital 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
May 28, 2015

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2014

	Craig General Hospital	H.C.D. Services, Inc.	Eliminations	Combined
Assets				
Current Assets				
Cash and cash equivalents	\$ 734,073	\$ 2,644	\$ -	\$ 736,717
Restricted cash - held by trustee for debt service	180,000	-	-	180,000
Short-term investments	357,680	-	-	357,680
Receivables				
Patient, net	2,691,582	-	-	2,691,582
Estimated third-party payor settlements	820,359	-	-	820,359
Other	365,173	-	-	365,173
Due from subsidiary	121,275	-	(121,275)	-
Supplies	617,831	-	-	617,831
Prepays	144,345	3,740	-	148,085
Total current assets	<u>6,032,318</u>	<u>6,384</u>	<u>(121,275)</u>	<u>5,917,427</u>
Restricted Cash				
Held by trustee for debt service, net of current portion	140,094	-	-	140,094
Long-Term CD Investments	145,418			145,418
	<u>285,512</u>	<u>-</u>	<u>-</u>	<u>285,512</u>
Capital Assets, Net				
Non-depreciable capital assets	2,776,051	-	-	2,776,051
Depreciable capital assets, net	12,433,034	78,523	-	12,511,557
Total capital assets, net	<u>15,209,085</u>	<u>78,523</u>	<u>-</u>	<u>15,287,608</u>
Other Assets				
Investment in PentaStar	-	36,368	-	36,368
Investment in LHC	91,761	-	-	91,761
Investment in Serenity	100,000	-	-	100,000
Total other assets	<u>191,761</u>	<u>36,368</u>	<u>-</u>	<u>228,129</u>
Total assets	<u>\$ 21,718,676</u>	<u>\$ 121,275</u>	<u>\$ (121,275)</u>	<u>\$ 21,718,676</u>

Craig County Hospital Authority
Combining Statements Net Position Information
December 31, 2014

	2014			
	<u>Craig General Hospital</u>	<u>H.C.D. Services, Inc.</u>	<u>Eliminations</u>	<u>Combined</u>
Liabilities and Net Position				
Current Liabilities				
Note payable	\$ 294,723	\$ -	\$ -	\$ 294,723
Current maturities of long-term debt	1,550,994	-	-	1,550,994
Accounts payable	2,798,578	-	-	2,798,578
Accrued liabilities				
Salaries and benefits	483,121	-	-	483,121
Vacation	164,303	-	-	164,303
Other	189,578	-	-	189,578
Due to parent	-	386,930	(386,930)	-
Total current liabilities	5,481,297	386,930	(386,930)	5,481,297
Long-Term Debt, Net	4,087,527	-	-	4,087,527
Total liabilities	9,568,824	386,930	(386,930)	9,568,824
Net Position				
Net investment in capital assets	9,570,564	78,523	-	9,649,087
Restricted, expendable for debt service	320,094	-	-	320,094
Unrestricted	2,259,194	(344,178)	265,655	2,180,671
Total net position	12,149,852	(265,655)	265,655	12,149,852
Total liabilities and net position	\$ 21,718,676	\$ 121,275	\$ (121,275)	\$ 21,718,676

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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
Total current assets	5,872,895	7,384	(124,524)	5,755,755
Restricted Cash				
Held by trustee for debt service, net of current portion	149,141	-	-	149,141
Long-term investments	-	-	-	-
Total noncurrent cash and deposits	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
Total capital assets, net	14,838,004	81,432	-	14,919,436
Other Assets				
Investment in PentaStar	-	35,708	-	35,708
Investment in LHC	100,420	-	-	100,420
Investment in Serenity	100,000	-	-	100,000
Total other assets	200,420	35,708	-	236,128
Total assets	\$ 21,060,460	\$ 124,524	\$ (124,524)	\$ 21,060,460

Craig County Hospital Authority
Combining Statements Net Position Information
December 31, 2013

	2013			
	<u>Craig General Hospital</u>	<u>H.C.D. Services, Inc.</u>	<u>Eliminations</u>	<u>Combined</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 3,374,561	\$ -	\$ -	\$ 3,374,561
Accounts payable				
Trade	1,950,504	-	-	1,950,504
Estimated third-party payor settlements	579,000	-	-	579,000
Accrued liabilities				
Salaries and benefits	476,410	-	-	476,410
Vacation	225,030	-	-	225,030
Other	273,702	-	-	273,702
Due to parent	-	386,930	(386,930)	-
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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	2014			
	Craig General Hospital	H.C.D. Services, Inc.	Eliminations	Combined
Operating Revenues				
Net patient service revenue	\$ 26,535,060	\$ -	\$ -	\$ 26,535,060
Other revenue	1,718,139	-	-	1,718,139
Total operating revenues	28,253,199	-	-	28,253,199
Operating Expenses				
Nursing services	6,363,881	-	-	6,363,881
Other professional services	8,563,795	-	-	8,563,795
General services	3,176,780	-	-	3,176,780
Administrative services	8,374,459	1,000	(1,000)	8,374,459
Depreciation	1,308,470	2,909	(2,909)	1,308,470
Total operating expenses	27,787,385	3,909	(3,909)	27,787,385
Operating Income (Loss)	465,814	(3,909)	3,909	465,814
Non Operating Revenues (Expenses)				
Investment income	4,299	-	-	4,299
Interest	(353,631)	-	-	(353,631)
Noncapital grant revenue and contributions	262,422	-	-	262,422
Gain (loss) from joint ventures	(7,999)	660	(660)	(7,999)
Gain (loss) on sale of asset	-	-	-	-
Total non-operating revenues (expenses)	(94,909)	660	(660)	(94,909)
Change in Net Position	370,905	(3,249)	3,249	370,905
Net Position, Beginning of Year	11,778,947	(262,406)	262,406	11,778,947
Net Position, End of Year	\$ 12,149,852	\$ (265,655)	\$ 265,655	\$ 12,149,852

Craig County Hospital Authority
Combining Statements of Revenues, Expenses and Changes in Net Position Information
Years Ended December 31, 2014 and 2013

2013			
Craig General Hospital	H.C.D. Services, Inc.	Eliminations	Combined
\$ 23,919,576	\$ -	\$ -	\$ 23,919,576
2,199,772	-	-	2,199,772
26,119,348	-	-	26,119,348
6,557,999	-	-	6,557,999
8,414,478	-	-	8,414,478
3,088,664	-	-	3,088,664
8,731,170	1,025	(1,025)	8,731,170
1,298,853	8,728	(8,728)	1,298,853
28,091,164	9,753	(9,753)	28,091,164
(1,971,816)	(9,753)	9,753	(1,971,816)
23,678	-	-	23,678
(378,071)	-	-	(378,071)
52,451	-	-	52,451
(11,086)	610	(610)	(11,086)
6,550	-	-	6,550
(306,478)	610	(610)	(306,478)
(2,278,294)	(9,143)	9,143	(2,278,294)
14,057,241	(253,263)	253,263	14,057,241
\$ 11,778,947	\$ (262,406)	\$ 262,406	\$ 11,778,947

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	2014		
	Inpatient	Outpatient	Total
Daily Patient Services			
Medical and surgical	\$ 1,782,465	\$ -	\$ 1,782,465
Labor and delivery	221,717	-	221,717
Geri psych	3,633,022	-	3,633,022
	<u>5,637,204</u>	<u>-</u>	<u>5,637,204</u>
Other Nursing Services			
Operating room	148,261	5,715,439	5,863,700
Central service supplies	236,645	1,063,684	1,300,329
Emergency room	873,068	6,769,063	7,642,131
	<u>1,257,974</u>	<u>13,548,186</u>	<u>14,806,160</u>
Other Professional Services			
Laboratory	2,587,841	5,923,633	8,511,474
Electrocardiology	181,720	1,873,948	2,055,668
Radiology	1,199,167	10,619,094	11,818,261
Pharmacy	3,250,015	2,406,901	5,656,916
Anesthesiology	142,405	489,179	631,584
Respiratory therapy	1,827,912	269,110	2,097,022
Physical therapy	380,708	2,047,944	2,428,652
Durable medical equipment	-	945,574	945,574
Outpatient psych	-	137,403	137,403
Clinics	-	5,338,294	5,338,294
	<u>9,569,768</u>	<u>30,051,080</u>	<u>39,620,848</u>
	<u>16,464,946</u>	<u>43,599,266</u>	<u>60,064,212</u>
Charity Care			<u>(1,250,480)</u>
Gross Patient Service Revenue			<u>58,813,732</u>
Reductions from Revenue			
Contractual adjustments			(29,269,567)
Provision for bad debts			<u>(3,009,105)</u>
Total reductions from revenue			<u>(32,278,672)</u>
Net Patient Service Revenue			<u><u>\$ 26,535,060</u></u>

Craig County Hospital Authority
Schedules of Hospital Net Patient Service Revenue
Years Ended December 31, 2014 and 2013

2013		
Inpatient	Outpatient	Total
\$ 1,843,665	\$ -	\$ 1,843,665
140,877	-	140,877
3,330,398	-	3,330,398
5,314,940	-	5,314,940
512,756	4,243,731	4,756,487
336,451	665,323	1,001,774
936,973	6,710,597	7,647,570
1,786,180	11,619,651	13,405,831
2,668,541	5,657,294	8,325,835
289,539	2,090,324	2,379,863
1,257,906	11,135,512	12,393,418
2,965,000	1,788,150	4,753,150
180,658	315,206	495,864
1,817,135	289,822	2,106,957
260,197	2,121,623	2,381,820
-	932,347	932,347
-	134,136	134,136
-	2,841,683	2,841,683
9,438,976	27,306,097	36,745,073
16,540,096	38,925,748	55,465,844
		(1,421,804)
		54,044,040
		(27,531,117)
		(2,593,347)
		(30,124,464)
		<u>\$ 23,919,576</u>

Craig County Hospital Authority
Schedules of Hospital Other Revenue
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Other Revenue		
Cafeteria	\$ 328,589	\$ 351,660
Rental income	366,381	585,656
Government incentive for electronic health records	840,230	1,074,271
Miscellaneous	<u>182,939</u>	<u>188,185</u>
Total other revenue	<u><u>\$ 1,718,139</u></u>	<u><u>\$ 2,199,772</u></u>

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	2014		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Medical and surgical	\$ 1,009,215	\$ 109,725	\$ 1,118,940
Labor and delivery	181,584	7,465	189,049
Geri psych	1,741,533	322,583	2,064,116
Operating room	316,352	547,992	864,344
Central service supplies	-	112,268	112,268
Emergency room	1,324,902	690,262	2,015,164
	<u>4,573,586</u>	<u>1,790,295</u>	<u>6,363,881</u>
Other Professional Services			
Laboratory	548,281	933,088	1,481,369
Electrocardiography	-	149,075	149,075
Radiology	757,352	519,179	1,276,531
Pharmacy	91,127	1,082,216	1,173,343
Anesthesiology	-	379,058	379,058
Respiratory therapy	182,872	34,706	217,578
Physical therapy	604	540,938	541,542
Durable medical equipment	129,333	227,713	357,046
Outpatient psych	103,562	18,148	121,710
Clinics	1,836,551	1,029,992	2,866,543
	<u>3,649,682</u>	<u>4,914,113</u>	<u>8,563,795</u>
General Services			
Medical records	858,636	280,161	1,138,797
Dietary	353,608	426,629	780,237
Plant operations	167,625	457,205	624,830
Maintenance	-	90,557	90,557
Housekeeping	301,530	60,098	361,628
Informatics	-	104,875	104,875
Security	-	442	442
Laundry and linen	-	75,414	75,414
	<u>1,681,399</u>	<u>1,495,381</u>	<u>3,176,780</u>
Administrative Services			
Administration and office	1,601,489	4,192,283	5,793,772
Employee benefits	-	2,411,304	2,411,304
Auxiliary	37,578	131,805	169,383
	<u>1,639,067</u>	<u>6,735,392</u>	<u>8,374,459</u>
Depreciation	-	1,308,470	1,308,470
	<u>\$ 11,543,734</u>	<u>\$ 16,243,651</u>	<u>\$ 27,787,385</u>

Craig County Hospital Authority
Schedules of Hospital Expenses
Years Ended December 31, 2014 and 2013

2013		
Salaries	Supplies & Expenses	Total
\$ 1,034,568	\$ 159,212	\$ 1,193,780
194,539	16,310	210,849
1,642,554	489,229	2,131,783
249,857	445,447	695,304
-	176,165	176,165
1,408,190	741,928	2,150,118
4,529,708	2,028,291	6,557,999
555,384	939,355	1,494,739
-	119,078	119,078
806,459	630,427	1,436,886
95,443	637,488	732,931
117	391,487	391,604
173,520	53,696	227,216
-	491,046	491,046
139,950	241,845	381,795
205,968	10,550	216,518
1,804,754	1,117,911	2,922,665
3,781,595	4,632,883	8,414,478
800,184	305,322	1,105,506
420,781	538,019	958,800
139,150	337,687	476,837
-	71,976	71,976
296,431	72,683	369,114
-	35,331	35,331
-	707	707
-	70,393	70,393
1,656,546	1,432,118	3,088,664
1,794,829	4,333,534	6,128,363
-	2,495,031	2,495,031
22,295	85,481	107,776
1,817,124	6,914,046	8,731,170
-	1,298,853	1,298,853
\$ 11,784,973	\$ 16,306,191	\$ 28,091,164



**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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 28, 2015.

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 the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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: 2014-A through 2014-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. 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 them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Sallie LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
May 28, 2015

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2014-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. Management will also consult with the audit firm regarding specific requirements as deemed necessary.

2014-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 allowance calculations were not properly estimated during the year.

Cause: The allowance for bad debts was calculated on an aging of accounts receivable. Also, contractual allowances for commercial receivables were based on a standard reimbursement rate.

Effect: The Authority's initial contractual allowance was understated by approximately \$484,000.

Auditor's Recommendation: We recommend the Authority develop an allowance on actual self-pay collection and separate the major commercial payors. 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 may provide our auditors interim financial statements for review and analysis. The Authority will modify allowances, if necessary, as a result of this review.

2014-C Cost Report Estimate

Condition: During the current year the Authority did not estimate the financial effect of the Medicare cost report settlement for the current year. The Authority should record adjustments for current year activity to the estimated third party payor settlement account.

Criteria: Accountings standards require an entity to estimate the Medicare cost report settlement in order to fairly state the financial position as of year-end.

Effect: This resulted in several adjusting journal entries to record the current year activity and settlements.

Cause: The Authority's has hired an outside third party to prepare the current year cost report. The Authority did not record settlements during the year.

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

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