Henryetta Hospital Authority
Henryetta, Oklahoma

Financial Statements

June 30, 2012 and 2011
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

FINANCIAL STATEMENTS

Table of Contents

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Henryetta Hospital Authority
Henryetta, Oklahoma

We have audited the accompanying statements of net assets of Henryetta Hospital Authority (the "Authority") as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012, 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* and should be considered in assessing the results of our audit.

(Continued)

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

INDEPENDENT AUDITORS' REPORT, CONTINUED

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Finley & Cook, PLLC

Shawnee, Oklahoma
December 28, 2012

HENRYETTA HOSPITAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

This discussion and analysis of the Henryetta Hospital Authority (the "Authority") financial statements provides an overview of the Authority's financial activities for the year ended June 30, 2012.

Financial Highlights

The Authority's financial position as a whole increased during the fiscal year ended June 30, 2012. Net assets and total assets increased $46,120, or 0.67%, over the previous year.

Overview of the Financial Statements

The enclosed statements are presented on an enterprise fund basis and include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private sector entities. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Financial Analysis

Net assets are one way to measure the Authority's financial position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial position is improving or declining.

For the year ended June 30, 2012, total assets were approximately $6,966,000 and there were no liabilities. Operating revenues of approximately $311,000 exceeded operating expenses of approximately $285,000, resulting in an operating income of approximately $27,000.

Operating Revenues

Operating revenues increased $15,967 during the fiscal year ended June 30, 2012.

Operating Expenses

Operating expenses decreased $(72,961) during the fiscal year ended June 30, 2012.

Financial Analysis, Continued

Non-Operating Revenues/Expenses

Significant changes in non-operating revenues/expenses were the result of the following:

- Changes in the long-term receivable for the year ended June 30, 2012, resulted in an increase of $13,729 due to an increase in the Consumer Price Index used to adjust the receivable annually.

- Interest income on investments decreased approximately $8,000 for the year ended June 30, 2012.

- The Authority wrote-off pre-construction engineering and architectural fees associated with a project for a psychiatric unit. Management determined that the project was not feasible in the near future and wrote-off the entire capitalized costs of the project, which approximated $20,000.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide information about the cash receipts and disbursements of an entity over a period of time. This statement also aids in the assessment of an entity's ability to generate future net cash flows, its ability to meet obligations as they come due, and needs for external financing.

Capital Assets

At June 30, 2012, the Authority had approximately $12,739,000 invested in capital assets. The related accumulated depreciation was approximately $9,961,000. Depreciation charges for the year totaled approximately $237,000, compared to approximately $310,000 in the previous year.

For additional information related to capital assets, please see Note 4 to the financial statements.

Debt

At June 30, 2012, the Authority had no outstanding debt.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling (918) 650-1301.

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

STATEMENTS OF NET ASSETS

June 30,		*2012*	*2011*
Assets			
Current assets:			
Cash	$	542,117	434,274
Investments		2,572,542	2,545,085
Interest receivable		2,171	3,858
Total current assets		3,116,830	2,983,217
Noncurrent assets:			
Capital assets:			
Property, plant, and equipment		12,738,594	12,602,372
Less accumulated depreciation		(9,960,785)	(9,723,341)
Capital assets, net		2,777,809	2,879,031
Long-term receivable		1,071,751	1,058,022
Total noncurrent assets		3,849,560	3,937,053
Total assets	$	6,966,390	6,920,270
Liabilities and Net Assets			
Liabilities	$	-	-
Net assets:			
Invested in capital assets, net		2,777,809	2,879,031
Unrestricted		4,188,581	4,041,239
Total net assets		6,966,390	6,920,270
Total liabilities and net assets	$	6,966,390	6,920,270

See Independent Auditors’ Report.
See accompanying notes to financial statements.

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30,		*2012*	*2011*
Revenues:			
Rental income	$	290,329	285,908
Other		21,100	9,554
Total revenues		311,429	295,462
Expenses:			
Supplies and purchased services		24,437	19,919
Insurance		9,048	9,399
Depreciation		237,444	309,667
Repairs and maintenance		3,274	5,638
Legal and professional		10,527	13,068
Total expenses		284,730	357,691
Net income (loss) from operations		26,699	(62,229)
Non-operating revenues and expenses:			
Interest income		26,005	34,494
Increase in long-term receivable		13,729	18,352
Other		30	-
Construction in progress write-off		(20,343)	-
Total non-operating revenues		19,421	52,846
Changes in net assets		46,120	(9,383)
Net assets, beginning of year		6,920,270	6,929,653
Net assets, end of year	$	6,966,390	6,920,270

See Independent Auditors' Report.
See accompanying notes to financial statements.

HENRYETTA HOSPITAL AUTHORITY
HENRYETTA, OKLAHOMA

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Years Ended June 30,	*2012*	*2011*
Cash flows from operating activities:		
Revenues	$ 311,429	295,462
Payments to vendors	(47,286)	(48,024)
Net cash provided by operating activities	264,143	247,438
Cash flows from investing activities:		
Purchase of capital assets	(156,565)	(113,346)
Reinvestment of interest income	(27,457)	(34,686)
Interest income from investments	27,692	34,869
Other income	30	-
Net cash used in investing activities	(156,300)	(113,163)
Cash flows from capital financing activities	-	-
Net increase in cash and cash equivalents	107,843	134,275
Cash and cash equivalents, beginning of year	434,274	299,999
Cash and cash equivalents, end of year	$ 542,117	434,274
Reconciliation of net income (loss) from operations to net cash provided by operating activities:		
Net income (loss) from operations	$ 26,699	(62,229)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Depreciation	237,444	309,667
Net cash provided by operating activities	$ 264,143	247,438

See Independent Auditors' Report.
See accompanying notes to financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ownership

The Henryetta Medical Center (the "Hospital") is owned and operated by the Henryetta Hospital Authority (the "Authority"), which was established on April 18, 1977, pursuant to Title 60, Oklahoma Statutes 1971, Section 176 to 180.4 inclusive, as amended. The City of Henryetta, Oklahoma, is the beneficiary of the Authority.

On November 1, 2004, the Board of Trustees of the Authority entered into an agreement with AHS Henryetta Hospital, LLC; Hillcrest Healthcare Systems; and Ardent Health Services, Inc. Under the terms of this agreement the Authority and Hillcrest Healthcare Systems agreed to terminate their "Master Agreement" dated September 15, 1997. Further, certain assets purchased by the Hospital were transferred to the Authority in return for a reduction in the amount due from Hillcrest Healthcare Systems. On November 1, 2004, an "Amended and Restated Operating Agreement" was entered into by the Authority with AHS Henryetta Hospital, LLC and Ardent Health Services, Inc. (collectively "Ardent"). The November 1, 2004, "Amended and Restated Operating Agreement" between the Authority and Ardent was amended on September 30, 2007. The "Second Amended and Restated Operating Agreement" (the "Agreement") commenced on October 1, 2007, and expires September 30, 2014, unless extended or terminated under the terms of the Agreement. The Agreement allows Ardent to operate the Hospital and to use the Hospital's name in its operations. Under the terms of the Agreement, equipment and operating assets of the Authority were transferred to Ardent during the duration of the Agreement.

Basis of Accounting

The accompanying financial statements are presented on an enterprise fund basis and follow the accrual basis of accounting, whereby revenues are recorded in the period earned and expenses are recorded in the period incurred.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements

In December 2010, the Governmental Accounting Standards Board issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented. The provisions of GASB 62 are not expected to have a material effect on the financial position or changes in financial position for the Authority.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of GASB 63 are not expected to have a material effect on the financial position or changes in financial position for the Authority.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The provisions of GASB 65 are not expected to have a material effect on the financial position or changes in financial position for the Authority.

Use of Estimates

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

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The statements of net assets and the statements of revenues, expenses, and changes in net assets are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities associated with their activities are reported.

Financial Statement Presentation

The Authority's financial statements are prepared in accordance with accounting principles generally accepted in the United States. GASB is responsible for establishing the accounting principles generally accepted in the United States for state and local governments through its pronouncements (Statements and Interpretations). Governments and their components are also required to follow the pronouncements of FASB issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. The Authority's financial statements are prepared using applicable GASB statements and not FASB pronouncements issued after November 30, 1989.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets

Capital assets which have an expected useful life of more than 1 year are recorded at cost when purchased. Depreciation expense is calculated on a straight-line basis over a 3- to 30-year period.

Long-Term Receivable

The long-term receivable represents assets which were transferred to Ardent for their use in operating the Hospital. The Authority is entitled to receive working capital, as defined in the Agreement, equal to $1,014,611, adjusted for changes in the Consumer Price Index (CPI). The balance of the receivable was $1,071,751 and $1,058,022 as of June 30, 2012 and 2011, respectively.

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 except certain natural disasters.

Related-Party Transactions

During 2012, the Authority entered into an agreement with the Hospital's Administrative Executive Assistant to provide janitorial services to the Authority. Payments for such services approximated $7,000 for the year ended June 30, 2012.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through December 28, 2012, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(2) CASH

The Authority's cash is in an interest-bearing deposit account at a local financial institution and is insured by the FDIC and collateralized with a letter of credit. As of June 30, 2012 and 2011, the Authority had no cash which was not insured or collateralized.

(3) INVESTMENTS

The Authority's informal investment policy is to invest only in certificates of deposit. As of June 30, 2012 and 2011, the certificates of deposit earned interest at rates ranging from 0.75% to 0.95% and 0.90% to 1.55%, respectively. All of the certificates of deposit are insured by the FDIC, collateralized with a letter of credit, or collateralized with securities held by the pledging bank's safekeeping agent, but not in the Authority's name. The certificates of deposit have maturities of 12 months or less.

(4) CAPITAL ASSETS

The capital assets of the Authority consist of land, land improvements, buildings, equipment, and construction in progress. A summary of changes in capital assets is as follows:

	Balance at June 30, 2011	Additions	Disposals	Balance at June 30, 2012
Land	$ 75,385	-	-	75,385
Land improvements	581,750	-	-	581,750
Buildings	6,961,913	-	-	6,961,913
Equipment	4,962,981	156,565	-	5,119,546
Construction in progress	20,343	-	(20,343)	-
	12,602,372	156,565	(20,343)	12,738,594
Less accumulated depreciation	(9,723,341)	(237,444)	-	(9,960,785)
Capital assets, net	$ 2,879,031	(80,879)	(20,343)	2,777,809

	Balance at June 30, 2010	Additions	Disposals	Balance at June 30, 2011
Land	$ 75,385	-	-	75,385
Land improvements	581,750	-	-	581,750
Buildings	6,940,375	21,538	-	6,961,913
Equipment	4,891,516	71,465	-	4,962,981
Construction in progress	-	20,343	-	20,343
	12,489,026	113,346	-	12,602,372
Less accumulated depreciation	(9,413,674)	(309,667)	-	(9,723,341)
Capital assets, net	$ 3,075,352	(196,321)	-	2,879,031

See Independent Auditors' Report.

(4) CAPITAL ASSETS, CONTINUED

During 2011, the Authority capitalized costs amounting to $20,343 related to the addition of a general psychiatric unit. The costs were associated with engineering and architectural fees for the preliminary stages of the project. During 2012, the Board determined that it was not feasible to move forward with the project and the capitalized costs were written-off. The amount written-off is shown as a non-operating expense in the statement of revenues, expenses, and changes in net assets.

(5) LONG-TERM RECEIVABLE

As previously discussed in Note 1, the Authority transferred assets to Ardent to be used in the operation of the Hospital. As a result of the transfer, the Authority has a contractual right to receive “Financial Working Capital,” as defined, of $1,014,611 (adjusted by the CPI, as defined) at the expiration of the Agreement. The Authority has recorded the amount to be received and adjusted the amount by the CPI at June 30, 2012 and 2011, using the formula defined in the Agreement. The receivable balance and adjustments recorded are as follows:

	2012	2011
Long-term receivable balance at beginning of year	$ 1,058,022	1,039,670
Changes due to the CPI	13,729	18,352
Long-term receivable balance at end of year	$ 1,071,751	1,058,022

See Independent Auditors’ Report.

(6) OPERATING LEASE REVENUES

The Authority has entered into various operating lease agreements for the rental of its properties. There are two primary lease rental agreements: one with Ardent, which provides $125,000 annually through September 30, 2014, for the lease of the Hospital; and one with Fresenius for the Dialysis Center, which provides rental income of $91,000 annually through March 31, 2020. The rental income from the Fresenius lease increases 10% after year six. The future minimum lease payments to be received as of June 30, 2012, are as follows:

2013	$	287,804
2014		238,974
2015		131,350
2016		100,100
2017		100,100
2018–2020		275,275
	$	1,133,603

(7) CONCENTRATIONS

As previously discussed in Note 1, the Authority and Ardent entered into an agreement that transferred assets of the Authority to Ardent and allowed Ardent to assume operations of the Hospital. In return, Ardent pays a fee to the Authority of $125,000 per year for property rental, as discussed in Note 6. The fee represents a significant portion of Authority's revenues. For the years ended June 30, 2012 and 2011, the fees received from Ardent represented 43% and 44%, respectively, of the Authority's rental income.

In addition, as previously discussed in Note 6, the lease agreement with Fresenius provided $91,000 of rental revenues for both of the years ended June 30, 2012 and 2011. This represents 31% and 32% of the Authority's rental income for the years ended June 30, 2012 and 2011, respectively.

See Independent Auditors' Report.

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
Henryetta Hospital Authority
Henryetta, Oklahoma

We have audited the financial statements of the Henryetta Hospital Authority (the "Authority") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 28, 2012. Our report includes an explanatory paragraph disclaiming an opinion on management's discussion and analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States 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

Management of the Authority is responsible for establishing and maintaining effective 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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 over financial reporting 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.

(Continued)

1421 East 45th Street • Shawnee, OK 74804
P: 405.878.7300 • www.finley-cook.com • F: 405.395.3300

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*, CONTINUED

Compliance and Other Matters

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

We noted other matters that we reported to management of the Authority in a separate letter dated December 28, 2012.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Finley & Cook, PLLC

Shawnee, Oklahoma
December 28, 2012