Management's Discussion and Analysis
and Combined Financial Statements
December 31, 2012 and 2011

Craig County Hospital Authority

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

Report on the Financial Statements
We have audited the accompanying combined financial statements of Craig County Hospital Authority (Authority), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of revenues, expenses and changes in net position 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.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these combined 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 combined 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined financial statements referred to above present fairly, in all material respects, the combined balance sheets of Craig County Hospital Authority as of December 31, 2012 and 2011, and the combined results of its operations and changes in net position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or 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.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
April 24, 2013

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, 2012 and 2011. 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 $76,648 or 0.3% in 2012 compared with a decrease of $3,127,851 or 12% in 2011.
- The Authority's total liabilities decreased by $745,163 or 8% in 2012 compared with a decrease of $2,032,542 or 17% in 2011.
- The Authority reported an operating income in 2012 of $1,352,121 and operating loss of $695,602 in 2011.

Organization Highlights

- The Authority attested to "Meaningful Use" standards with information technology service delivery system standards in 2012 and received funds of approximately $1,400,000.
- Successfully recruited Dr. Swan to continue obstetrics services at the Authority.
- Celebrated the grand opening of our new outpatient Geriatric Psychiatric service – Transitions.

Overview of the Financial Statements

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

The balance sheet at December 31, 2012 and 2011 indicated total assets of $23,268,559 and $23,345,207, total liabilities of $9,166,505 and $9,911,668, and net position of $14,102,054 and $13,433,539. Total current assets were $7,231,579 and $6,266,341 and total current liabilities were $3,562,279 and $3,498,105 for a current ratio of 2.0 and 1.8.

The statements of revenues, expenses, and changes in net position for the year ended December 31, 2012 and 2011, indicated total operating revenues of $28,464,449 and $25,531,468 and operating expenses of $27,112,328 and $26,227,070, operating income (loss) of $1,352,121 and ($695,602) and non-operating revenues (expenses) of ($774,113) and ($431,707). The net position increased $668,515 from $13,433,539 at December 31, 2011 to $14,102,054 at December 31, 2012 and decreased $1,095,309 from $14,525,848 at December 31, 2010 to $13,433,539 at December 31, 2011.

As reported in the statement of cash flows, cash and cash equivalents increased from $813,350 at December 31, 2011 to $2,100,616 at December 31, 2012 and 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 position at December 31:

Table 1: Assets, Liabilities and Net Position

	2012	2011	2010
Assets			
Current assets	$ 7,231,579	$ 6,266,341	$ 7,641,968
Capital assets, net	15,374,934	16,043,938	17,161,951
Other noncurrent assets	662,046	1,034,928	1,669,139
Total assets	$ 23,268,559	$ 23,345,207	$ 26,473,058
Liabilities			
Current liabilities	$ 3,509,319	$ 3,498,105	$ 4,389,950
Long-term debt outstanding, net	5,604,226	6,413,563	7,554,260
Total liabilities	9,113,545	9,911,668	11,944,210
Net Position			
Invested in capital assets, net of related debt	8,911,323	8,499,809	8,111,289
Restricted, expendable for debt service	336,487	519,427	506,487
Restricted, expendable for capital acquisitions	-	-	158,000
Unrestricted	4,907,204	4,414,303	5,753,072
Total net position	14,155,014	13,433,539	14,528,848
Total liabilities and net position	$ 23,268,559	$ 23,345,207	$ 26,473,058

The Authority's assets decreased by $76,648 or 0.3% in 2012, and decreased by $3,127,851 or 12% in 2011. The Authority's liabilities decreased by $745,163 or 8% in 2012, and $2,032,542 or 17% in 2011. The Authority's net position is the difference between its assets and liabilities. The Authority's net position increased by $668,515 or 5% in 2012, and decreased by $1,095,309 or 8% in 2011.

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

Table 2: Operating Results and Changes in Net Position

	2012	2011	2010
Operating Revenues			
Net patient service revenue	$ 26,204,643	$ 24,071,212	$ 25,653,976
Other revenue	2,312,766	1,460,256	980,228
Total operating revenues	28,517,409	25,531,468	26,634,204
Operating Expenses			
Professional care of patients and other professional services	14,560,249	14,590,769	14,986,166
General services	2,834,367	2,646,757	2,666,556
Administrative services	8,243,968	7,316,284	7,725,439
Depreciation and amortization	1,473,744	1,673,260	1,657,775
Total operating expenses	27,112,328	26,227,070	27,035,936
Operating income (loss)	1,405,081	(695,602)	(401,732)
Nonoperating Revenues (Expenses)			
Investment income	33,356	64,019	22,070
Interest expense	(414,120)	(493,478)	(574,770)
Loss from joint ventures	(22,621)	(21,167)	(8,795)
Noncapital grant and contribution revenue	58,479	16,259	191,931
(Loss)/Gain on sale of asset	(429,207)	2,660	70,682
Total nonoperating revenues (expenses)	(774,113)	(431,707)	(298,882)
Revenues in excess of (expenses) before contributions	630,968	(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	90,507	32,000	223,879
Change in Net Position	721,475	(1,095,309)	460,828
Net Position, Beginning of Year	13,433,539	14,528,848	14,068,020
Net Position, End of Year	$ 14,155,014	$ 13,433,539	$ 14,528,848

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services. The Authority has reported operating income of $1,352,121 in 2012 and loss of $695,602 in 2011. The primary component of the income from operations was the increase in net patient service revenue of $2,080,471 or 8% compared with the prior year decrease of $1,582,764 or 7%.

Capital Assets

The Authority had capital assets net of accumulated depreciation at December 31, 2012, amounting to $15,374,934. 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

	2012	2011	2010
Land	$ 2,518,452	$ 2,518,452	$ 2,518,452
Land improvements	35,286	35,286	35,286
Buildings and improvements	15,499,231	15,044,039	14,918,092
Equipment	10,721,446	10,347,146	10,209,784
Construction in progress	378,453	485,985	526,494
Accumulated depreciation	(13,777,934)	(12,386,970)	(11,046,157)
Total capital assets, net	$ 15,374,934	$ 16,043,938	$ 17,161,951

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 $29,972,260. The Authority’s continued mission is to be a health care leader in the area, to create new ventures and to enhance services to customers in a fiscally responsible manner. The Authority strives to be conscientious, consumer oriented and dedicated to teamwork, leadership and education.

Requests for Information

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Craig County Hospital Authority, 735 N. Foreman, P.O. Box 326, Vinita, Oklahoma 74301.

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	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 1,764,129	$ 293,923
Held by trustee for debt service	160,000	402,049
Certificates of deposit	1,348,789	1,053,765
Receivables		
Patient, net of estimated uncollectibles of $2,092,950 in 2012 and $1,575,499 in 2011	3,010,261	3,731,679
Other	284,067	213,859
Supplies	490,618	335,245
Prepaids	173,715	235,821
Total current assets	7,231,579	6,266,341
Noncurrent Cash		
Held by trustee for debt service, net of current portion	176,487	117,378
Capital Assets, Net		
Non-depreciable capital assets	2,896,905	3,004,437
Depreciable capital assets, net	12,478,029	13,039,501
Total capital assets, net	15,374,934	16,043,938
Other Assets		
Long-term receivable	-	103,502
Investment in joint ventures	247,214	269,835
Long-term investments	140,572	418,688
Bond cost, net of accumulated amortization of $212,701 in 2012 and $197,178 in 2011	97,773	113,297
Goodwill	-	12,228
Total other assets	485,559	917,550
Total assets	$ 23,268,559	$ 23,345,207

See Notes to Financial Statements

	2012	2011
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 859,385	$ 1,210,548
Notes payable	-	87,834
Accounts payable	1,465,027	1,550,726
Accrued liabilities		
Salaries and benefits	417,788	376,545
Vacation	202,922	189,246
Other	254,197	73,058
Estimated third-party payor settlements	310,000	10,148
Total current liabilities	3,509,319	3,498,105
Long-Term Debt, Net	5,604,226	6,413,563
Total liabilities	9,113,545	9,911,668
Net Position		
Net investment in capital assets	8,911,323	8,499,809
Restricted, expendable for debt service	336,487	519,427
Unrestricted	4,907,204	4,414,303
Total net position	14,155,014	13,433,539
Total liabilities and net position	$ 23,268,559	$ 23,345,207

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for bad debts of $2,197,112 in 2012 and $3,275,738 in 2011	$ 26,204,643	$ 24,071,212
Other revenue	2,312,766	1,460,256
Total operating revenues	28,517,409	25,531,468
Operating Expenses		
Nursing services	6,392,726	6,093,925
Other professional services	8,167,523	8,496,844
General services	2,834,367	2,646,757
Administrative services	8,243,968	7,316,284
Depreciation and amortization	1,473,744	1,673,260
Total operating expenses	27,112,328	26,227,070
Operating Income (Loss)	1,405,081	(695,602)
Nonoperating Revenues (Expenses)		
Investment income	33,356	64,019
Interest expense	(414,120)	(493,478)
Noncapital grant and contribution revenue	58,479	16,259
Loss from joint ventures	(22,621)	(21,167)
(Loss) gain on sale and abandonment of assets	(429,207)	2,660
Total nonoperating revenues (expenses),net	(774,113)	(431,707)
Revenues in excess of (less than) expenses before capital contributions	630,968	(1,127,309)
Capital Contribution	90,507	32,000
Change in Net Position	721,475	(1,095,309)
Net Position, Beginning of Year	13,433,539	14,528,848
Net Position, End of Year	$ 14,155,014	$ 13,433,539

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 27,225,913	$ 25,000,327
Payments to suppliers and others	(15,453,573)	(14,737,225)
Payments to employees	(10,127,919)	(10,083,243)
Other receipts	2,346,060	1,718,429
Net Cash from Operating Activities	3,990,481	1,898,288
Noncapital Financing Activity		
Principal payments on operating notes payable	(87,834)	(202,483)
Noncapital grant and contribution revenue	58,479	16,259
Net Cash used for Noncapital Financing Activities	(29,355)	(186,224)
Capital and Capital Related Financing Activities		
Purchase of capital assets	(1,040,787)	(385,468)
Payments on long-term debt	(1,235,922)	(1,570,310)
Payment of interest on long-term debt	(414,120)	(493,478)
Proceeds from asset disposals	521	8,026
Net Cash used for Capital and Capital Related Financing Activities	(2,690,308)	(2,441,230)
Investing Activities		
Purchase of investments	(16,908)	(65,268)
Investment income	33,356	86,528
Net Cash from Investing Activities	16,448	21,260
Net Change in Cash and Cash Equivalents	1,287,266	(707,906)
Cash and Cash Equivalents, Beginning of Year	813,350	1,521,256
Cash and Cash Equivalents, End of Year	$ 2,100,616	$ 813,350
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	$ 1,764,129	$ 293,923
Held by trustee for debt service - current	160,000	402,049
Held by trustee for debt service, net of current portion	176,487	117,378
Total Cash and Cash Equivalents	$ 2,100,616	$ 813,350

	2012	2011
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income (loss)	$ 1,405,081	$ (695,602)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	1,473,744	1,673,260
Provision for bad debts	2,197,112	3,275,738
Changes in assets and liabilities		
Receivables		
Patients	(1,475,694)	(2,275,035)
Other	33,294	258,173
Supplies	(155,373)	13,261
Prepaids	62,106	220,855
Accounts payable	(85,699)	(458,683)
Accrued liabilities	236,058	(42,091)
Estimated third-party payor settlement	299,852	(71,588)
Net Cash from Operating Activities	$ 3,990,481	$ 1,898,288
Supplemental Disclosure of Cash Flow Information		
Property and equipment purchased through capital leases	$ 75,422	$ 43,759
Property acquired by capital contribution	$ 90,507	$ 32,000
Loss on impairment of construction in progress	$ 429,728	$ -
Investment purchased through long-term debt	$ -	$ 100,000
Insurance premium financing	$ -	$ 168,854
Goodwill impairment	$ 12,228	$ 83,862
Loss from joint venture	$ 22,621	$ 21,167

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 position were transferred to the Authority.

Enterprise Fund Accounting

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

Basis of Accounting and Presentation

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

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.

In 2011, the Hospital and NOCP were 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 2009.

Use of Estimates

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

Cash and Cash Equivalents

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

Short-term Investments and Investment Income

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

Patient Receivables

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

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Authority analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third party coverage, the Authority analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Authority records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Authority's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed during December 31, 2012 and 2011. The Authority maintains a material allowance for doubtful accounts from third-party payors, and did have significant write offs from third-party payors. The total amounts written off were $2,105,667 and $4,486,179 for years ended December 31, 2012 and 2011, respectively. The Hospital has not significantly changed its charity care or uninsured discount policies during fiscal years 2012 and 2011.

Notes Receivable

The Authority issues notes to physicians as part of its recruitment process. Notes are repayable over a minimum of a two year period to a maximum three year period and are issued at current interest rates ranging from 2% to 4%. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven. At December 31, 2012 and 2011, notes receivable from physicians totaled $188,191 and $74,511.

The Authority issued a note to a vendor to finance the purchase of equipment from the Authority. The note has an interest rate of 4% and is repayable over a three year period. At December 31, 2012 and 2011, the balance totaled $46,634 and $91,444.

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

Property and equipment acquisitions in excess of $3,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Investments in Joint Ventures

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

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

Long term Investments

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

Bond Cost

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

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. During 2012, the Authority recorded impairment in the amount of $12,228 included in amortization expense.

Compensated Absences

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

Net Position

Net position is presented in the following three components:

Investment in Capital Assets, Net of Related Debt - Investment in capital assets 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.

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

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

The Authority recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Authority recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Authority records a significant provision for bad debts related to uninsured patients in the period the services are provided. Net patient service revenue, but before the provision for bad debts, recognized for the years ended December 31, 2012 and 2011 from these major payor sources, is as follows

	2012	2011
Net patient service revenue		
Third-party payors	$ 24,631,557	$ 23,158,211
Self-pay	1,573,086	913,001
Total all payors	$ 26,204,643	$ 24,071,212

Electronic Health Record Incentive Payments

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

During the year ended December 31, 2012, the District recorded $1,407,942 related to the Medicare program and during the year ended December 31, 2011, the District recorded $537,361 related to the Medicaid program in other operating revenue for meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. The Hospital demonstrated meaningful use and attested to the compliance requirements for the Medicare and Medicaid programs during 2012. As the Hospital has continued to use EHR technology in a meaningful way under the Medicare program criteria, management has concluded there is reasonable assurance that the Hospital will successfully demonstrate meaningful use for the full reporting period and earn a Year 2 incentive payment as well.

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

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will or equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records payments to other expenses and receipts as reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. 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 $1,392,000 and $1,573,000 for the years ended December 31, 2012 and 2011. Total direct and indirect costs related to these foregone charges were $651,000 and $660,000 at December 31, 2012 and 2011, 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 $67,427 and $75,177 for advertising costs for the years ended December 31, 2012 and 2011.

Operating Revenues and Expenses

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

Grants and Contributions

From time to time, the Authority receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Risk Management

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

Note 2 - Net Patient Service Revenue

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

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The clinics are designated as a Provider Based Rural Health Clinics by the Medicare program. As a result, clinical services rendered to Medicare program beneficiaries are reimbursed at cost (subject to various limits). The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 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 50% and 17% of the Authority's net patient service revenue for the year ended December 31, 2012 and 51% and 16% for the year ended December 31, 2011. 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. The Authority has accrued $129,000 and $57,000 for RAC liability for the years ending December 31, 2012 and 2011. The estimate is included in the estimate third party settlements account on the combined balance sheets.

A summary of patient service revenue and contractual adjustments for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Total patient service revenue	$ 54,712,971	$ 59,867,943
Contractual adjustments		
Medicare	10,909,483	14,693,543
Medicaid	5,933,758	6,172,734
Other	9,467,975	11,654,716
Total contractual adjustments	26,311,216	32,520,993
Provision for bad debts	2,197,112	3,275,738
Net patient service revenue	$ 26,204,643	$ 24,071,212

Note 3 - Deposits, Investments and Investment Income

State statutes authorize the Authority to invest its excess cash balances generally in time deposits, open accounts, certificates of deposit or certain repurchase agreements of commercial banks or trust companies, state or generally 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, 2012 and 2011:

	2012	2011
Insured	$ 1,014,746	$ 759,001
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	2,794,579	1,961,686
Total bank balance	$ 3,809,325	$ 2,720,687
Carrying value	$ 3,589,977	$ 2,285,803

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, 2012 and 2011, the Authority had no bank balances exposed to custodial credit risk.

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, 2012 and 2011:

	2012	2011
Certificates of deposit	$ 1,348,789	$ 1,053,765

Long-term Investments

Long-term investments include the following at December 31, 2012 and 2011:

	2012	2011
Certificates of deposit	$ 140,572	$ 418,688

Credit Risk

Statutes require that investments be made only in U.S. government obligations and that all bank balances be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. The Authority's investments (recorded at market in accordance with GASB Codification Section Reference: I50, Accounting and Financial Reporting for Certain Investments and for External Investment Pools) at December 31, 2012 and 2011, are shown above. All of the investments were held by the Authority's custodial bank in the Authority's name.

Interest Rate Risk

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

Concentration of Credit Risk

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

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

	2012	2011
Carrying amount		
Deposits in banks	$ 2,100,616	$ 813,350
Certificates of deposit	1,489,361	1,472,453
	$ 3,589,977	$ 2,285,803
Included in the following balance sheet captions		
Cash and cash equivalents	$ 1,764,129	$ 293,923
Certificates of deposit	1,348,789	1,053,765
Held by trustee for debt service, current portion	160,000	402,049
Held by trustee for debt service, net of current portion	176,487	117,378
Long-term investments	140,572	418,688
	$ 3,589,977	$ 2,285,803

Investment Income

Investment income on cash equivalents and other investments consists of the following for the years ending December 31, 2012 and 2011:

	2012	2011
Interest income	$ 33,356	$ 64,019

Note 4 - Investments in Joint Ventures

The Authority uses the equity method to account for the joint venture investments listed below. At December 31, 2012 and 2011, the Authority's investments in joint ventures consisted of the following:

	2012	2011
LHC, Inc.	$ 112,116	$ 135,029
PentaStar, LLC	35,098	34,806
Serenity Hospice, Inc.	100,000	100,000
Total joint ventures	$ 247,214	$ 269,835

Joint venture income, distributions, and contributions balances for the years ended December 31, 2012 and 2011 is as follows:

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

	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

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, 2012, the Authority owed LHC $20,925, included in accounts payable. As of December 31, 2011, 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, 2011.

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) which represents a 10% ownership share. Serenity engages in the provision of hospice services in Craig and the surrounding counties in Northeast Oklahoma.

Note 5 - Capital Assets

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

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Non-depreciable capital assets					
Land	$ 2,518,452	$ -	$ -	$ -	$ 2,518,452
Construction in progress	485,985	586,324	(429,728)	(264,128)	378,453
Total non-depreciable capital assets	$ 3,004,437	$ 586,324	$ (429,728)	(264,128)	$ 2,896,905
Depreciable capital assets					
Land improvements	$ 35,286	$ -	$ -	$ -	$ 35,286
Buildings and improvements	15,044,039	191,064	-	264,128	15,499,231
Equipment	10,347,146	429,328	(55,028)	-	10,721,446
Total depreciable capital assets	25,426,471	620,392	(55,028)	264,128	26,255,963
Less accumulated depreciation					
Land improvements	(35,412)	(1,387)	-	-	(36,799)
Buildings and improvements	(4,381,040)	(455,486)	-	-	(4,836,526)
Equipment	(7,970,518)	(989,119)	55,028	-	(8,904,609)
Total accumulated depreciation	(12,386,970)	(1,445,992)	55,028	-	(13,777,934)
Net depreciable capital assets	$ 13,039,501	$ (825,600)	$ -	$ 264,128	$ 12,478,029
Capital assets, net	$ 16,043,938	$ (239,276)	$ (429,728)	$ -	$ 15,374,934

The majority of the construction in progress at December 31, 2012, represents costs related to building a new hospital, new roof and HVAC. The construction of the new hospital building has been put on hold due to the current economic situation. The new roof and HVAC are expected to be completed in winter 2013. The new roof and HVAC will use approximately $145,000 and $105,000 of internal funds.

During the year ended December 31, 2012, the Authority determined the building plans for the new hospital had changed significantly, management determined the original plans were fully impaired.

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

Note 6 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense at December 31, 2012 and 2011, for all operating leases were $102,907 and $154,526, respectively. The capitalized leased assets consist of:

	2012	2011
Major movable equipment	$ 2,332,930	$ 3,966,964
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(1,629,783)	(2,687,921)
	$ 703,147	$ 1,279,043

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

Year Ending December 31,	Capital Leases	Operating Leases
2013	$ 452,432	$ 80,634
2014	187,109	53,213
2015	22,535	22,172
2016	16,725	-
Total minimum lease payments	678,801	$ 156,019
Less interest	(29,458)	
Present value of minimum lease payments - Note 7	$ 649,343	

Note 7 - Notes Payable and Long-Term Debt

Notes payable consist of:

	12/31/11	Additions	Reductions	12/31/12
Notes payable:				
Financed insurance (1)	$ 87,834	$ -	$ 87,834	$ -

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

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

Long-term debt consist of:

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Amounts Due Within One Year
Notes payable:					
Series 1998 Bonds (1)	$ 1,270,000	$ -	$ 155,000	$ 1,115,000	$ 160,000
Series 2002 Bonds (2)	172,924	-	172,924	-	-
Note payable to bank (3)	1,683,372	-	55,416	1,627,956	58,980
Note payable to bank (4)	2,116,857	-	128,662	1,988,195	139,152
Note payable to bank (5)	1,148,665	-	65,548	1,083,117	69,771
Note payable to individual (6)	79,982	-	79,982	-	-
Total notes payable	6,471,800	-	657,532	5,814,268	427,903
Capitalized lease obligations (7) - Note 6	1,152,311	75,422	578,390	649,343	431,482
Total long-term debt	$ 7,624,111	$ 75,422	$ 1,235,922	$ 6,463,611	$ 859,385

	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 (2)	405,817	-	232,893	172,924	172,924
Note payable to bank (3)	1,735,439	-	52,067	1,683,372	55,416
Note payable to bank (4)	2,238,976	-	122,119	2,116,857	128,614
Note payable to bank (5)	1,209,978	-	61,313	1,148,665	65,842
Note payable to individual (6)	-	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 (7) - Note 6	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

The terms and due dates of the Authority’s long-term debt at December 31, 2012 and 2011, are as follows:

(1) 1998 Series Revenue Bonds, with varying interest rates ranging from 5.70% to 5.8%, due June 2018, varying annual principal payments and semi annual interest payments, secured by a mortgage and funds held by trustee.
(2) 2002 Series Revenue Bonds, 7.31% interest rate, paid in full October 2012.
(3) Note payable to bank, 6.25% interest rate, due in monthly installments of $13,255 including interest, collateralized with land.
(4) 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. It is the Authority's intention to refinance the note over an additional 5 year period.
(5) Note payable to bank, 5.81% interest rate, due in monthly installments of $10,894 including interest with a balloon payment due May 2014, collateralized with land and certificate of deposit. It is the Authority's intention to refinance the note over an additional 5 year period, before the due date of the balloon payment.
(6) Note payable to individual, 5.00% interest rate, paid in full in 2012.
(7) 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
2013	$ 427,903	$ 334,798	$ 762,701
2014	454,370	308,927	763,297
2015	481,849	281,383	763,232
2016	510,403	252,099	762,502
2017	540,098	221,094	761,192
2018-2022	2,565,053	440,190	3,005,243
2023-2027	625,517	169,768	795,285
2028-2032	209,075	9,354	218,429
Total	$ 5,814,268	$ 2,017,613	$ 7,831,881

The provisions of the indenture related to Craig County Hospital Authority Revenue Bond 1998 Series, contain covenants pertaining to reporting requirements and maintaining a minimum debt service coverage ratio. For the years ended December 31, 2012 and 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.

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, 2012 and 2011.

Note 8 - Pension Plan

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

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

	2012	%	2011	%
Employer	$ 999,959	11.5%	$ 1,153,795	11.5%
Employee	740,002	8.5%	582,536	8.5%
Total	$ 1,739,961		$ 1,736,331	

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, 2012 (the latest actuarial valuation date), the approximate underfunded pension benefit obligation of OPERS was:

	2012	2011
Net position available for benefits, at market value	$ 6,682,200,296	$ 6,598,627,939
Pension benefit obligation	8,334,637,900	8,179,767,661
Underfunded pension benefit obligation	$ 1,652,437,604	$ 1,581,139,722

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

Note 9 - Restricted Net Position

At December 31, 2012 and 2011, restricted expendable net position is available for the following purposes:

	2012	2011
Restricted, expendable for debt service payments	$ 336,487	$ 519,427

Note 10 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2012 and 2011, was as follows:

	2012	2011
Medicare and Medicaid	37%	46%
Other third-party payors	27%	28%
Patients	36%	26%
	100%	100%

Note 11 - Related Party Transactions

Craig County Healthcare Foundation, Inc.

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 $90,507 and $0 included in capital contributions during the years ending December 31, 2012 and 2011.

Applied Healthcare Solutions, LLC

The Board of Trustees has a management agreement with Applied Healthcare Solutions, LLC (AHS). This agreement is a defined service agreement for managing the day-to-day operations of the Authority through December 31, 2015. During the years ended December 31, 2012 and 2011, the Authority incurred fees to AHS for management services of $682,214 and $752,323. The Authority pays AHS for contract labor. During the years ended December 31, 2012 and 2011, the Authority incurred fees to AHS for contract labor of $341,037 and $192,920. The Authority has signed an agreement with AHS to outsource the central business office (CBO) function through January 1, 2019. During the years ended December 31, 2012 and 2011, the Authority incurred fees to AHS for the CBO of $388,094 and $410,702. At December 31, 2012 and 2011, the Authority owed AHS $22,708 and $0.

Note 12 - Contingencies

Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The policy covers individual claims made and reported to the insurer during the policy term. In addition the Authority also maintains an umbrella policy subject to a limit of $2 million per claim and annual aggregate limit of $2 million under a claims-made policy. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon on a review of the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigations, Claims, and Disputes

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

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

Note 13 - Electronic Health Record Incentive Payments

The Authority recognized revenue of $1,407,942 and $537,361 for the years ended December 31, 2012 and 2011, related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying combined financial statements.

Note 14 - Supplemental Hospital Offset Payment Program Act

The Authority made SHOPP payments totaling $948,128, for the period between July 2011 and December 2012, which is included in other expense. In return, the Authority received $1,480,925. No amounts were recorded in 2011.

Note 15 - Subsequent Events

The Authority has evaluated subsequent events through April 24, 2013, the date which the combined financial statements were available to be issued.

Combined Supplementary Information
December 31, 2012 and 2011

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, 2012 and 2011, and our report thereon dated April 24, 2013, 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 position 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
April 24, 2013

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	2012				
Assets	Craig General Hospital	H.C.D. Services, Inc.	Northeast Oklahoma Clinical Partners, Inc.	Eliminations	Combined
Current Assets					
Cash and cash equivalents	$ 1,759,460	$ 4,669	$ -	$ -	$ 1,764,129
Held by trustee for debt service	160,000	-	-	-	160,000
Short-term investments	1,348,789	-	-	-	1,348,789
Receivables					
Patient, net	3,010,261	-	-	-	3,010,261
Other	284,067	-	-	-	284,067
Due from subsidiary	133,250	-	-	(133,250)	-
Supplies	490,618	-	-	-	490,618
Prepaids	169,975	3,740	-	-	173,715
Total current assets	7,356,420	8,409	-	(133,250)	7,231,579
Noncurrent Assets					
Held by trustee for debt service, net of current portion	176,487	-	-	-	176,487
Capital Assets, Net					
Non-depreciable capital assets	2,896,905	-	-	-	2,896,905
Depreciable capital assets, net	12,387,869	90,160	-	-	12,478,029
Total capital assets, net	15,284,774	90,160	-	-	15,374,934
Other Assets					
Investment in H.C.D.	417	-	-	(417)	-
Investment in PentaStar	-	35,098	-	-	35,098
Investment in LHC	112,116	-	-	-	112,116
Investment in Serenity	100,000	-	-	-	100,000
Long-term investments	140,572	-	-	-	140,572
Bond cost, net	97,773	-	-	-	97,773
Total other assets	450,878	35,098	-	(417)	485,559
Total assets	$ 23,268,559	$ 133,667	$ -	$ (133,667)	$ 23,268,559

	2012				
	Craig General Hospital	H.C.D. Services, Inc.	Northeast Oklahoma Clinical Partners, Inc.	Eliminations	Combined
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	$ 859,385	$ -	$ -	$ -	$ 859,385
Accounts payable	1,465,027	-	-	-	1,465,027
Accrued liabilities					
Salaries and benefits	417,788	-	-	-	417,788
Vacation	202,922	-	-	-	202,922
Other	254,197	-	-	-	254,197
Due to parent	-	386,930	-	(386,930)	-
Estimated third-party payor settlements	310,000	-	-	-	310,000
Total current liabilities	3,509,319	386,930	-	(386,930)	3,509,319
Long-Term Debt, Net	5,604,226	-	-	-	5,604,226
Total liabilities	9,113,545	386,930	-	(386,930)	9,113,545
Net Position					
Invested in capital assets, net of related debt	8,821,163	90,160	-	-	8,911,323
Restricted, expendable for debt service	336,487	-	-	-	336,487
Unrestricted	4,997,364	(343,423)	-	253,263	4,907,204
Total net position	14,155,014	(253,263)	-	253,263	14,155,014
Total liabilities and net position	$ 23,268,559	$ 133,667	$ -	$ (133,667)	$ 23,268,559

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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
Noncurrent Assets					
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				
Liabilities and Net Position	Craig General Hospital	H.C.D. Services, Inc.	Northeast Oklahoma Clinical Partners, Inc.	Eliminations	Combined
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	376,545	-	-	-	376,545
Vacation	189,246	-	-	-	189,246
Other	73,058	-	-	-	73,058
Due to parent	-	336,587	-	(336,587)	-
Estimated third-party payor settlements	10,148	-	-	-	10,148
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 Position					
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
Unrestricted	4,464,303	(281,946)	-	231,946	4,414,303
Total net position	13,433,539	(231,946)	-	231,946	13,433,539
Total liabilities and net position	$ 23,345,207	$ 104,641	$ -	$ (104,641)	$ 23,345,207

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	2012				
	Craig General Hospital	H.C.D. Services, Inc.	Northeast Clinical Partners	Eliminations	Combined
Operating Revenues					
Net patient service revenue	$ 26,204,643	$ -	$ -	$ -	$ 26,204,643
Other revenue	2,312,766	-	-	-	2,312,766
Total operating revenues	28,517,409	-	-	-	28,517,409
Operating Expenses					
Nursing services	6,392,726	-	-	-	6,392,726
Other professional services	8,167,523	-	-	-	8,167,523
General services	2,834,367	-	-	-	2,834,367
Administrative services	8,243,968	11,426	-	(11,426)	8,243,968
Depreciation and amortization	1,473,744	10,183	-	(10,183)	1,473,744
Total operating expenses	27,112,328	21,609	-	(21,609)	27,112,328
Operating Income (Loss)	1,405,081	(21,609)	-	21,609	1,405,081
Non Operating Revenues (Expenses)					
Investment income	33,356	-	-	-	33,356
Interest	(414,120)	-	-	-	(414,120)
Noncapital grant revenue and contributions	58,479	-	-	-	58,479
Loss from joint ventures	(22,621)	292	-	(292)	(22,621)
(Loss) Gain on sale of asset	(429,207)	-	-	-	(429,207)
Total non-operating revenues (expenses)	(774,113)	292	-	(292)	(774,113)
Revenues in excess (less) than expenses before capital contributions	630,968	(21,317)	-	21,317	630,968
Transfer of Net Position	-	-	-	-	-
Capital Contribution	90,507	-	-	-	90,507
Change in Net Position	721,475	(21,317)	-	21,317	721,475
Net Position, Beginning of Year	13,433,539	(231,946)	-	231,946	13,433,539
Net Position, End of Year	$ 14,155,014	$ (253,263)	$ -	$ 253,263	$ 14,155,014

2011				
Craig General Hospital	H.C.D. Services, Inc.	Northeast Clinical Partners	Eliminations	Combined
$ 23,330,966	$ -	$ 740,246	$ -	$ 24,071,212
1,460,256	-	-	-	1,460,256
24,791,222	-	740,246	-	25,531,468
6,093,925	-	-	-	6,093,925
7,159,346	-	1,337,498	-	8,496,844
2,646,757	-	-	-	2,646,757
7,316,284	775	-	(775)	7,316,284
1,673,260	-	-	-	1,673,260
24,889,572	775	1,337,498	(775)	26,227,070
(98,350)	(775)	(597,252)	775	(695,602)
64,019	-	-	-	64,019
(493,478)	-	-	-	(493,478)
16,259	-	-	-	16,259
(21,167)	22,509	-	(22,509)	(21,167)
2,660	-	-	-	2,660
(431,707)	22,509	-	(22,509)	(431,707)
(530,057)	21,734	(597,252)	(21,734)	(1,127,309)
(2,300,680)	-	2,300,680	-	-
32,000	-	-	-	32,000
(2,798,737)	21,734	1,703,428	(21,734)	(1,095,309)
16,232,276	(253,680)	(1,703,428)	253,680	14,528,848
$ 13,433,539	$ (231,946)	$ -	$ 231,946	$ 13,433,539

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	2012		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	$ 2,058,348	$ -	$ 2,058,348
Labor and delivery	131,654	-	131,654
Swing bed	120,000	-	120,000
Geri psych	2,535,265	-	2,535,265
	4,845,267	-	4,845,267
Other nursing services			
Operating room	397,181	3,924,797	4,321,978
Central service supplies	399,896	650,170	1,050,066
Emergency room	1,574,940	6,882,844	8,457,784
	2,372,017	11,457,811	13,829,828
Other professional services			
Laboratory	3,476,358	5,104,078	8,580,436
Electrocardiology	525,883	2,234,191	2,760,074
Radiology	1,493,844	10,547,479	12,041,323
Pharmacy	3,417,044	1,443,269	4,860,313
Anesthesiology	117,337	299,325	416,662
Respiratory therapy	2,061,391	283,714	2,345,105
Physical therapy	209,570	2,483,432	2,693,002
Durable medical equipment	-	885,667	885,667
Outpatient psych	-	79,052	79,052
Clinics	-	2,768,449	2,768,449
	11,301,427	26,128,656	37,430,083
Charity care	-	(1,392,207)	(1,392,207)
Gross Patient Service Revenue	$ 18,518,711	$ 36,194,260	54,712,971
Contractual Adjustments and Provisions for Bad Debts			
Medicare			(10,909,483)
Medicaid			(5,933,758)
Other			(9,467,975)
Provision for bad debts			(2,197,112)
Total contractual adjustments and provisions for bad debts			(28,508,328)
Net Patient Service Revenue			$ 26,204,643

2011		
Inpatient	Outpatient	Total
$ 2,506,773	$ -	$ 2,506,773
173,817	-	173,817
210,240	-	210,240
3,632,400	-	3,632,400
6,523,230	-	6,523,230
271,287	3,240,115	3,511,402
394,408	767,860	1,162,268
1,592,151	8,108,018	9,700,169
2,257,846	12,115,993	14,373,839
3,757,438	4,614,969	8,372,407
562,497	2,529,817	3,092,314
1,634,063	11,295,671	12,929,734
3,772,480	1,469,262	5,241,742
112,695	297,525	410,220
1,858,338	283,352	2,141,690
286,250	2,631,447	2,917,697
-	809,190	809,190
-	89,658	89,658
-	2,929,948	2,929,948
11,983,761	26,950,839	38,934,600
-	(1,572,917)	(1,572,917)
$ 20,764,837	$ 37,493,915	58,258,752
		(14,693,543)
		(6,172,734)
		(10,785,771)
		(3,275,738)
		(34,927,786)
		$ 23,330,966

	2012	2011
Other Revenue		
Cafeteria	$ 328,705	$ 292,514
Rental income	402,770	424,459
EHR incentive	1,407,942	537,361
Miscellaneous	173,349	205,922
Total Other Revenue	$ 2,312,766	$ 1,460,256

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	2012		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Medical and surgical	$ 1,023,425	$ 204,782	$ 1,228,207
Intensive care unit	-	-	-
Labor and delivery	198,984	22,010	220,994
Geri psych	1,400,849	544,304	1,945,153
Operating room	196,146	344,183	540,329
Central service supplies	-	283,583	283,583
Emergency room	1,458,009	716,451	2,174,460
	4,277,413	2,115,313	6,392,726
Other Professional Services			
Laboratory	465,401	944,836	1,410,237
Electrocardiography	-	90,168	90,168
Radiology	838,946	731,712	1,570,658
Pharmacy	78,040	742,524	820,564
Anesthesiology	1,401	451,093	452,494
Respiratory therapy	150,196	67,646	217,842
Physical therapy	-	594,849	594,849
Durable medical equipment	119,554	235,855	355,409
Outpatient psych	155,291	22,538	177,829
Clinics	1,130,746	1,346,727	2,477,473
	2,939,575	5,227,948	8,167,523
General Services			
Medical records	717,944	319,375	1,037,319
Dietary	389,798	538,954	928,752
Plant operations	118,041	340,190	458,231
Housekeeping	259,480	74,652	334,132
Laundry and linen	-	75,933	75,933
	1,485,263	1,349,104	2,834,367
Administrative Services			
Administration and office	1,641,818	4,343,412	5,985,230
Employee benefits	-	2,150,530	2,150,530
Auxiliary	19,908	88,300	108,208
	1,661,726	6,582,242	8,243,968
Depreciation and Amortization	-	1,473,744	1,473,744
	$ 10,363,977	$ 16,748,351	$ 27,112,328

2011		
Salaries	Supplies & Expenses	Total
$ 978,339	$ 232,695	$ 1,211,034
-	462	462
253,472	24,968	278,440
1,358,339	307,720	1,666,059
202,234	234,884	437,118
-	232,316	232,316
1,835,333	433,163	2,268,496
4,627,717	1,466,208	6,093,925
455,725	893,248	1,348,973
-	110,390	110,390
859,161	688,014	1,547,175
73,104	725,384	798,488
-	450,142	450,142
141,116	70,832	211,948
-	666,175	666,175
135,721	142,641	278,362
143,703	17,076	160,779
720,724	866,190	1,586,914
2,529,254	4,630,092	7,159,346
609,097	269,368	878,465
365,658	454,011	819,669
160,684	411,624	572,308
237,459	65,470	302,929
-	73,386	73,386
1,372,898	1,273,859	2,646,757
1,497,027	3,221,740	4,718,767
-	2,493,891	2,493,891
16,836	86,790	103,626
1,513,863	5,802,421	7,316,284
-	1,673,260	1,673,260
$ 10,043,732	$ 14,845,840	$ 24,889,572

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

Board of Trustees
Craig County Hospital Authority
Vinita, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of Craig County Hospital Authority (Authority) as of and for the year ended December 31, 2012, and the related notes to the combined financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 24, 2013.

Internal Control over Financial Reporting
In planning and performing our audit of the combined financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined 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.

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

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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses, 2012-1 that we consider to be a significant deficiency.

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

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

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

Eide Bailly LLP

Oklahoma City, Oklahoma
April 24, 2013

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2012-01 Preparation of Financial Statements

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

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

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

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

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

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