Management's Discussion and Analysis
and Combined Financial Statements
December 31, 2011 and 2010

Craig County Hospital Authority

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Independent Auditor's Report

The Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

We have audited the accompanying combined balance sheets of Craig County Hospital Authority (Authority) as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Craig County Hospital Authority as of December 31, 2011 and 2010, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2012, on our consideration of Craig County Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

Oklahoma City, Oklahoma
May 8, 2012

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, 2011 and 2010. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights - Financial statements

- The Authority's total assets decreased by $3,127,851 or 12% in 2011 compared with a decrease of $766,406 or 3% in 2010.
- The Authority's total liabilities decreased by $2,032,542 or 17% in 2011 compared with a decrease of $1,227,234 or 9% in 2010.
- The Authority reported an operating loss in 2011 of $695,602 and $401,732 in 2010. Operating loss increased $293,870 or 73% in 2011 from 2010. Operating loss increased $630,917 or 275% in 2010 from 2009.

Organization Highlights

- The Authority continues to recruit highly qualified employees and physicians and expand services.
- The Authority has completed an extensive redecorating project on inpatient rooms which included new hospital beds and furniture, paint, tile, bathroom fixtures and televisions.
- The Authority is continuing to expand volume in the outreach clinics. During 2009 the authority added 2 family practice physicians and 1 internal medicine physician to the outreach locations around Grand Lake.
- The Authority has expanded cardiology providers and available services to meet the needs of area residents.

Overview of the Financial Statements

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

The balance sheet at December 31, 2011 indicated total assets of $23,345,207, total liabilities of $9,911,668, and net assets of $13,433,539. Total current assets were $6,266,341 and total current liabilities were $3,498,105 for a current ratio of 1.8.

The statements of revenues, expenses, and changes in net assets for the year ended December 31, 2011, indicated total operating revenues of $25,531,468 and operating expenses of $26,227,070, operating loss of $695,602 and non-operating revenues (net) of ($431,707). The net assets decreased $1,095,309 from $14,528,848 at December 31, 2010 to $13,433,539 at December 31, 2011.

As reported in the statement of cash flows, cash and cash equivalents decreased from $1,521,256 at December 31, 2010 to $813,350 at December 31, 2011.

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

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Current assets	$ 6,266,341	$ 7,641,968	$ 6,805,097
Capital assets, net	16,043,938	17,161,951	18,315,677
Other noncurrent assets	1,034,928	1,669,139	2,118,690
Total assets	$ 23,345,207	$ 26,473,058	$ 27,239,464
Liabilities			
Current liabilities	$ 3,498,105	$ 4,389,950	$ 4,207,245
Long-term debt outstanding, net	6,413,563	7,554,260	8,964,199
Total liabilities	9,911,668	11,944,210	13,171,444
Net Assets			
Invested in capital assets, net of related debt	8,499,809	8,111,289	7,700,622
Restricted, expendable for debt service	519,427	506,487	735,959
Restricted, expendable for capital acquisitions	-	158,000	-
Unrestricted	4,414,303	5,753,072	5,631,439
Total net assets	13,433,539	14,528,848	14,068,020
Total liabilities and net assets	$ 23,345,207	$ 26,473,058	$ 27,239,464

The Authority's assets decreased by $3,127,851 or 12% in 2011, and $766,406 or 3% in 2010. The Authority's liabilities decreased by $2,032,542 or 17% in 2011, and $1,227,234 or 9% in 2010. The Authority's net assets are the difference between its assets and liabilities. The Authority's net assets decreased by $1,095,309 or 8% in 2011, and increased by $460,828 or 3% in 2010.

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

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 24,071,212	$ 25,653,976	$ 26,400,598
Other revenue	1,460,256	980,228	861,371
Total operating revenues	25,531,468	26,634,204	27,261,969
Operating Expenses			
Professional care of patients and other professional services	14,590,769	14,986,166	15,607,086
General services	2,646,757	2,666,556	2,794,090
Administrative services	7,316,284	7,725,439	7,148,526
Depreciation and amortization	1,673,260	1,657,775	1,483,082
Total operating expenses	26,227,070	27,035,936	27,032,784
Operating (loss) income	(695,602)	(401,732)	229,185
Nonoperating Revenues (Expenses)			
Investment income	86,528	22,070	(408,660)
Interest expense	(493,478)	(574,770)	(597,136)
Loss from subsidiary	(43,676)	(8,795)	-
Grant revenue	16,259	9,101	8,283
Gain on sale of asset	2,660	70,682	2,835
Non-capital contributions	-	182,830	-
Total nonoperating expenses	(431,707)	(298,882)	(994,678)
Change in net assets before other changes in net assets	(1,127,309)	(700,614)	(765,493)
Discontinued Home Health Services			
Gain from operations discontinued	-	187,563	286,475
Gain on the disposal of operations	-	750,000	-
Capital Contribution	32,000	223,879	1,519,733
Change in Net Assets	(1,095,309)	460,828	1,040,715
Net Assets, Beginning of Year	14,528,848	14,068,020	13,027,305
Net Assets, End of Year	$ 13,433,539	$ 14,528,848	$ 14,068,020

The first component of the overall change in the Authority's net assets is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services. The Authority has reported operating loss of $695,602 in 2011 and $401,732 in 2010. The primary component of the loss from operations was the decrease in net patient service revenue of $1,582,764 or 7% compared with the prior year decrease of $746,622 or 3%. This is followed by the decrease in administrative services of $409,155 or 6% in 2011 and increase in administrative services of $576,913 or 7% in 2010.

Capital Assets

The Authority had capital assets net of accumulated depreciation at December 31, 2011, amounting to $16,043,938. 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

	2011	2010	2009
Land	$ 2,518,452	$ 2,518,452	$ 2,518,452
Land improvements	35,286	35,286	35,286
Buildings and improvements	15,044,039	14,918,092	14,820,016
Equipment	10,347,146	10,209,784	11,689,492
Construction in progress	485,985	526,494	1,244,974
Accumulated depreciation	(12,386,970)	(11,046,157)	(11,992,543)
Total capital assets, net	$ 16,043,938	$ 17,161,951	$ 18,315,677

Economic Factors and Next Year's Budget

The Authority continues to monitor subsidiary and clinic's costs throughout the year. The Authority's combined budgeted net revenue is $25,196,738. 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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	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 293,923	$ 1,014,769
Held by trustee for debt service	402,049	474,705
Short-term investments	1,053,765	299,694
Receivables		
Patient, net of estimated uncollectibles of $1,575,499 in 2011 and $2,373,426 in 2010	3,731,679	4,732,382
Other	213,859	484,090
Supplies	335,245	348,506
Prepaids	235,821	287,822
Total current assets	6,266,341	7,641,968
Noncurrent Cash		
Held by trustee for debt service, net of current portion	117,378	31,782
Capital Assets, Net		
Non-depreciable capital assets	3,004,437	3,044,946
Depreciable capital assets, net	13,039,501	14,117,005
Total capital assets, net	16,043,938	17,161,951
Other Assets		
Long-term receivable	103,502	91,444
Investment in joint ventures	269,835	191,002
Long-term investments	418,688	1,130,000
Bond cost, net of accumulated amortization of $197,177 in 2011 and $181,654 in 2010	113,297	128,821
Goodwill	12,228	96,090
Total other assets	917,550	1,637,357
Total assets	$ 23,345,207	$ 26,473,058

See Notes to Financial Statements

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 1,210,548	$ 1,496,402
Notes payable	87,834	121,463
Accounts payable	1,550,726	2,009,409
Accrued liabilities		
Salaries and benefits	376,287	384,029
Vacation	189,246	229,549
Other	70,436	64,782
Estimated third-party payor settlements	10,148	81,736
Deferred revenue	2,880	2,580
Total current liabilities	3,498,105	4,389,950
Long-Term Debt, Net	6,413,563	7,554,260
Total liabilities	9,911,668	11,944,210
Net Assets		
Invested in capital assets, net of related debt	8,499,809	8,111,289
Restricted, expendable for debt service	519,427	506,487
Restricted, expendable for capital acquisitions	-	158,000
Unrestricted	4,414,303	5,753,072
Total net assets	13,433,539	14,528,848
Total liabilities and net assets	$ 23,345,207	$ 26,473,058

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $3,275,738 in 2011 and $2,822,665 in 2010	$ 24,071,212	$ 25,653,976
Other revenue	1,460,256	980,228
Total operating revenues	25,531,468	26,634,204
Operating Expenses		
Nursing services	6,093,925	6,084,631
Other professional services	8,496,844	8,901,535
General services	2,646,757	2,666,556
Administrative services	7,316,284	7,725,439
Depreciation and amortization	1,673,260	1,657,775
Total operating expenses	26,227,070	27,035,936
Operating Loss	(695,602)	(401,732)
Nonoperating Revenues (Expenses)		
Investment income	86,528	22,070
Interest expense	(493,478)	(574,770)
Grant revenue	16,259	9,101
Loss from subsidiary	(43,676)	(8,795)
Gain on sale of asset	2,660	70,682
Non-capital contributions	-	182,830
Total nonoperating expenses	(431,707)	(298,882)
Expenses in excess of revenues before discontinued operations and capital contributions	(1,127,309)	(700,614)
Discontinued Home Health Services		
Gain from operations discontinued	-	187,563
Gain on the disposal of operations	-	750,000
Capital Contribution	32,000	223,879
Change in Net Assets	(1,095,309)	460,828
Net Assets, Beginning of Year	14,528,848	14,068,020
Net Assets, End of Year	$ 13,433,539	$ 14,528,848

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 25,000,327	$ 25,836,887
Payments to suppliers and others	(14,734,345)	(15,526,989)
Payments to employees	(10,086,123)	(9,507,046)
Other receipts	1,718,429	954,388
Net Cash from Operating Activities	1,898,288	1,757,240
Noncapital Financing Activity		
Principal payments	(202,483)	(216,655)
Non-capital contribution	-	182,830
Grant revenue	16,259	9,101
Net Cash from Noncapital Financing Activities	(186,224)	(24,724)
Capital and Capital Related Financing Activities		
Contribution proceeds restricted for capital acquisitions	-	158,000
Purchase of capital assets	(385,468)	(629,824)
Payments on long-term debt	(1,570,310)	(1,658,737)
Payment of interest on long-term debt	(493,478)	(574,770)
Proceeds from asset disposals	8,026	70,000
Net Cash used for Capital and Capital Related Financing Activities	(2,441,230)	(2,635,331)
Investing Activities		
Sale of investments	-	985,959
Purchase of investments	-	(735,959)
Discontinued operations	-	859,175
Investment income	21,260	27,436
Net Cash from Investing Activities	21,260	1,136,611
Net Change in Cash and Cash Equivalents	(707,906)	233,796
Cash and Cash Equivalents, Beginning of Year	1,521,256	1,287,460
Cash and Cash Equivalents, End of Year	$ 813,350	$ 1,521,256
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	$ 293,923	$ 1,014,769
Held by trustee for debt service	519,427	506,487
Total Cash and Cash Equivalents	$ 813,350	$ 1,521,256

	2011	2010
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating loss	$ (695,602)	$ (401,732)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	1,673,260	1,657,775
Provision for bad debts	3,275,738	2,822,665
Changes in assets and liabilities		
Receivables		
Patients	(2,275,035)	(2,796,039)
Other	258,173	(25,840)
Supplies	13,261	(63,440)
Prepaids	220,855	223,809
Accounts payable	(458,683)	171,334
Accrued liabilities	(42,391)	9,843
Estimated third-party payor settlement	(71,588)	156,285
Deferred revenue	300	2,580
Net Cash from Operating Activities	$ 1,898,288	$ 1,757,240
Supplemental Disclosure of Cash Flow Information		
Property and equipment purchased through capital leases	$ 43,759	$ -
Property acquired by capital contribution	$ 32,000	$ 65,879
Note receivable for sale of equipment	$ -	$ 134,500
Investment in LHC	$ -	$ 187,500
Investment purchased through long-term debt	$ 100,000	$ -
Insurance premium financing	$ 168,854	$ 205,031
Liabilities transferred in disposals	$ -	$ 47,225
Goodwill impairment	$ 83,862	$ -
Loss from subsidiary	$ 21,167	$ 8,795

Note 1 - Organization and Significant Accounting Policies

Organization

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

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

The Authority operates Northeast Oklahoma Clinical Partners, LLC (NOCP). NOCP was established in October 2009 to operate the clinics associated with the Hospital. These clinics serve the Hospital's service area and patients are referred to the Hospital. NOCP was dissolved in December 2011. NOCP's assets, liabilities and net assets were transferred to the Authority.

Proprietary Fund Accounting

The Authority uses proprietary fund accounting whereby revenues and expenses are recognized on the accrual basis. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The combined financial statements have been presented in conformity with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments include certificates of deposit with a maturity date of twelve months or less and are not considered to be a cash equivalent.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

Notes Receivable

The Authority issued notes to physicians and a vendor as part of a claim settlement, recruitment and sale of equipment. Notes are repayable over a minimum of a two-year period to a maximum of a three-year period and are issued at interest rates ranging from 2% to 4%. The note with a physician regarding recruitment is issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven or full payment received.

At December 31, 2011 and 2010, notes receivable from the physicians and vendor totaled $222,823 and $453,199.

Supplies

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

Noncurrent Cash

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

Capital Assets

Capital asset acquisitions in excess of $3,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

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

Investments in Affiliated Organizations

Investments in entities in which the Authority has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize their share of earnings and losses of those entities, net of any additional investments or distributions. Their share of net earnings or losses of the entities is included in nonoperating revenues (expenses).

Net Assets

Net assets are presented in the following three components:

Net Assets Invested in Capital Assets, Net of Related Long-term Debt - Invested in capital assets net of related long-term debt consists of capital assets, net of accumulated depreciation, deferred financing costs, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Net Assets Restricted, Expendable for Debt Service - Restricted for debt service consists of assets whose use is restricted to payment of long-term debt.

Net Assets Restricted, Expendable for Capital Acquisition - Restricted for capital acquisitions consists of assets whose use is restricted to capital acquisitions.

Net Assets Unrestricted - Net assets unrestricted are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted for debt service.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, 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.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments will be paid out over four years on a transitional schedule. 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.

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 $1,572,917 and $1,837,184 for the years ended December 31, 2011 and 2010. Total direct and indirect costs related to these foregone charges were $664,000 and $697,000 at December 31, 2011 and 2010, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred $75,177 and $57,900 for advertising costs for the years ended December 31, 2011 and 2010.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Authority's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses, other than financing costs, incurred to provide health care services.

Income Taxes

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

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

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

The Authority believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does 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. The Authority is no longer subject to Federal and state tax examinations by tax authorities for years before 2008.

Goodwill

During the year ending December 31, 2008, the Authority purchased two physician's practices. Certain costs were attributed to goodwill.

Goodwill is assessed for impairment based on management's assessment of activity believed to be the result of the previous owners' reputation. During 2011, one of the physician's practices was closed. Impairment in the amount of $83,862 was included in amortization expense during the year ending December 31, 2011. No impairment was recorded as of December 31, 2010.

Amortization

Debt issuance costs are amortized using the straight-line method over the term of the related long-term debt.

Use of Estimates

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

Reclassifications

Reclassifications have been made to the December 31, 2010 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - Net Patient Service Revenue

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

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The clinics are designated as a Provider Based Rural Health Clinics by the Medicare program. As a result, clinical services rendered to Medicare program beneficiaries are reimbursed subject to various limits. Outpatient services are paid based on a prospectively determined amount per procedure. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2007.

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.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 16% of the Authority's net patient service revenue for the year ended December 31, 2011 and 51% and 15% for the year ended December 31, 2010. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Authority may incur a liability for a claims overpayment at a future date. The Authority has calculated an estimate based on amounts that have been deemed overpayments in the past. The estimate is included in the estimate third party settlements account on the balance sheet.

A summary of patient service revenue and contractual adjustments for the years ended December 31, 2011 and 2010, is as follows:

	2011	2010
Total patient service revenue	$ 59,867,943	$ 67,325,636
Contractual adjustments		
Medicare	14,693,543	20,181,031
Medicaid	6,172,734	6,812,611
Other	11,654,716	11,855,353
Total contractual adjustments	32,520,993	38,848,995
Provision for bad debts	3,275,738	2,822,665
Net patient service revenue	$ 24,071,212	$ 25,653,976

Note 3 - Cash and Deposits

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

The bank balances of the Authority’s deposits and investments are included in the balance sheets at December 31, 2011 and 2010:

	2011	2010
Insured	$ 759,001	$ 1,289,815
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	1,961,686	1,661,730
Uninsured	-	205,533
Total bank balance	$ 2,720,687	$ 3,157,078
Carrying value	$ 2,285,803	$ 2,950,950

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

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. At December 31, 2011, the Authority had no bank balances exposed to custodial credit risk. At December 31, 2010, $205,553 of the Authority's bank balances of $3,157,078 was exposed to custodial credit risk as these funds were uninsured and uncollateralized.

Note 4 - Investments and Investment Income

Short-term Investments

Short-term investments include investments with an original maturity date between three and twelve months. Short-term investments are stated at fair value and include the following at December 31, 2011 and 2010:

	2011	2010
Certificates of deposit	$ 1,053,765	$ 299,694

Long-term Investments

Long-term investments include the following at December 31, 2011 and 2010:

	2011	2010
Certificates of deposit	$ 418,688	$ 1,130,000

Credit Risk

Statutes require that investments be made only in U.S. government obligations and that all bank balances be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. The Authority's investments (recorded at market in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools) at December 31, 2011 and 2010, are shown above. All of the investments were held by the Authority's custodial bank in the Authority's name.

Concentration of Credit Risk

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

Investment Income

Investment income on cash equivalents and other investments consists of the following for the years ending December 31, 2011 and 2010:

	2011	2010
Interest income	$ 64,019	$ 22,070

Note 5 - Investments in Affiliated Company

The Authority uses the equity method to account for the joint venture investments listed below. At December 31, 2011 and 2010, the Authority's investments in joint ventures consisted of the following:

	2011	2010
LHC, Inc.	$ 135,029	$ 178,705
PentaStar, LLC	34,806	12,297
Serenity Hospice, Inc.	100,000	-
Total joint ventures	$ 269,835	$ 191,002

Joint venture income, distributions, and contributions balances for the years ended December 31, 2011 and 2010 is as follows:

	Balance December 31, 2010	(Loss)/ Income	Distributions	Purchase/ Contributions	Balance December 31, 2011
Investment in LHC, Inc.	$ 178,705	$ (43,676)	$ -	$ -	$ 135,029
Investment in PentaStar, LLC	12,297	22,509	-	-	34,806
Investment in Serenity Hospice, Inc.	-	-	-	100,000	100,000
Total	$ 191,002	$ (21,167)	$ -	$ 100,000	$ 269,835

	Balance December 31, 2009	(Loss)/ Income	Distributions	Purchase/ Contributions	Balance December 31, 2010
Investment in LHC, Inc.	$ -	$ (8,795)	$ -	$ 187,500	$ 178,705
Investment in PentaStar, LLC	12,297	-	-	-	12,297
Total	$ 12,297	$ (8,795)	$ -	$ 187,500	$ 191,002

LHC Group, Inc. (LHC) was established July 2010 to provide home health services to the residents of Craig County, Oklahoma and surrounding areas. Craig County Hospital Authority is a 25 percent owner of LHC. In its general appeal to capture all the business formerly provided by the Authority, LHC solicits to serve everyone in the community. As of December 31, 2011, the Authority owed LHC $20,925, included in accounts payable. As of December 31, 2010, LHC owed the Authority $30,212, included in other current assets. LHC paid the Authority for services of $106,603 during the year ending December 31, 2010.

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

The Authority purchased 150 shares of common stock of Serenity Hospice of Claremore, Inc. (Serenity). Serenity engages in the provision of hospice services in Craig and the surrounding counties in Northeast Oklahoma.

Note 6 - Capital Assets

Capital asset additions, transfers, retirements, and balances for the year ended December 31, 2011, are as follows:

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Non-depreciable capital assets					
Land	$ 2,518,452	$ -	$ -	$ -	$ 2,518,452
Construction in progress	526,494	56,831	(1,429)	(95,911)	485,985
Total non-depreciable capital assets	$ 3,044,946	$ 56,831	$ (1,429)	(95,911)	$ 3,004,437
Depreciable capital assets					
Land improvements	$ 35,286	$ -	$ -	$ -	$ 35,286
Buildings and improvements	14,918,092	97,755	-	28,192	15,044,039
Equipment	10,209,784	306,641	(236,998)	67,719	10,347,146
Total depreciable capital assets	25,163,162	404,396	(236,998)	95,911	25,426,471
Less accumulated depreciation					
Land improvements	(34,013)	(1,399)	-	-	(35,412)
Buildings and improvements	(3,952,791)	(428,249)	-	-	(4,381,040)
Equipment	(7,059,353)	(1,144,226)	233,061	-	(7,970,518)
Total accumulated depreciation	(11,046,157)	(1,573,874)	233,061	-	(12,386,970)
Net depreciable capital assets	$ 14,117,005	$ (1,169,478)	$ (3,937)	$ 95,911	$ 13,039,501
Capital assets, net	$ 17,161,951	$ (1,112,647)	$ (5,366)	$ -	$ 16,043,938

The majority of the construction in progress at December 31, 2011, represents costs related to building a new hospital and renovation projects. The construction of the new hospital building has been put on hold due to the current economic situation. The renovation projects are expected to be completed in April, 2012. The renovation project will use approximately $25,000 of internal funds.

Capital asset additions, transfers, retirements, and balances for the year ended December 31, 2010, are as follows:

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
Non-depreciable capital assets					
Land	$ 2,518,452	$ -	$ -	$ -	$ 2,518,452
Construction in progress	1,244,974	139,196	-	(857,676)	526,494
Total non-depreciable capital assets	$ 3,763,426	$ 139,196	$ -	$ (857,676)	$ 3,044,946
Depreciable capital assets					
Land improvements	$ 35,286	$ -	$ -	$ -	$ 35,286
Buildings and improvements	14,820,016	95,652	(88,223)	90,647	14,918,092
Equipment	11,689,492	390,173	(2,636,910)	767,029	10,209,784
Total depreciable capital assets	26,544,794	485,825	(2,725,133)	857,676	25,163,162
Less accumulated depreciation					
Land improvements	(33,713)	(300)	-	-	(34,013)
Buildings and improvements	(3,534,100)	(429,441)	10,750	-	(3,952,791)
Equipment	(8,424,730)	(1,212,510)	2,577,887	-	(7,059,353)
Total accumulated depreciation	(11,992,543)	(1,642,251)	2,588,637	-	(11,046,157)
Net depreciable capital assets	$ 14,552,251	$ (1,156,426)	$ (136,496)	$ 857,676	$ 14,117,005
Capital assets, net	$ 18,315,677	$ (1,017,230)	$ (136,496)	$ -	$ 17,161,951

Note 7 - 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, 2011 and 2010, for all operating leases were $154,526 and $66,766, respectively. The capitalized leased assets consist of:

	2011	2010
Major movable equipment	$ 3,966,964	$ 3,923,197
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(2,687,921)	(1,127,097)
	$ 1,279,043	$ 2,796,100

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

Year Ending December 31,	Capital Leases	Operating Leases
2012	$ 622,122	$ 95,551
2013	435,706	80,634
2014	147,843	53,213
2015	5,250	22,172
Total minimum lease payments	1,210,921	$ 251,570
Less interest	(58,610)	
Present value of minimum lease payments - Note 8	$ 1,152,311	

Note 8 - Notes payable and Long-Term Debt

Notes payable consist of:

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
Notes payable:				
Financed insurance (1)	$ 121,463	$ 168,854	$ 202,483	$ 87,834

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10
Notes payable:				
Financed insurance (1)	$ 101,697	$ 205,031	$ 185,265	$ 121,463

(1) Financed insurance at various rates, due within one year, uncollateralized.

Long-term debt activity for the year ended December 31, 2011, follows:

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Amounts Due Within One Year
Notes payable:					
Series 1998 Bonds (1)	$ 1,415,000	$ -	$ 145,000	$ 1,270,000	$ 155,000
Series 2002 Bonds (3)	405,817	-	232,893	172,924	172,924
Note payable to bank (4)	1,735,439	-	52,067	1,683,372	55,416
Note payable to bank (5)	2,238,976	-	122,119	2,116,857	128,614
Note payable to bank (6)	1,209,978	-	61,313	1,148,665	65,842
Note payable to individual (7)	-	100,000	20,018	79,982	49,775
Total notes payable	7,005,210	100,000	633,410	6,471,800	627,571
Capitalized lease obligations (8) - Note 7	2,045,452	43,759	936,900	1,152,311	582,977
Total long-term debt	$ 9,050,662	$ 143,759	$ 1,570,310	$ 7,624,111	$ 1,210,548

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10	Amounts Due Within One Year
Notes payable:					
Series 1998 Bonds (1)	$ 1,453,577	$ -	$ 38,577	$ 1,415,000	$ 150,000
Series 1999 Bonds (2)	340,938	-	340,938	-	-
Series 2002 Bonds (3)	588,940	-	183,123	405,817	214,350
Note payable to bank (4)	1,784,359	-	48,920	1,735,439	52,067
Note payable to bank (5)	2,352,817	-	113,841	2,238,976	121,445
Note payable to bank (6)	1,267,816	-	57,838	1,209,978	62,134
Total notes payable	7,788,447	-	783,237	7,005,210	599,996
Capitalized lease obligations (8) - Note 7	2,920,952	-	875,500	2,045,452	896,406
Total long-term debt	$ 10,709,399	$ -	$ 1,658,737	$ 9,050,662	$ 1,496,402

The terms and due dates of the Authority's long-term debt at December 31, 2011 and 2010, are as follows:

(1) 1998 Series Revenue Bonds, with varying interest rates, due June 2018, collateralized by funds held by trustee.
(2) 1999 Series Revenue Bonds, 6.44% interest rate, due in monthly installments of $37,908 including interest, due December 2010, collateralized by funds held by trustee.
(3) 2002 Series Revenue Bonds, 7.31% interest rate, due in monthly installments of $19,767 including interest, due October 2012, collateralized by funds held by trustee.
(4) Note payable to bank, 6.25% interest rate, due in monthly installments of $13,255 including interest, due August 2029, refinanced $1,113,750 from original 6.25% note payable due April 2009, collateralized with land.
(5) Note payable to bank, 5.95% interest rate, due in monthly installments of $21,095 including interest, with a balloon payment due August 2013, collateralized with building and certificate of deposit.
(6) Note payable to bank, 5.81% interest rate, due in monthly installments of $10,894 including interest with a balloon payment due May 2014, collateralized with land and certificate of deposit.
(7) Note payable to individual, 5.00% interest rate, due in monthly installments of $4,387, including interest, due August 2013, uncollateralized.
(8) Capital leases with varying interest rates from 3.98% to 7.00%; collateralized by the associated equipment.

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

	Long-Term Debt		
Year Ending December 31,	Principal	Interest	Total
2012	$ 627,571	$ 370,045	$ 997,616
2013	2,307,201	299,579	2,606,780
2014	1,245,825	170,840	1,416,665
2015	246,812	132,555	379,367
2016	261,109	117,528	378,637
2017-2021	845,330	389,461	1,234,791
2022-2026	587,715	207,571	795,286
2027-2031	350,237	27,246	377,483
Total	$ 6,471,800	$ 1,714,825	$ 8,186,625

The Authority is subject to certain covenants under the bond agreement regarding the funding of sinking fund accounts. The Authority was in compliance with these covenants for the years ended December 31, 2011 and 2010.

The bond resolution of the Series 1998 bonds requires the establishment of the following “Sinking Funds”:

Sinking Fund – into which the Authority is required to deposit a monthly sum equal to at least one-sixth of the interest coming due on the bonds on the next interest payment date. In addition, the Authority is required to deposit a monthly sum equal to at least one-twelfth of the principal coming due on the bonds on the next principal date.

Note 9 - 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:

	2011	%	2010	%
Employer	$ 1,153,795	11.5%	$ 1,168,114	15.0%
Employee	582,536	8.5%	402,557	5.0%
Total	$ 1,736,331		$ 1,570,671	

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, 2011 (the latest actuarial valuation date), the approximate underfunded pension benefit obligation of OPERS was:

	2011	2010
Net assets available for benefits, at market value	$ 6,598,627,939	$ 6,348,416,407
Pension benefit obligation	8,179,767,661	9,622,627,834
Underfunded pension benefit obligation	$ 1,581,139,722	$ 3,274,211,427

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 10 - Restricted Net Assets

At December 31, 2011 and 2010, restricted expendable net assets are available for the following purposes:

	2011	2010
Restricted, expendable for debt service payments	$ 519,427	$ 506,487
Restricted, expendable for capital acquisitions	-	158,000
	$ 519,427	$ 664,487

Note 11 - 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, 2011 and 2010, was as follows:

	2011	2010
Medicare and Medicaid	46%	39%
Other third-party payors	28%	22%
Patients	26%	39%
	100%	100%

Note 12 - Related Party Transactions

Craig County Healthcare Foundation, Inc. (Foundation), a 501(c)(3) not-for-profit organization, was established in November 1991, to raise funds to support the operations of health care providers in Craig County, including Craig General Hospital. The Foundation's Board of Directors consists of eight members, three of which are also trustees of the Hospital Authority's Board. The Hospital Authority is not deemed to control the Foundation, but it has authorized the Foundation to solicit contributions on its behalf. In its general appeal for contributions to support the community's providers of health care services, the Foundation also solicits contributions for other health care institutions. In the absence of donor restrictions, the Foundation has discretionary control over the amounts to be distributed to the providers of health care services, the timing of such distributions, and the purposes for which such funds are to be used. The Foundation contributed $0 and $210,879 included in capital contributions during the years ending December 31, 2011 and 2010, respectively.

Note 13 - 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 have not exceeded this commercial coverage in any of the three preceding years.

Note 14 - Contingencies

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1,000,000 million per claim and an annual aggregate limit of $3,000,000 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. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims cost, 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 had been made. It is reasonably possible that this estimate could change materially in the near term.

Litigations, Claims, and Disputes

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

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

Note 15 - Financial Covenants

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 year ended December 31, 2011, the Authority did not meet the debt service coverage ratio covenant. 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 Authority has obtained a waiver from the trustee requiring the Authority to obtain an independent consultant.

Note 16 - Electronic Health Record Incentive Payments

The Hospital recognized revenue of $537,361 for the year ended December 31, 2011 related to Medicaid EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

Note 17 - Subsequent Events

The Authority has evaluated events and transactions occurring subsequent to December 31, 2011 through May 8, 2012, the date which the financial statements were available to be issued.

Subsequent to year end, the Authority paid the outstanding balance on the 2002 Series bonds of $172,924 and a capital lease of $33,684. The Authority made a payment totaling $316,043 to the Supplemental Hospital Offset Payment Program (SHOPP) for the two quarters ending December 31, 2011. In return, the Authority received $490,767. The Authority made another payment totaling $316,043 to the SHOPP for the two quarters ending June 30, 2012. In return, the Authority received $495,095.

Note 18 - Discontinued Operations

Through December 31, 2010, the Authority included its Home Health Agency in the combined financial statements of the Authority as the Home Health Agency was not a separate legal entity. In July 2010, the Home Health Agency was sold to LHC Group, Inc., a newly formed corporation, and the Authority retained a 25% ownership interest which is included in other assets and accounted for under the equity method of accounting. During the year ended December 31, 2010, the Authority recognized a gain on discontinued operations of $750,000 from the disposal of its Home Health Agency which is included in the combined statement of changes in revenues, expenses, and net assets. The Home Health Agency's 2011 and 2010 operations have been reclassified to include all revenues and expenses of the Home Health Agency in discontinued operations.

Supplementary Information
December 31, 2011 and 2010

Craig County Hospital Authority

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

Our report on our audits of the basic combined financial statements of the Craig County Hospital Authority as of and for the years ended December 31, 2011 and 2010, and our report thereon dated May 8, 2012, which expressed an unqualified opinion on those combined financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining schedules of balance sheet information and combining schedules of revenues, expenses and changes in net asset information, and schedules of net patient service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the basic combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic combined financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
May 8, 2012

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	2011				
	Craig General Hospital	H.C.D. Services, Inc.	Northeast Oklahoma Clinical Partners, Inc.	Eliminations	Combined
Assets					
Current Assets					
Cash and cash equivalents	$ 288,034	$ 5,889	$ -	$ -	$ 293,923
Held by trustee for debt service	402,049	-	-	-	402,049
Short-term investments	1,053,765	-	-	-	1,053,765
Receivables					
Patient, net	3,719,603	12,076	-	-	3,731,679
Other	213,859	-	-	-	213,859
Due from subsidiary	82,907	-	-	(82,907)	-
Supplies	335,245	-	-	-	335,245
Prepaids	233,951	1,870	-	-	235,821
Total current assets	6,329,413	19,835	-	(82,907)	6,266,341
Assets Limited as to Use					
Held by trustee for debt service, net of current portion	117,378	-	-	-	117,378
Capital Assets, Net					
Non-depreciable capital assets	3,004,437	-	-	-	3,004,437
Depreciable capital assets, net	12,989,501	50,000	-	-	13,039,501
Total capital assets, net	15,993,938	50,000	-	-	16,043,938
Other Assets					
Long-term receivable	103,502	-	-	-	103,502
Investment in H.C.D.	21,734	-	-	(21,734)	-
Investment in PentaStar	-	34,806	-	-	34,806
Investment in LHC	135,029	-	-	-	135,029
Investment in Serenity	100,000	-	-	-	100,000
Long-term investments	418,688	-	-	-	418,688
Bond cost, net	113,297	-	-	-	113,297
Goodwill	12,228	-	-	-	12,228
Total other assets	904,478	34,806	-	(21,734)	917,550
Total assets	$ 23,345,207	$ 104,641	$ -	$ (104,641)	$ 23,345,207

	2011				
	Craig General Hospital	H.C.D. Services, Inc.	Northeast Oklahoma Clinical Partners, Inc.	Eliminations	Consolidated
Liabilities and Net Assets					
Current Liabilities					
Current maturities of long-term debt	$ 1,210,548	$ -	$ -	$ -	$ 1,210,548
Note payable	87,834	-	-	-	87,834
Accounts payable	1,550,726	-	-	-	1,550,726
Accrued liabilities					
Salaries and benefits	376,287	-	-	-	376,287
Vacation	189,246	-	-	-	189,246
Other	70,436	-	-	-	70,436
Due to parent	-	336,587	-	(336,587)	-
Estimated third-party payor settlements	10,148	-	-	-	10,148
Deferred revenue	2,880	-	-	-	2,880
Total current liabilities	3,498,105	336,587	-	(336,587)	3,498,105
Long-Term Debt, Net	6,413,563	-	-	-	6,413,563
Total liabilities	9,911,668	336,587	-	(336,587)	9,911,668
Net Assets					
Invested in capital assets, net of related debt	8,449,809	50,000	-	-	8,499,809
Restricted, expendable for debt service	519,427	-	-	-	519,427
Restricted, expendable for capital acquisitions	-	-	-	-	-
Unrestricted	4,464,303	(281,946)	-	231,946	4,414,303
Total net assets	13,433,539	(231,946)	-	231,946	13,433,539
Total liabilities and net assets	$ 23,345,207	$ 104,641	$ -	$ (104,641)	$ 23,345,207

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	2010				
	Craig General Hospital	H.C.D. Services, Inc.	Northeast Oklahoma Clinical Partners, Inc.	Eliminations	Combined
Assets					
Current Assets					
Cash and cash equivalents	$ 1,008,105	6,664	$ -	$ -	$ 1,014,769
Held by trustee for debt service	474,705	-	-	-	474,705
Short-term investments	299,694	-	-	-	299,694
Receivables					
Patient, net	4,205,332	12,076	514,974	-	4,732,382
Other	484,090	-	-	-	484,090
Due from subsidiary	2,224,372	-	-	(2,224,372)	-
Supplies	348,506	-	-	-	348,506
Prepaids	285,952	1,870	-	-	287,822
Total current assets	9,330,756	20,610	514,974	(2,224,372)	7,641,968
Assets Limited as to Use					
Held by trustee for debt service, net of current portion	31,782	-	-	-	31,782
Capital Assets, Net					
Non-depreciable capital assets	3,044,946	-	-	-	3,044,946
Depreciable capital assets, net	14,067,005	50,000	-	-	14,117,005
Total capital assets, net	17,111,951	50,000	-	-	17,161,951
Other Assets					
Long-term receivable	91,444	-	-	-	91,444
Investment in H.C.D.	-	-	-	-	-
Investment in PentaStar	-	12,297	-	-	12,297
Investment in LHC	178,705	-	-	-	178,705
Investment in Serenity	-	-	-	-	-
Long-term investments	1,130,000	-	-	-	1,130,000
Bond cost, net	128,821	-	-	-	128,821
Goodwill	96,090	-	-	-	96,090
Total other assets	1,625,060	12,297	-	-	1,637,357
Total assets	$ 28,099,549	$ 82,907	$ 514,974	$ (2,224,372)	$ 26,473,058

	2010				
	Craig General Hospital	H.C.D. Services, Inc.	Northeast Oklahoma Clinical Partners, Inc.	Eliminations	Consolidated
Liabilities and Net Assets					
Current Liabilities					
Current maturities of long-term debt	$ 1,496,402	$ -	$ -	$ -	$ 1,496,402
Note payable	121,463	-	-	-	121,463
Accounts payable	1,974,281	-	35,128	-	2,009,409
Accrued liabilities					
Salaries and benefits	353,361	-	30,668	-	384,029
Vacation	218,408	-	11,141	-	229,549
Other	64,782	-	-	-	64,782
Due to parent	-	336,587	2,141,465	(2,478,052)	-
Estimated third-party payor settlements	81,736	-	-	-	81,736
Deferred revenue	2,580	-	-	-	2,580
Total current liabilities	4,313,013	336,587	2,218,402	(2,478,052)	4,389,950
Long-Term Debt, Net	7,554,260	-	-	-	7,554,260
Total liabilities	11,867,273	336,587	2,218,402	(2,478,052)	11,944,210
Net Assets					
Invested in capital assets, net of related debt	8,061,289	50,000	-	-	8,111,289
Restricted, expendable for debt service	506,487	-	-	-	506,487
Restricted, expendable for capital acquisitions	158,000	-	-	-	158,000
Unrestricted	7,506,500	(303,680)	(1,703,428)	253,680	5,753,072
Total net assets	16,232,276	(253,680)	(1,703,428)	253,680	14,528,848
Total liabilities and net assets	$ 28,099,549	$ 82,907	$ 514,974	$ (2,224,372)	$ 26,473,058

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	2011				
	Craig General Hospital	H.C.D. Services, Inc.	Northeast Clinical Partners	Eliminations	Combined
Operating Revenues					
Net patient service revenue	$ 23,330,966	$ -	$ 740,246	$ -	$ 24,071,212
Other revenue	1,460,256	-	-	-	1,460,256
Total operating revenues	24,791,222	-	740,246	-	25,531,468
Operating Expenses					
Nursing services	6,093,925	-	-	-	6,093,925
Other professional services	7,159,346	-	1,337,498	-	8,496,844
General services	2,646,757	-	-	-	2,646,757
Administrative services	7,316,284	775	-	(775)	7,316,284
Depreciation and amortization	1,673,260	-	-	-	1,673,260
Total operating expenses	24,889,572	775	1,337,498	(775)	26,227,070
Operating Income (Loss)	(98,350)	(775)	(597,252)	775	(695,602)
Non Operating Revenues (Expenses)					
Investment income	86,528	22,509	-	(22,509)	86,528
Interest	(493,478)	-	-	-	(493,478)
Grant revenue	16,259	-	-	-	16,259
Loss from LHC	(43,676)	-	-	-	(43,676)
Gain on sale of asset	2,660	-	-	-	2,660
Non-capital contributions	-	-	-	-	-
Total non-operating revenues (expenses)	(431,707)	22,509	-	(22,509)	(431,707)
Expenses in excess of revenues before discontinued operations and contributions	(530,057)	21,734	(597,252)	(21,734)	(1,127,309)
Discontinued Home Health Services					
Gain from operations discontinued	-	-	-	-	-
Gain on the disposal of operations	-	-	-	-	-
Transfer of Net Assets	(2,300,680)	-	2,300,680	-	-
Capital Contribution	32,000	-	-	-	32,000
Change in Net Assets	(2,798,737)	21,734	1,703,428	(21,734)	(1,095,309)
Net Assets, Beginning of Year	16,232,276	(253,680)	(1,703,428)	253,680	14,528,848
Net Assets, End of Year	$ 13,433,539	$ (231,946)	$ -	$ 231,946	$ 13,433,539

2010				
Craig General Hospital	H.C.D. Services, Inc.	Northeast Clinical Partners	Eliminations	Combined
$ 24,242,731	$ -	$ 1,411,245	$ -	$ 25,653,976
961,701	-	-	18,527	980,228
25,204,432	-	1,411,245	18,527	26,634,204
6,084,631	-	-	-	6,084,631
6,791,380	-	2,091,628	18,527	8,901,535
2,666,556	-	-	-	2,666,556
7,545,427	-	180,012	-	7,725,439
1,647,827	-	9,948	-	1,657,775
24,735,821	-	2,281,588	18,527	27,035,936
468,611	-	(870,343)	-	(401,732)
22,070	-	-	-	22,070
(574,770)	-	-	-	(574,770)
9,101	-	-	-	9,101
(8,795)	-	-	-	(8,795)
70,682	-	-	-	70,682
182,830	-	-	-	182,830
(298,882)	-	-	-	(298,882)
169,729	-	(870,343)	-	(700,614)
187,563	-	-	-	187,563
750,000	-	-	-	750,000
-	-	-	-	-
223,879	-	-	-	223,879
1,331,171	-	(870,343)	-	460,828
14,901,105	(253,680)	(833,085)	253,680	14,068,020
$ 16,232,276	$ (253,680)	$ (1,703,428)	$ 253,680	$ 14,528,848

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	2011		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	$ 2,506,773	$ -	$ 2,506,773
Labor and delivery	173,817	-	173,817
Swing bed	210,240	-	210,240
Geri psych	3,632,400	-	3,632,400
	6,523,230	-	6,523,230
Other nursing services			
Operating room	271,287	3,240,115	3,511,402
Central service supplies	394,408	767,860	1,162,268
Emergency room	1,592,151	8,108,018	9,700,169
	2,257,846	12,115,993	14,373,839
Other professional services			
Laboratory	3,757,438	4,614,969	8,372,407
Electrocardiology	562,497	2,529,817	3,092,314
Radiology	1,634,063	11,295,671	12,929,734
Pharmacy	3,772,480	1,469,262	5,241,742
Anesthesiology	112,695	297,525	410,220
Respiratory therapy	1,858,338	283,352	2,141,690
Physical therapy	286,250	2,631,447	2,917,697
Durable medical equipment	-	809,190	809,190
Outpatient psych	-	89,658	89,658
Clinics	-	2,929,948	2,929,948
	11,983,761	26,950,839	38,934,600
Charity care	-	(1,572,917)	(1,572,917)
Gross Patient Service Revenue	$ 20,764,837	$ 37,493,915	58,258,752
Contractual Adjustments and Provisions for Bad Debts			
Medicare			(14,693,543)
Medicaid			(6,172,734)
Other			(10,785,771)
Provision for bad debts			(3,275,738)
Total contractual adjustments and provisions for bad debts			(34,927,786)
Net Patient Service Revenue			$ 23,330,966

2010		
Inpatient	Outpatient	Total
$ 3,022,501	$ -	$ 3,022,501
219,882	-	219,882
161,901	-	161,901
6,039,602	-	6,039,602
9,443,886	-	9,443,886
338,540	3,209,549	3,548,089
552,938	890,517	1,443,455
1,876,316	9,039,193	10,915,509
2,767,794	13,139,259	15,907,053
3,904,742	4,431,995	8,336,737
676,794	2,548,619	3,225,413
2,582,152	14,287,401	16,869,553
3,701,294	1,311,951	5,013,245
86,959	474,849	561,808
1,735,582	228,276	1,963,858
290,186	2,365,986	2,656,172
-	751,272	751,272
-	30,075	30,075
-	1,758,414	1,758,414
12,977,709	28,188,838	41,166,547
-	(1,837,184)	(1,837,184)
$ 25,189,389	$ 39,490,913	64,680,302
		(20,181,031)
		(6,812,611)
		(10,621,264)
		(2,822,665)
		(40,437,571)
		$ 24,242,731

	2011	2010
Other Revenue		
Cafeteria	$ 292,514	$ 286,624
Rental income	424,459	484,434
Medicaid EHR payment received	537,361	-
Miscellaneous	205,922	190,643
Total Other Revenue	$ 1,460,256	$ 961,701

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	2011		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Medical and surgical	$ 978,339	$ 232,695	$ 1,211,034
Intensive care unit	-	462	462
Labor and delivery	253,472	24,968	278,440
Geri psych	1,358,339	307,720	1,666,059
Operating room	202,234	234,884	437,118
Central service supplies	-	232,316	232,316
Emergency room	1,835,333	433,163	2,268,496
	4,627,717	1,466,208	6,093,925
Other Professional Services			
Laboratory	455,725	893,248	1,348,973
Electrocardiography	-	110,390	110,390
Radiology	859,161	688,014	1,547,175
Pharmacy	73,104	725,384	798,488
Anesthesiology	-	450,142	450,142
Respiratory therapy	141,116	70,832	211,948
Physical therapy	-	666,175	666,175
Durable medical equipment	135,721	142,641	278,362
Outpatient psych	143,703	17,076	160,779
Clinics	720,724	866,190	1,586,914
	2,529,254	4,630,092	7,159,346
General Services			
Medical records	609,097	269,368	878,465
Dietary	365,658	454,011	819,669
Plant operations	160,684	411,624	572,308
Housekeeping	237,459	65,470	302,929
Laundry and linen	-	73,386	73,386
	1,372,898	1,273,859	2,646,757
Administrative Services			
Administration and office	1,497,027	3,221,740	4,718,767
Employee benefits	-	2,493,891	2,493,891
Auxiliary	16,836	86,790	103,626
	1,513,863	5,802,421	7,316,284
Depreciation and Amortization	-	1,673,260	1,673,260
	$ 10,043,732	$ 14,845,840	$ 24,889,572

2010		
Salaries	Supplies & Expenses	Total
$ 918,563	$ 200,033	$ 1,118,596
-	673	673
267,131	31,529	298,660
1,603,434	442,052	2,045,486
167,431	120,984	288,415
-	271,543	271,543
1,420,989	640,269	2,061,258
4,377,548	1,707,083	6,084,631
546,166	770,159	1,316,325
-	104,523	104,523
811,174	787,231	1,598,405
73,850	748,710	822,560
-	492,393	492,393
155,866	74,270	230,136
-	588,021	588,021
137,606	124,983	262,589
40,793	2,611	43,404
385,260	947,764	1,333,024
2,150,715	4,640,665	6,791,380
591,970	196,431	788,401
381,717	515,124	896,841
165,705	415,954	581,659
236,395	94,426	330,821
-	68,834	68,834
1,375,787	1,290,769	2,666,556
1,596,768	3,466,691	5,063,459
-	2,394,996	2,394,996
16,071	70,901	86,972
1,612,839	5,932,588	7,545,427
-	1,647,827	1,647,827
$ 9,516,889	$ 15,218,932	$ 24,735,821

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 the accompanying balance sheet of Craig County Hospital Authority, as of December 31, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated May 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's combined financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings, items 2011-1 through 2011-3, which we consider to be significant deficiencies in internal control over financial reporting. 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 Craig County Hospital Authority's combined 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.

Craig County Hospital Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Craig County Hospital Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, hospital officials, employees and constituents of Craig County Hospital Authority and other parties to whom the Authority may report. This report is not intended to be and should not be used by anyone other than these specified parties

Eide Bailly LLP

Oklahoma City, Oklahoma
May 8, 2012

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2011-01 Preparation of Financial Statements

Condition: As auditors, we were requested to draft the combined financial statements and accompanying notes to the combined financial statements. The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the combined financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Criteria: Statement on Auditing Standards (SAS) 115 requires the auditor to assess the Authority accounting staff's ability to apply Generally Accepted Accounting Principles (GAAP) on an ongoing basis.

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

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

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

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this technical deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

Conclusion: Response accepted.

2011-02 Recording of Investments

Condition and Criteria: Under generally accepted accounting principles, an organization maintaining between 20% and 50% ownership in another organization must record their investment under the equity method. During our review of transactions of HCD, the wholly owned subsidiary of Craig General Hospital, it was determined that an investment in PentaStar Properties, LLC was not properly accounted for under this method. As a 40% owner in the company, HCD should have recorded 40% of the gains or losses of that company and this activity would have been carried to the Hospital's books through consolidation of the subsidiary.

Effect: An adjustment would be required to be made on the HCD trial balance and subsequently to the Authority's trial balance.

Cause: PentaStar's activity was not properly recorded on HCD's trial balance and subsequently to the Authority's trial balance.

Auditor's Recommendation: We recommend that all transactions be carefully reviewed in order to be properly recorded, and all audit adjustments be made to both the Hospital trial balance and the HCD trial balance at the conclusion of the audit.
Management Response: Management will request financial statements from PentaStar in order to properly record the investment until such time as ownership ends.

Conclusion: Response accepted.

2011-03 Credit Card Policy

Condition and Criteria: The Hospital has a credit card with a policy in place. In order to ensure proper use of the credit card, the policy should be followed and enforced by all employees that use the credit card.

Effect: This could result in misappropriation of Authority's assets. Misuse of the credit cards would be difficult to detect.

Cause: The credit card policy that is in place should restrict the method in which an individual may use the credit card and require a timely filing of receipts and approval. It was noted during the audit, there was missing support for the March 2011 American Express Credit Card Statement. It was noted, the November 2011 American Express statement did have the proper approval and supporting documentation.

Auditor's Recommendation: We recommend that each employee follow the policy in place and obtain proper approval on all credit card statements. No one should be allowed to authorize and approve their own statements.

Management Response: In March 2011, the then acting Chief Executive Officer (CEO) of the Hospital had directed all employees to submit receipts validating company credit card charges to said CEO. The then acting CEO did not act appropriately with the March 2011 employee submitted receipts or invoices as the same cannot be located to date. Moreover, any CEO generated receipts or invoices from company credit card charges for March 2011 were likewise unrecoverable due to the CEO's conduct. However, any and all credit card expense reimbursement and documentation matters were subsequently corrected. Specifically, Eide Bailly notes that there does exist proper documentation supporting the company credit card charges for the month of November 2011. In addition, the CEO which caused the documentation to be unrecoverable for March 2011 is no longer employed by the Hospital and was not acting as CEO in November 2011. Any company credit card issues have been further been alleviated by the implementation of a revised company credit policy currently in place.

Conclusion: Response accepted.