

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
Auditor's Reports and Financial Statements  
December 31, 2013 and 2012





**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**December 31, 2013 and 2012**

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## Independent Auditor's Report

Board of Trustees  
Cleveland Area Hospital Trust Authority  
Cleveland, Oklahoma

### Report on the Financial Statements

We have audited the accompanying balance sheets of Cleveland Area Hospital Trust Authority (the Authority), a component unit of the City of Cleveland, Oklahoma, 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.

### *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 audits 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.

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cleveland Area Hospital Trust Authority as of December 31, 2013 and 2012, and the changes in its financial 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***

As discussed in *Note 12* to the financial statements, in 2013, the Authority changed its method of accounting for debt issuance costs as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*BKD, LLP*

Tulsa, Oklahoma  
August 12, 2015

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2013 and 2012**

***Introduction***

This management's discussion and analysis of the financial performance of Cleveland Area Hospital Trust Authority (the Authority) provides an overview of the Authority's financial activities for the years ended December 31, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

***Financial Highlights***

- Cash decreased in 2013 by \$535,832 (38%) and increased in 2012 by \$480,042 (51%).
- Estimated amounts due to third-party payers decreased in 2013 by \$905,562 (100%) and increased in 2012 by \$1,335,562 (311%).
- Long-term debt, including current portions, increased in 2013 by \$409,039 (9%) and decreased in 2012 by \$1,811,697 (29%).
- The Authority's net position decreased in 2013 by \$397,978 (31%) and increased in 2012 by \$306,631 (31%).
- The Authority reported an operating loss in 2013 of \$641,273 and operating income in 2012 of \$271,683. The operating results in 2013 declined by \$912,956 (336%) over 2012 and the operating income in 2012 represented an improvement of \$1,062,900 (134%) over the operating loss reported in 2011.

***Using This Annual Report***

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position***

One of the most important questions asked about any organization's finances is, "Is the organization as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes therein. The Authority's total net position—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position is an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

### ***The Statement of Cash Flows***

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

### ***The Authority's Net Position***

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position decreased by \$397,978 (31%) in 2013 over 2012 and increased by \$306,631 (31%) in 2012 over 2011 as shown in Table 1.

***Table 1: Assets, Liabilities and Net Position***

	2013	2012 (Restated – Note 12)	2011
<b>Assets</b>			
Patient accounts receivable, net	\$ 1,255,307	\$ 1,106,897	\$ 1,277,795
Other current assets	1,282,804	1,748,740	1,699,329
Capital assets, net	4,672,871	4,685,742	5,674,252
Other noncurrent assets	14,132	131,027	176,732
Total assets	<u>\$ 7,225,114</u>	<u>\$ 7,672,406</u>	<u>\$ 8,828,108</u>
<b>Liabilities</b>			
Long-term debt, including current maturities	\$ 4,764,519	\$ 4,355,480	\$ 6,167,177
Other current and noncurrent liabilities	1,570,578	2,028,931	1,679,567
Total liabilities	<u>6,335,097</u>	<u>6,384,411</u>	<u>7,846,744</u>
<b>Net Position</b>			
Net investment in capital assets	2,304,925	2,380,424	3,208,412
Restricted – expendable for debt service	-	109,732	108,497
Unrestricted	(1,414,908)	(1,202,161)	(2,335,545)
Total net position	<u>890,017</u>	<u>1,287,995</u>	<u>981,364</u>
Total liabilities and net position	<u>\$ 7,225,114</u>	<u>\$ 7,672,406</u>	<u>\$ 8,828,108</u>

Significant changes in the Authority's assets and liabilities in 2013 as compared to 2012 include changes in cash, estimated amounts due to third-party payers and long-term debt. Cash decreased in the current year by \$535,832 (38%). This decrease in cash is consistent with the Authority's negative cash flows from operations, net of city appropriations. Estimated amounts due to third-party payers decreased in the current year by \$905,562 (100%) due to the Authority paying down Medicare cost report liabilities. Long-term debt, including current portions, increased in the current year by \$409,039 (9%) as a result of the Authority issuing a note related to the purchase of a new annex building as well as entering into two separate revolving lines of credit during the year.

A significant change in the Authority's assets in 2012 is the decrease in capital assets due to offsetting the Medicare electronic health record (EHR) incentive payment against the cost of the EHR software (see *Note 1*). Accounts payable and long-term debt both decreased from 2011 to 2012. Accounts payable decreased by \$625,233 (55%) due to paying off the liabilities associated with the EHR implementation while long-term debt decreased by \$1,811,697 (29%) due to paying off previous Medicare cost report liabilities. Another significant change in financial position relates to the estimated amounts due to or from third-party payers. At December 31, 2012, the estimated amounts due to third-party payers was \$905,562 compared to estimated amounts due from third-party payers of \$430,000 at December 31, 2011. The cause of this change was primarily due to changes in interim payment rates from Medicare compared to changes in the Authority's costs from higher inpatient and swing bed volumes.

### ***Operating Results and Changes in the Authority's Net Position***

In 2013, the Authority's net position decreased by \$397,978 (31%) as shown in Table 2. This decrease is made up of several different components and represents a decline of 229% compared with the increase in net position for 2012 of \$306,631.

***Table 2: Operating Results and Changes in Net Position***

	2013	2012 (Restated – Note 12)	2011
<b>Operating Revenues</b>			
Net patient service revenue	\$ 11,472,761	\$ 11,469,350	\$ 11,952,120
Other operating revenues	563,115	946,140	820,304
Total operating revenues	12,035,876	12,415,490	12,772,424
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	7,692,085	7,511,440	8,256,416
Purchased services and professional fees	2,414,454	2,088,849	3,036,255
Other operating expenses	2,238,246	2,197,506	1,976,667
Depreciation	332,364	346,012	294,303
Total operating expenses	12,677,149	12,143,807	13,563,641
<b>Operating Income (Loss)</b>	(641,273)	271,683	(791,217)
<b>Nonoperating Revenues (Expenses)</b>			
City appropriations – unrestricted	498,035	494,648	450,261
Investment loss	(2,076)	(42,477)	(19,078)
Interest expense and other financing costs	(252,664)	(417,223)	(296,354)
Total nonoperating revenues (expenses)	243,295	34,948	134,829
<b>Excess (Deficiency) of Revenues over Expenses and Change in Net Position</b>	\$ (397,978)	\$ 306,631	\$ (656,388)



### ***Operating Income (Loss)***

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Since acquiring Cleveland Area Hospital Holdings, Inc., and Pawnee Home Health Care, Inc., in January 2009, the Authority has reported operating losses in each fiscal year other than 2012. This is consistent with the Authority's recent operating history as the Authority was formed and is operated primarily to serve residents of Cleveland, Oklahoma, and the surrounding area. The Authority receives sales tax appropriations levied by the City of Cleveland, Oklahoma (the City) to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2013 declined by \$912,956 (336%) as compared to 2012. The primary components of the change in operating results are:

- A decrease in other operating revenues of \$383,025 (41%)
- An increase in purchased services and professional fees of \$325,605 (16%)

Other operating revenue decreased in 2013 as compared to 2012 primarily related to the Authority's recognition of \$180,000 of second-year revenue under the Medicaid EHR program in 2012 that was not recorded in 2013.

Purchased services and professional fees increased in 2013 as compared to 2012 related primarily to increased costs of EHR maintenance and development.

The operating income for 2012 improved by \$1,059,863 (134%) as compared to 2011. The primary components of the change in operating income are:

- A decrease in net patient service revenue of \$482,770 (4%)
- A decrease in salaries and wages and employee benefits of \$754,077 (9%)
- A decrease in purchased services and professional fees of \$947,406 (31%)

Net patient service revenue decreased in 2012 as compared to 2011 as a result of lower emergency room and outpatient volumes, reductions in home health volume and increased contractual discount rates. These discounts were partially offset by the recognition of approximately \$838,000 of revenue related to Oklahoma's Supplemental Hospital Offset Payment Program in 2012. Employee salaries and wages decreased in 2012 in connection with the elimination of certain key positions and a reduction in paid hours. The decrease in purchased services and professional fees primarily relates to the reduction in EHR conversion costs in 2012 compared to 2011.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of sales tax appropriations levied by the City and investment income and interest expense. The nonoperating revenues and expenses in 2013 were consistent with the amounts in 2012 with the exception of the reduction in interest expense due to the reduction of long-term debt.

### ***The Authority's Cash Flows***

Changes in the Authority's cash flows are consistent with changes in operating results, nonoperating revenues and expenses and changes in estimated amounts due to third-party payers previously discussed for 2013 and 2012.

## ***Capital Assets and Debt Administration***

### **Capital Assets**

At the end of 2013 and 2012, the Authority had \$4,672,871 and \$4,685,742, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Authority purchased new equipment costing \$281,875 and invested in buildings costing \$244,305 and disposed of assets totaling \$206,687 mostly related to the EHR incentive program. In 2012, the Authority purchased new equipment costing \$36,985 and disposed of assets totaling \$691,000 related to the EHR incentive program.

### **Debt**

At December 31, 2013 and 2012, the Authority had \$4,764,519 and \$4,355,480, respectively, in notes payable and capital lease obligations outstanding. In 2013, the Authority issued \$827,229 of new debt, including a \$200,000 note payable to bank, \$108,182 in two separate revolving lines of credit and \$519,047 in notes payable to the Centers for Medicare and Medicaid Services. In 2012, the Authority issued \$1,500,000 of new debt.

### ***Contacting the Authority's Financial Management***

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. Questions about this report and requests for additional financial information should be directed to the Authority's administrative office by telephoning 918.358.9980.

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Balance Sheets**  
**December 31, 2013 and 2012**

**Assets**

	<b>2013</b>	<b>2012 (Restated – Note 12)</b>
<b>Current Assets</b>		
Cash	\$ 886,825	\$ 1,422,657
Patient accounts receivable, net of allowance; 2013 – \$1,125,000, 2012 – \$541,000	1,255,307	1,106,897
Other receivables	104,341	100,663
Supplies	171,998	159,178
Prepaid expenses and other	119,640	66,242
Total current assets	<u>2,538,111</u>	<u>2,855,637</u>
<b>Noncurrent Cash and Investments</b>		
Restricted under loan agreement	-	109,732
Other long-term investments	847	7,740
	<u>847</u>	<u>117,472</u>
<b>Capital Assets, Net</b>	<u>4,672,871</u>	<u>4,685,742</u>
<b>Other Assets</b>	<u>13,285</u>	<u>13,555</u>
Total assets	<u><u>\$ 7,225,114</u></u>	<u><u>\$ 7,672,406</u></u>

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 2,606,236	\$ 2,363,356
Accounts payable	990,516	639,962
Accrued expenses	580,062	483,407
Estimated amounts due to third-party payers	-	905,562
Total current liabilities	<u>4,176,814</u>	<u>4,392,287</u>
<b>Long-Term Debt</b>	<u>2,158,283</u>	<u>1,992,124</u>
Total liabilities	<u>6,335,097</u>	<u>6,384,411</u>
<b>Net Position</b>		
Net investment in capital assets	2,304,925	2,380,424
Restricted – expendable for debt service	-	109,732
Unrestricted	(1,414,908)	(1,202,161)
Total net position	<u>890,017</u>	<u>1,287,995</u>
Total liabilities and net position	<u><u>\$ 7,225,114</u></u>	<u><u>\$ 7,672,406</u></u>

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012 (Restated – Note 12)</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$977,058, 2012 – \$1,004,027	\$ 11,472,761	\$ 11,469,350
Other	563,115	946,140
Total operating revenues	<u>12,035,876</u>	<u>12,415,490</u>
<b>Operating Expenses</b>		
Salaries and wages	6,303,282	6,063,390
Employee benefits	1,388,803	1,448,050
Purchased services and professional fees	2,414,454	2,088,849
Supplies and other	2,238,246	2,197,506
Depreciation	332,364	346,012
Total operating expenses	<u>12,677,149</u>	<u>12,143,807</u>
<b>Operating Loss</b>	<u>(641,273)</u>	<u>271,683</u>
<b>Nonoperating Revenues (Expenses)</b>		
City appropriations – unrestricted	498,035	494,648
Investment loss	(2,076)	(42,477)
Interest expense and other financing costs	(252,664)	(417,223)
Total nonoperating revenues (expenses)	<u>243,295</u>	<u>34,948</u>
<b>Excess (Deficiency) of Revenues over Expenses and Change in Net Position</b>	<u>(397,978)</u>	<u>306,631</u>
<b>Net Position, Beginning of Year</b>	<u>1,287,995</u>	<u>981,364</u>
<b>Net Position, End of Year</b>	<u><u>\$ 890,017</u></u>	<u><u>\$ 1,287,995</u></u>

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Statements of Cash Flows**  
**Years Ended December 31, 2013 and 2012**

	<b>2013</b>	<b>2012 (Restated – Note 12)</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 10,418,789	\$ 12,975,810
Payments to suppliers and contractors	(4,454,057)	(4,910,957)
Payments to and on behalf of employees	(7,595,430)	(7,442,405)
Other receipts and payments, net	<u>563,115</u>	<u>946,140</u>
Net cash provided by (used in) operating activities	<u>(1,067,583)</u>	<u>1,568,588</u>
<b>Investing Activities</b>		
Purchase of investments	-	(1,235)
Proceeds from disposition of investments	109,732	-
Investment income received	<u>4,817</u>	<u>4,463</u>
Net cash provided by investing activities	<u>114,549</u>	<u>3,228</u>
<b>Noncapital Financing Activities</b>		
Interest paid on long-term debt	(111,252)	(182,726)
Proceeds from issuance of long-term debt	569,167	1,500,000
Principal paid on long-term debt	(245,049)	(2,143,010)
Financing costs paid	-	(91,102)
City appropriations received	<u>495,820</u>	<u>494,648</u>
Net cash provided by (used in) noncapital financing activities	<u>708,686</u>	<u>(422,190)</u>
<b>Capital and Related Financing Activities</b>		
Proceeds from issuance of long-term debt	258,062	-
Interest paid on long-term debt	(141,412)	(143,395)
Principal paid on long-term debt	(173,141)	(1,168,687)
Payments received related to disposal of capital assets	31,363	679,483
Purchase of capital assets	<u>(266,356)</u>	<u>(36,985)</u>
Net cash used in capital and related financing activities	<u>(291,484)</u>	<u>(669,584)</u>
<b>Increase (Decrease) in Cash</b>	<u>(535,832)</u>	<u>480,042</u>
<b>Cash, Beginning of Year</b>	<u>1,422,657</u>	<u>942,615</u>
<b>Cash, End of Year</b>	<u><u>\$ 886,825</u></u>	<u><u>\$ 1,422,657</u></u>

See Notes to Financial Statements

	<b>2013</b>	<b>2012 (Restated – Note 12)</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating income (loss)	\$ (641,273)	\$ 268,646
Depreciation	332,364	346,012
Provision for uncollectible accounts	977,058	1,004,027
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,125,468)	(833,129)
Supplies, prepaid expenses and other	(67,411)	3,668
Estimated amounts due from/to third-party payers	(905,562)	1,335,562
Accounts payable and accrued expenses	362,709	(556,198)
Net cash provided by (used in) operating activities	<u>\$ (1,067,583)</u>	<u>\$ 1,568,588</u>
<b>Supplemental Cash Flows Information</b>		
Capital acquisitions included in accounts payable	\$ 84,500	\$ -

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

Cleveland Area Hospital Trust Authority (the Authority) was created under a trust indenture dated November 22, 1976, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of the citizens of Cleveland, Oklahoma. The Authority is a component unit of the City of Cleveland, Oklahoma (the City), and the Cleveland City Council appoints the board members of the Authority.

The Authority operates Cleveland Area Hospital Holdings, Inc. (the Hospital). The Hospital is a critical access hospital located in Cleveland, Oklahoma. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in Cleveland, Oklahoma, and the surrounding area.

The Authority also operates Pawnee County Home Health Care, Inc. (PCHH), which earns revenue by providing home health services to the citizens of Cleveland, Oklahoma, and the surrounding area.

The Authority also operates Cleveland Area Medical Associates (CAMA) (formerly Lake Area Medical Associates), which earns revenue by providing physician clinic services to the citizens of Cleveland, Oklahoma, and the surrounding area.

Both the Hospital and PCHH were incorporated in November 2008. On January 1, 2009, the Hospital and PCHH were acquired from the previous owner by the Authority. As the Authority is the sole corporate member of the Hospital and PCHH, both the Hospital and PCHH are included as blended component units in the accompanying financial statements of the Authority.

***Basis of Accounting and Presentation***

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and city appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as city appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

***Use of Estimates***

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

***Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, the Authority had no cash equivalents.

***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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims did not exceed this commercial coverage in any of the three preceding years.

***Investments and Investment Income***

All investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

***Patient Accounts Receivable***

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.



**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	5–40 years
Buildings and improvements	5–40 years
Equipment	3–20 years

***Compensated Absences***

Authority policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. 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 of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

***Net Patient Service Revenue***

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

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***Charity Care***

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Income Taxes***

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

***City Appropriations***

Effective January 27, 1978, the citizens of the City approved a 1% sales tax with no expiration date to provide unrestricted appropriations to the Authority.

The Authority received approximately 4% of its financial support from city appropriations related to sales taxes during the years ended December 31, 2013 and 2012. These funds were used to support operations and make payments on long-term debt.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAH) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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The Authority believes CMS intended to pay CAHs a grant under the EHR incentive payment program specifically to purchase an asset that will be used in providing services to all patients. In 2013 and 2012, the Authority accounted for the Medicare EHR incentive amount by deducting the incentive amount of approximately \$175,000 and \$680,000, respectively, in calculating the carrying amount of the asset. This approach recognizes the incentive payment in the accompanying statements of revenues, expenses and changes in net position over the life of the depreciable asset as a reduction to depreciation expense.

In 2012, the Authority completed the second-year requirements under the Medicaid program recognizing revenue of approximately \$180,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

***Supplemental Hospital Offset Payment Program***

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess certain Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

CAHs are excluded from paying an assessment fee but are still eligible to receive SHOPP funds. During 2013 and 2012, the Hospital received approximately \$329,000 and \$838,000, respectively, of SHOPP funds. Revenue recorded under the SHOPP program is recorded as a part of the net patient service revenue on the accompanying statements of revenues, expenses and changes in net position.

The annual amounts to be received by the Hospital over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. The estimated annual amount to be received by the Hospital over the remaining term of the SHOPP program is not expected to be materially different from the amount received in 2013.

***Reclassifications***

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the changes in financial position.

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**Note 2: Net Patient Service Revenue**

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2010.
- **Medicaid** – The Authority is reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. Those payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 70% and 77% of the Authority's net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Note 3: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance or other acceptable collateral in specific amounts.

At December 31, 2013 and 2012, approximately \$584,000 and \$938,000 of the Authority's bank balances of \$1,130,875 and \$1,762,746, respectively, were exposed to custodial credit risk as being uninsured and uncollateralized.

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***Investments***

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2013 and 2012, the Authority had \$847 and \$7,740, respectively, invested in a corporate stock.

- **Interest Rate Risk** – The Authority does not currently have an investment policy limiting its exposure to fair value losses arising from rising interest rates.
- **Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority does not currently have an investment policy addressing credit risk.
- **Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority does not currently have an investment policy addressing how securities are to be held.
- **Concentration of Credit Risk** – The Authority places no limit on the amount that may be invested in any one issuer. At December 31, 2013 and 2012, the Authority held investments in only one corporation.

***Summary of Carrying Values***

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	<b>2013</b>	<b>2012</b>
Carrying value		
Deposits	\$ 886,825	\$ 1,532,389
Investments	847	7,740
	<u>\$ 887,672</u>	<u>\$ 1,540,129</u>
Included in the following balance sheet captions		
Cash	\$ 886,825	\$ 1,422,657
Noncurrent cash and investments		
Restricted under loan agreement	-	109,732
Other long-term investments	847	7,740
	<u>\$ 887,672</u>	<u>\$ 1,540,129</u>

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***Investment Income (Loss)***

Investment income (loss) for the years ended December 31, 2013 and 2012, consisted of:

	<b>2013</b>	<b>2012</b>
Interest and dividend income	\$ 4,817	\$ 4,463
Net decrease in fair value of investments	<u>(6,893)</u>	<u>(46,940)</u>
	<u><u>\$ (2,076)</u></u>	<u><u>\$ (42,477)</u></u>

**Note 4: Patient Accounts Receivable**

The Authority grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2013 and 2012, consisted of:

	<b>2013</b>	<b>2012</b>
Medicare	\$ 678,653	\$ 609,858
Medicaid	74,708	63,352
Other third-party payers	378,343	296,990
Patients	<u>1,248,603</u>	<u>677,697</u>
	2,380,307	1,647,897
Less allowance for uncollectible amounts	<u>1,125,000</u>	<u>541,000</u>
	<u><u>\$ 1,255,307</u></u>	<u><u>\$ 1,106,897</u></u>

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**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2013 and 2012, were:

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 79,717	\$ -	\$ -	\$ -	\$ 79,717
Land improvements	278,357	-	-	-	278,357
Buildings and improvements	5,459,259	244,305	-	-	5,703,564
Equipment	2,558,965	19,000	(589)	-	2,577,376
Construction in progress	30,774	87,551	(30,774)	-	87,551
	<u>8,407,072</u>	<u>350,856</u>	<u>(31,363)</u>	<u>-</u>	<u>8,726,565</u>
Less accumulated depreciation					
Land improvements	7,868	4,319	-	-	12,187
Buildings and improvements	1,529,318	156,694	-	-	1,686,012
Equipment	2,184,144	171,351	-	-	2,355,495
	<u>3,721,330</u>	<u>332,364</u>	<u>-</u>	<u>-</u>	<u>4,053,694</u>
Capital assets, net	<u>\$ 4,685,742</u>	<u>\$ 18,492</u>	<u>\$ (31,363)</u>	<u>\$ -</u>	<u>\$ 4,672,871</u>

  

	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 79,717	\$ -	\$ -	\$ -	\$ 79,717
Land improvements	176,509	-	-	101,848	278,357
Buildings and improvements	5,519,394	-	-	(60,135)	5,459,259
Equipment	3,216,225	33,740	(691,000)	-	2,558,965
Construction in progress	69,242	3,245	-	(41,713)	30,774
	<u>9,061,087</u>	<u>36,985</u>	<u>(691,000)</u>	<u>-</u>	<u>8,407,072</u>
Less accumulated depreciation					
Land improvements	1,816	6,052	-	-	7,868
Buildings and improvements	1,358,378	170,940	-	-	1,529,318
Equipment	2,026,641	169,020	(11,517)	-	2,184,144
	<u>3,386,835</u>	<u>346,012</u>	<u>(11,517)</u>	<u>-</u>	<u>3,721,330</u>
Capital assets, net	<u>\$ 5,674,252</u>	<u>\$ (309,027)</u>	<u>\$ (679,483)</u>	<u>\$ -</u>	<u>\$ 4,685,742</u>

The disposals during the years ended December 31, 2013 and 2012, primarily related to the Medicare EHR incentive program discussed in *Note 1*.

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**Note 6: Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	<b>2013</b>	<b>2012</b>
Payable to suppliers and contractors	\$ 990,516	\$ 639,962
Payable to employees (including payroll taxes and benefits)	570,901	474,246
Interest payable	9,161	9,161
Total	<u>\$ 1,570,578</u>	<u>\$ 1,123,369</u>

**Note 7: Long-Term Debt**

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31:

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Notes payable to bank	\$ 3,481,278	\$ 200,000	\$ (110,833)	\$ 3,570,445	\$ 2,197,383
Note payable to Central Oklahoma Economic Development District, Inc.	425,974	-	(43,324)	382,650	45,541
Note payable to vendor (A)	179,277	-	(72,507)	106,770	33,830
Notes payable to CMS	152,438	519,047	(152,438)	519,047	178,562
Revolving lines of credit	-	108,182	-	108,182	108,182
Capital lease obligations	116,513	-	(39,088)	77,425	42,738
	<u>\$ 4,355,480</u>	<u>\$ 827,229</u>	<u>\$ (418,190)</u>	<u>\$ 4,764,519</u>	<u>\$ 2,606,236</u>

  

	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Notes payable to bank	\$ 2,633,971	\$ 1,500,000	\$ (652,693)	\$ 3,481,278	\$ 2,055,998
Note payable to Central Oklahoma Economic Development District, Inc.	467,190	-	(41,216)	425,974	43,325
Note payable to vendor (A)	255,545	-	(76,268)	179,277	72,507
Note payable to vendor (B)	1,008,165	-	(1,008,165)	-	-
Notes payable to CMS	1,650,000	-	(1,497,562)	152,438	152,438
Capital lease obligations	152,306	-	(35,793)	116,513	39,088
	<u>\$ 6,167,177</u>	<u>\$ 1,500,000</u>	<u>\$ (3,311,697)</u>	<u>\$ 4,355,480</u>	<u>\$ 2,363,356</u>



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***Notes Payable to Bank***

The first note payable to bank is due in full upon the bank's demand, but if no demand is made then the note payable is due December 2018 with monthly payments of \$14,275, including interest at 6%. The note is secured by a mortgage on the medical office building owned by the Authority and an assignment of all rents related to the medical office building. This note payable includes a balloon payment due in December 2018. The outstanding principal amount on this note was \$1,957,381 and \$2,009,528 at December 31, 2013 and 2012, respectively.

The second note payable to bank was entered into in April 2012 in the amount of \$1,500,000 and is due April 2032 with monthly payments of \$9,875, including interest at the Farmer Mac 3-Month Cost of Funds Index Net Yield plus 3.5% (4.93% at December 31, 2013). The note is secured by certain real property and an assignment of one quarter of the Authority's city appropriation revenue. The outstanding principal amount on this note was \$1,422,463 and \$1,471,750 at December 31, 2013 and 2012, respectively.

The third note payable was entered into in May 2013 in the amount of \$200,000 and is due November 2014, including monthly payments of \$1,199 monthly and interest at 6%. The note is secured by a mortgage on the annex building purchased with the note. This note payable includes a balloon payment due in November 2014. The outstanding principal amount on this note was \$190,601 at December 31, 2013. Subsequent to the maturity date, the Authority and the holder of the note were in the process of renegotiating the terms for an extension of the note.

Assuming no demand is made by the bank, the debt service requirements for these notes as of December 31, 2013, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 489,950	\$ 295,448	\$ 194,502
2015	289,794	111,067	178,727
2016	289,794	117,318	172,476
2017	289,794	123,927	165,867
2018	1,933,573	1,774,689	158,884
2019–2023	592,470	351,053	241,417
2024–2028	592,470	448,511	143,959
2029–2032	377,204	348,432	28,772
	<u>\$ 4,855,049</u>	<u>\$ 3,570,445</u>	<u>\$ 1,284,604</u>

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***Note Payable to Central Oklahoma Economic Development District, Inc.***

During 2011, the Authority refinanced its note with the Central Oklahoma Economic Development District, Inc. The refinanced note is due February 2021, with principal and interest at 5%, payable monthly. The note is secured by an assignment of half of the Authority's city appropriation revenue.

The debt service requirements for this note as of December 31, 2013, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 63,639	\$ 45,541	\$ 18,098
2015	63,639	47,871	15,768
2016	63,639	50,320	13,319
2017	63,639	52,895	10,744
2018	63,639	55,601	8,038
2019–2021	137,887	130,422	7,465
	<u>\$ 456,082</u>	<u>\$ 382,650</u>	<u>\$ 73,432</u>

***Note Payable to Vendor (A)***

During 2011, the Authority entered into a financing agreement with a vendor. The note is due by December 2016 and is payable at amounts ranging from \$3,200 to \$6,652 per month with interest imputed at 5%. The note is secured by certain major movable equipment.

The debt service requirements for this note as of December 31, 2013, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2014	\$ 38,400	\$ 33,830	\$ 4,570
2015	38,400	35,561	2,839
2016	38,400	37,379	1,021
	<u>\$ 115,200</u>	<u>\$ 106,770</u>	<u>\$ 8,430</u>

***Note Payable to Vendor (B)***

During 2011, the Authority entered into a financing agreement with the vendor implementing its EHR technology. The note included interest of 1.25% per month. Monthly payments of \$12,415, which primarily represent interest only payments, are required plus supplemental principal payments as funds related to the Medicare and Medicaid EHR Incentive Program (see *Note I*) are received by the Authority. This note was paid off during 2012.

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***Notes Payable to CMS***

During 2011, the Authority entered into two notes payable with CMS related to amounts owed on the 2010 final cost report and the 2011 interim cost report. These notes are unsecured, originally due in 2012 and 2014, and are being paid on a monthly basis, including interest between 11.0% and 11.5% per annum. In addition to the regularly scheduled principal payments, CMS can withhold any cost report settlement amounts to be applied against the outstanding balances.

During 2012, the note related to the 2011 interim cost report was paid off. During 2013, the note related to the 2010 final cost report was paid off.

Also during 2013, the Authority entered into a note payable with CMS related to amounts owed on the 2012 final cost report. This note is unsecured, is due August 2016 and is being paid on a monthly basis, including interest at 10.38% per annum. In addition to the regularly scheduled principal payments, CMS can withhold any cost report settlement amounts to be applied against the outstanding balances.

As of December 31, 2013, the outstanding balance on the note related to the 2012 final cost report was \$519,047, of which \$178,562 represents amounts due within the next year that are classified as current maturities of long-term debt.

***Revolving Lines of Credit***

During 2013, the Authority entered into two separate revolving lines of credit. The first line of credit was used for operations, had a limit of \$100,120 and bore interest at 5.5%. The second line of credit was used to fund capital expenditures, had a limit of \$200,100 and bore interest at 5.5%. Both lines of credit were due on demand but, if no demand was made, then expired in November 2014. At December 31, 2013, there was \$108,182 outstanding under these lines of credit.

In November 2014, both of these lines of credit were extended through November 2015. In 2015, both lines of credit were paid in full.

***Capital Lease Obligations***

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2013 and 2012, totaled \$193,215, net of accumulated depreciation of \$125,590 and \$93,387, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 12.7% together with the present value of the future minimum lease payments as of December 31, 2013:

<b>Year Ending December 31,</b>	
2014	\$ 48,020
2015	36,023
Total minimum lease payments	84,043
Less amount representing interest	6,618
Present value of future minimum lease payments	<u>\$ 77,425</u>

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**Note 8: Charity Care and Other Community Benefits**

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs related to charity care services were approximately \$47,000 and \$19,000 for the years ended December 31, 2013 and 2012, respectively.

The cost of uncompensated care is estimated by applying the ratio of costs to gross charges from the 2013 and 2012 Medicare cost reports to the uncompensated care charges.

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments and community educational services.

**Note 9: Medical Malpractice Claims**

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 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.

**Note 10: Contingencies**

***Litigation***

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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**Note 11: Retirement Plan**

Effective January 1, 2009, the Authority created a 401(k) defined contribution plan covering substantially all employees. Effective June 7, 2010, the Board of Trustees of the Authority voted to terminate the 401(k) plan and establish separate 403(b) plans for the Hospital and PCHH.

Pension expense is recorded for the amount of the Authority's required contributions determined in accordance with the terms of the plans. The plans are administered by the Authority's Board of Trustees. The plans provide retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan documents and were established and can be amended by action of the Authority's governing body. Contributions actually made by plan members and the Authority aggregated approximately \$101,000 and \$77,000, respectively, for 2013 and \$170,000 and \$90,000, respectively, for 2012.

**Note 12: Change in Accounting Principle**

In 2013, the Authority adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which became effective for reporting periods beginning after December 15, 2012. The impact of this change in accounting principle was to retroactively expense previously capitalized deferred financing costs. This change resulted in a decrease to the previously reported change in net position for 2012 of \$88,065. Adoption of GASB Statement No. 65 had no impact on net position as of January 1, 2012.

**Note 13: Current Economic Conditions**

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions, including the high unemployment rate, have made it difficult for certain of the Authority's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Authority's ability to meet debt covenants or maintain sufficient liquidity.

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**Note 14: Patient Protection and Affordable Care Act**

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Authority's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Authority's net patient service revenue. In addition, it is possible the Authority will experience payment delays and other operational challenges during PPACA's implementation.

**Note 15: Subsequent Events**

In September 2014, the Authority sold all the assets of PCHH to a third party for \$250,000.

**Note 16: Combining Component Unit Information**

As discussed in *Note 1*, the Authority includes the operations of the Hospital and PCHH, both of which are considered to be blended component units of the Authority.

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**Notes to Financial Statements**  
**December 31, 2013 and 2012**

The following tables include combining balance sheet information for the Authority and its component units as of December 31, 2013 and 2012:

	<b>December 31, 2013</b>				
	<b>Cleveland Area Hospital Trust Authority</b>	<b>Cleveland Area Hospital Holdings, Inc.</b>	<b>Pawnee County Home Health Care, Inc.</b>	<b>Eliminations</b>	<b>Combined Balance</b>
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 449,633	\$ 406,013	\$ 31,179	\$ -	\$ 886,825
Patient accounts receivable, net	142,401	1,044,712	68,194	-	1,255,307
Other receivables	92,838	1,503	10,000	-	104,341
Supplies	9,376	152,910	9,712	-	171,998
Prepaid expenses and other	23,561	88,438	7,641	-	119,640
Total current assets	717,809	1,693,576	126,726	-	2,538,111
<b>Other Long-Term Investments</b>	847	-	-	-	847
<b>Capital Assets, Net</b>	4,337,240	335,631	-	-	4,672,871
<b>Other Assets</b>	-	13,285	-	-	13,285
Total assets	<u>\$ 5,055,896</u>	<u>\$ 2,042,492</u>	<u>\$ 126,726</u>	<u>\$ -</u>	<u>\$ 7,225,114</u>
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 2,327,858	\$ 278,378	\$ -	\$ -	\$ 2,606,236
Accounts payable	84,891	886,422	19,203	-	990,516
Accrued expenses	160,289	369,900	49,873	-	580,062
Total current liabilities	2,573,038	1,534,700	69,076	-	4,176,814
<b>Long-Term Debt</b>	1,390,625	767,658	-	-	2,158,283
Total liabilities	<u>3,963,663</u>	<u>2,302,358</u>	<u>69,076</u>	<u>-</u>	<u>6,335,097</u>
<b>Net Position</b>					
Net investment in capital assets	2,113,633	191,292	-	-	2,304,925
Unrestricted	(1,021,400)	(451,158)	57,650	-	(1,414,908)
Total net position	<u>1,092,233</u>	<u>(259,866)</u>	<u>57,650</u>	<u>-</u>	<u>890,017</u>
Total liabilities and net position	<u>\$ 5,055,896</u>	<u>\$ 2,042,492</u>	<u>\$ 126,726</u>	<u>\$ -</u>	<u>\$ 7,225,114</u>

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

December 31, 2012 (Restated – Note 12)					
	Cleveland Area Hospital Trust Authority	Cleveland Area Hospital Holdings, Inc.	Pawnee County Home Health Care, Inc.	Eliminations	Combined Balance
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 314,253	\$ 1,056,213	\$ 52,191	\$ -	\$ 1,422,657
Patient accounts receivable, net	63,661	928,211	115,025	-	1,106,897
Other receivables	90,623	-	10,040	-	100,663
Supplies	12,064	128,455	18,659	-	159,178
Prepaid expenses and other	27,780	38,462	-	-	66,242
Total current assets	508,381	2,151,341	195,915	-	2,855,637
<b>Noncurrent Cash and Investments</b>					
Restricted under loan agreement	109,732	-	-	-	109,732
Other long-term investments	7,740	-	-	-	7,740
	117,472	-	-	-	117,472
<b>Capital Assets, Net</b>	4,320,897	364,845	-	-	4,685,742
<b>Other Assets</b>	-	13,285	270	-	13,555
Total assets	\$ 4,946,750	\$ 2,529,471	\$ 196,185	\$ -	\$ 7,672,406
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 2,077,071	\$ 286,285	\$ -	\$ -	\$ 2,363,356
Accounts payable	86,527	542,613	10,822	-	639,962
Accrued expenses	118,325	300,234	64,848	-	483,407
Estimated amounts due to third-party payers	-	905,562	-	-	905,562
Total current liabilities	2,281,923	2,034,694	75,670	-	4,392,287
<b>Long-Term Debt</b>	1,465,135	526,989	-	-	1,992,124
Total liabilities	3,747,058	2,561,683	75,670	-	6,384,411
<b>Net Position</b>					
Net investment in capital assets	2,250,441	129,983	-	-	2,380,424
Restricted – expendable for debt service	109,732	-	-	-	109,732
Unrestricted	(1,160,481)	(162,195)	120,515	-	(1,202,161)
Total net position	1,199,692	(32,212)	120,515	-	1,287,995
Total liabilities and net position	\$ 4,946,750	\$ 2,529,471	\$ 196,185	\$ -	\$ 7,672,406



**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

The following tables include the combining statements of revenues, expenses and changes in net position for the Authority and its component units for the years ended December 31, 2013 and 2012:

	Year Ended December 31, 2013				
	Cleveland Area Hospital Trust Authority	Cleveland Area Hospital Holdings, Inc.	Pawnee County Home Health Care, Inc.	Eliminations	Combined Balance
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts of \$977,058	\$ 802,042	\$ 9,790,827	\$ 879,892	\$ -	\$ 11,472,761
Other	331,920	231,086	109	-	563,115
Total operating revenues	1,133,962	10,021,913	880,001	-	12,035,876
<b>Operating Expenses</b>					
Salaries and wages	1,822,805	3,831,028	649,449	-	6,303,282
Employee benefits	498,795	753,054	136,954	-	1,388,803
Purchased services and professional fees	110,875	2,250,810	52,769	-	2,414,454
Supplies and other	502,240	1,640,712	95,294	-	2,238,246
Depreciation	224,409	107,955	-	-	332,364
Overhead allocation	(2,332,459)	2,297,456	35,003	-	-
Total operating expenses	826,665	10,881,015	969,469	-	12,677,149
<b>Operating Income (Loss)</b>	307,297	(859,102)	(89,468)	-	(641,273)
<b>Nonoperating Revenues (Expenses)</b>					
City appropriations – unrestricted	498,035	-	-	-	498,035
Investment income (loss)	(5,462)	3,386	-	-	(2,076)
Interest expense and other financing costs	(195,756)	(56,908)	-	-	(252,664)
Total nonoperating revenues (expenses)	296,817	(53,522)	-	-	243,295
<b>Excess (Deficiency) of Revenues over Expenses Before Transfers</b>	604,114	(912,624)	(89,468)	-	(397,978)
<b>Transfers</b>	(711,573)	684,970	26,603	-	-
<b>Change in Net Position</b>	(107,459)	(227,654)	(62,865)	-	(397,978)
<b>Net Position, Beginning of Year</b>	1,199,692	(32,212)	120,515	-	1,287,995
<b>Net Position, End of Year</b>	\$ 1,092,233	\$ (259,866)	\$ 57,650	\$ -	\$ 890,017

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

	Year Ended December 31, 2012 (Restated – Note 12)				
	Cleveland Area Hospital Trust Authority	Cleveland Area Hospital Holdings, Inc.	Pawnee County Home Health Care, Inc.	Eliminations	Combined Balance
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts of \$1,004,027	\$ 928,891	\$ 9,239,845	\$ 1,300,614	\$ -	\$ 11,469,350
Other income	297,232	644,933	3,975	-	946,140
Total operating revenues	1,226,123	9,884,778	1,304,589	-	12,415,490
<b>Operating Expenses</b>					
Salaries and wages	1,407,524	3,635,701	1,020,165	-	6,063,390
Employee benefits	628,371	626,160	193,519	-	1,448,050
Purchased services and professional fees	71,674	1,981,227	35,948	-	2,088,849
Supplies and other	389,843	1,590,617	217,046	-	2,197,506
Depreciation	234,148	111,864	-	-	346,012
Overhead allocation	(1,845,841)	1,787,188	58,653	-	-
Total operating expenses	885,719	9,732,757	1,525,331	-	12,143,807
<b>Operating Income (Loss)</b>	340,404	152,021	(220,742)	-	271,683
<b>Nonoperating Revenues (Expenses)</b>					
City appropriations – unrestricted	494,648	-	-	-	494,648
Investment income (loss)	(45,343)	2,861	5	-	(42,477)
Interest expense and other financing costs	(275,769)	(141,454)	-	-	(417,223)
Total nonoperating revenues (expenses)	173,536	(138,593)	5	-	34,948
<b>Excess (Deficiency) of Revenues over Expenses Before Transfers</b>	513,940	13,428	(220,737)	-	306,631
<b>Transfers</b>	(1,558,205)	1,396,934	161,271	-	-
<b>Change in Net Position</b>	(1,044,265)	1,410,362	(59,466)	-	306,631
<b>Net Position, Beginning of Year</b>	2,243,957	(1,442,574)	179,981	-	981,364
<b>Net Position, End of Year</b>	\$ 1,199,692	\$ (32,212)	\$ 120,515	\$ -	\$ 1,287,995

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2013 and 2012**

The following tables include the condensed combining statements of cash flows for the Authority and its component units for the years ended December 31, 2013 and 2012:

<b>Year Ended December 31, 2013</b>					
	<b>Cleveland Area Hospital Trust Authority</b>	<b>Cleveland Area Hospital Holdings, Inc.</b>	<b>Pawnee County Home Health Care, Inc.</b>	<b>Eliminations</b>	<b>Combined Balance</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 500,202	\$ (1,520,170)	\$ (47,615)	\$ -	\$ (1,067,583)
<b>Net Cash Provided by Investing Activities</b>	111,163	3,386	-	-	114,549
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	(282,626)	964,709	26,603	-	708,686
<b>Net Cash Used in Capital and Related Financing Activities</b>	(193,359)	(98,125)	-	-	(291,484)
<b>Increase (Decrease) in Cash</b>	135,380	(650,200)	(21,012)	-	(535,832)
<b>Cash, Beginning of Year</b>	314,253	1,056,213	52,191	-	1,422,657
<b>Cash, End of Year</b>	<u>\$ 449,633</u>	<u>\$ 406,013</u>	<u>\$ 31,179</u>	<u>\$ -</u>	<u>\$ 886,825</u>

<b>Year Ended December 31, 2012 (Restated – Note 12)</b>					
	<b>Cleveland Area Hospital Trust Authority</b>	<b>Cleveland Area Hospital Holdings, Inc.</b>	<b>Pawnee County Home Health Care, Inc.</b>	<b>Eliminations</b>	<b>Combined Balance</b>
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 311,819	\$ 1,452,031	\$ (195,262)	\$ -	\$ 1,568,588
<b>Net Cash Provided by Investing Activities</b>	362	2,861	5	-	3,228
<b>Net Cash Provided by (Used in) Noncapital Financing Activities</b>	(318,858)	(264,603)	161,271	-	(422,190)
<b>Net Cash Used in Capital and Related Financing Activities</b>	(196,326)	(473,258)	-	-	(669,584)
<b>Increase (Decrease) in Cash</b>	(203,003)	717,031	(33,986)	-	480,042
<b>Cash, Beginning of Year</b>	517,256	339,182	86,177	-	942,615
<b>Cash, End of Year</b>	<u>\$ 314,253</u>	<u>\$ 1,056,213</u>	<u>\$ 52,191</u>	<u>\$ -</u>	<u>\$ 1,422,657</u>

**Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Trustees  
Cleveland Area Hospital Trust Authority  
Cleveland, 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 basic financial statements of Cleveland Area Hospital Trust Authority (the Authority), which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated August 12, 2015.

***Internal Control over Financial Reporting***

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, 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 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. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-1 and 2013-2 to be material weaknesses.

Board of Trustees  
Cleveland Area Hospital Trust Authority

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Authority's Responses to the Findings***

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

We also noted certain matters that we reported to the Authority's management in a separate letter dated August 12, 2015.

### ***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 entity'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.

*BKD, LLP*

Tulsa, Oklahoma  
August 12, 2015

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2013**

<b>Reference Number</b>	<b>Finding</b>
2013-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Several adjusting journal entries were required to correct material misstatements in the accompanying financial statements.</p> <p>Context – Errors existed in several balance sheet accounts related to errors in reconciliations, control accounts not reconciling to supporting documentation and estimates being materially misstated.</p> <p>Effect – Potentially material misstatements in the financial statements previously presented to the Board of Trustees could occur and not be prevented or detected in a timely manner.</p> <p>Cause – The reconciliation processes in place were not sufficient to properly record balances, including capital assets, inventory, long-term debt, accounts payable and accrued liabilities. In addition, the process of preparing estimates of allowances for contractual adjustments and bad debts and estimated amounts due from or to Medicare were inadequate, and there was no review process in place for bank reconciliations.</p> <p>Recommendation – Management should revise the monthly procedures of evaluation and reconciliation of the general ledger accounts to underlying supporting documents and computing key significant estimates. Additionally, management should implement review procedures for reconciliations and significant estimates.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to periodically review the material balance sheet account reconciliations and periodically evaluate the methodologies used in accurately estimating allowances and estimates.</p>

**Cleveland Area Hospital Trust Authority**  
**A Component Unit of the City of Cleveland, Oklahoma**  
**Schedule of Findings and Responses**  
**Year Ended December 31, 2013**

<b>Reference Number</b>	<b>Finding</b>
2013-2	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Employee duties are not adequately segregated among access, accounting and monitoring in the patient revenues, cash receipts and accounts receivable transactions cycle.</p> <p>Context – The Hospital’s business office staff and CAMA’s business office staff have the ability to receive cash payments, post adjustments to patient accounts and perform other recording and monitoring duties. Additionally, review procedures related to the reconciliation between cash deposits and amounts posted to patient accounts are insufficient.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriations of assets could occur and not be prevented or detected in a timely manner.</p> <p>Cause – Duties in the patient revenues, cash receipts and accounts receivable transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation – Management should periodically evaluate the costs and the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will perform the suggested evaluation within the next year.</p>