

**HARMON COUNTY HEALTHCARE
TRUST AUTHORITY**

Financial Statements
June 30, 2012 and 2011

With Independent Auditors' Report Thereon

HARMON COUNTY HEALTH CARE
TRUST AUTHORITY

June 30, 2012 and 2011

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Independent Auditors' Report

Board of Trustees
Harmon County Healthcare Trust Authority
Hollis, Oklahoma

We have audited the accompanying combined balance sheet of Harmon County Healthcare Trust Authority as of June 30, 2012 and 2011, and the related statements of revenue and 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 audit.

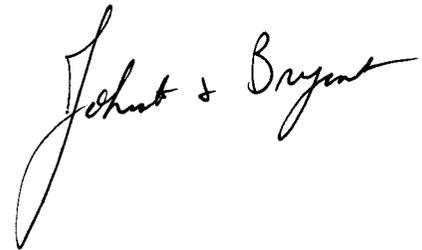
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

The Authority has chosen not to prepare management discussion and analysis which is required under accounting principles generally accepted in the United States of America. The effect of this omission is not reasonably determinable.

In our opinion, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Harmon County Healthcare Trust Authority as of June 30, 2012 and 2011, and the results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in note 11 to the financial statements, the Organization has suffered recurring operating loss and reduction in patient census that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with Government Auditing Standards, we have also issued our report dated September 20, 2012 on our consideration of Harmon County Healthcare Trust Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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September 20, 2012

HARMON COUNTY HEALTHCARE TRUST AUTHORITY
 Balance Sheet
 June 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current Assets		
Cash on Hand and in Banks, including		
Time Deposits	\$ 748,707	\$ 789,023
Accounts Receivable - Patients, Less		
Allowances	1,120,834	739,555
Other Receivables	10,528	8,642
Inventories	67,632	73,598
Due Under Cost Contracts	135,831	-
Prepaid Expenses	983	4,326
Total Current Assets	<u>2,084,515</u>	<u>1,615,144</u>
RDA Reserves	<u>166,728</u>	<u>166,728</u>
Other Assets Whose Use Is Limited	<u>216,020</u>	<u>-</u>
Property, Plant and Equipment	5,079,839	5,072,603
Less Accumulated Depreciation	<u>(4,353,743)</u>	<u>(4,140,405)</u>
Net Property, Plant and Equipment	<u>726,096</u>	<u>932,198</u>
Total Assets	<u>\$ 3,193,359</u>	<u>\$ 2,714,070</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 686,009	122,974
Accrued Payroll and Vacations	177,295	145,349
Accrued Payroll Taxes	3,786	35,995
Current Portion of Long - Term Debt	568,636	168,960
Other Current Liabilities	9,300	41,000
Total Current Liabilities	<u>1,445,026</u>	<u>514,278</u>
Long-Term Debt	<u>1,129,822</u>	<u>900,221</u>
Net Assets		
Unrestricted	793,615	1,399,500
Invested in Capital Assets, Net of Related Debt	<u>(175,104)</u>	<u>(99,929)</u>
Total Net Assets	<u>618,511</u>	<u>1,299,571</u>
Total Liabilities and Net Assets	<u>\$ 3,193,359</u>	<u>\$ 2,714,070</u>

The accompanying notes are an integral part of these financial statements.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY
Statement of Revenues and Expenses
and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Net Patient Service Revenue	\$ 6,718,838	\$ 6,874,859
Other Operating Revenue	83,433	77,199
	<u>6,802,271</u>	<u>6,952,058</u>
Expenses		
Professional Services	3,994,682	4,129,318
General Services	1,243,258	1,203,577
Administrative Services	1,465,063	893,994
Employee Health and Welfare	650,834	561,664
Depreciation	204,459	220,341
	<u>7,558,296</u>	<u>7,008,894</u>
Net Income (Loss) from Operations	<u>(756,025)</u>	<u>(56,836)</u>
Non-Operating Income (Expenses)		
Interest Expense	(46,453)	(51,678)
Donations for Capital Expenditures	30,365	-
Interest Income	6,554	11,414
County Sales Tax	132,499	136,905
Total Non-Operating	<u>122,965</u>	<u>96,641</u>
Change in Net Assets	(633,060)	39,805
Net Assets, Beginning of Year	1,299,571	1,307,766
Transfers to County	<u>(48,000)</u>	<u>(48,000)</u>
Net Assets, End of Year	<u>\$ 618,511</u>	<u>\$ 1,299,571</u>

The accompanying notes are an integral part of these financial statements.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Statement of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Patient Revenue	\$ 6,201,728	\$ 6,973,832
Payments to Suppliers and Employees	(6,815,342)	(6,866,032)
Other Revenues	<u>83,433</u>	<u>77,199</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(530,181)</u>	<u>184,999</u>
NONCAPITAL RELATED FINANCING ACTIVITIES		
Contributions	(48,000)	(48,000)
Sales Tax Receipts	132,499	128,263
Net Cash Provided (Used) for Non Capital Related Financing Activities	<u>84,499</u>	<u>80,263</u>
CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES		
Interest Expense	(46,453)	(51,678)
Purchase of Capital Assets - Net	1,643	(100,111)
Long-Term Borrowing	860,204	62,500
Principal Payments on Long-Term Debt	(230,927)	(155,229)
Donations for Capital Expenditures	<u>30,365</u>	<u>-</u>
NET CASH USED FOR CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES	<u>614,832</u>	<u>(244,518)</u>
INVESTING ACTIVITIES		
Increase In Assets Whose Use Is Limited	(216,020)	-
Interest Income	6,554	11,414
Increase of RDA Reserve	<u>-</u>	<u>(1,728)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(209,466)</u>	<u>9,686</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(40,316)</u>	<u>30,430</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>789,023</u>	<u>758,593</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 748,707</u>	<u>\$ 789,023</u>

The accompanying notes are an integral part of these financial statements.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Statement of Cash Flows
 Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Operating Income/(Loss)	\$ (756,025)	\$ (56,836)
Adjustments to Reconcile Operating Income/(Loss) To Net Cash Provided By Operating Activities:		
Depreciation	204,459	220,341
Changes In:		
Patient and Other Accounts Receivable	(517,110)	90,331
Supplies, Prepaid Expenses, and Other Assets	7,423	5,551
Accounts Payable and Accrued Expenses	<u>531,072</u>	<u>(74,388)</u>
Net Cash provided (used) by Operating Activities	<u>\$ (530,181)</u>	<u>\$ 184,999</u>

The accompanying notes are an integral part of these financial statements.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2012 and 2011

Note 1. Organization

The Harmon County Healthcare Trust Authority is a beneficial public trust created as of February, 1991, under Title 60, Oklahoma Statutes 1981 and the Oklahoma Trust Act. The beneficiary of this Trust is the County of Harmon, Oklahoma. The trust Authority operates the Harmon Memorial Hospital and Colonial Manor II, a long-term care nursing home.

Note 2. Summary of Significant Accounting Policies

General Accounting Consideration - Harmon County Healthcare Trust Authority provides both short-term and long-term inpatient and outpatient health care. A large part of the services are for patients whose bills are paid in whole or in part by third-party payors, e.g., Medicare, Medicaid, and private insurance carriers. Record keeping, influenced by these third-party payors, requires a higher level of accountability including more financial and statistical information.

Patient Accounts Receivable - Patient service revenue is accounted for at established rates on the accrual basis. The Authority provides allowances for doubtful receivables equal to the estimated collection losses that will be included in collection of all receivables. The estimated losses are based on historical collection experience coupled with review of the current status of the existing receivables. Preliminary calculations of revenue adjustments relative to third-party contractual agreements are included in the accompanying financial statements. Normal variances between these estimates and final settlements upon audit by third-party payors are included in the statement of revenues and expenses in the year in which the settlement occurs.

Inventory - Inventory is generally stated at cost on the first-in, first-out method.

Property, Plant and Equipment - Property, plant and equipment is carried at cost and includes expenditures for improvements and betterment which substantially increase the useful lives of existing plant and equipment. Maintenance, repairs and minor renewals are expenses as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is credited or charged to income. The Authority provides for depreciation of property, plant and equipment by methods and at rates designed to amortize the cost of such equipment over its useful life. Depreciation is computed on the straight-line method.

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 disclosures 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.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2012 and 2011

Note 2. Summary of Significant Accounting Policies (Continued)

Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Authority's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. Under GASB Statement No. 34, the Authority is required to present a statement of net assets classified between current and non-current assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and non-operating revenue and expenses and statement of cash flows using the direct methods.

Risk Management - The Authority is exposed to various risk 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.

Medical Malpractice Coverage and Claims - The Authority pays fixed premiums for annual medical malpractice coverage under occurrence-basis policies. In general, the Authority bears risks for any individual claims within costs exceeding \$1,000,000 and the excess, if any, over aggregate cost of \$3,000,000 for claims occurring during the policy year. The Authority accrues the expense of its share of malpractice claim costs, if any, of any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claims experience. No accrual for medical malpractice claims has been made in the accompanying financial statements.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated not realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care - The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amount less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2012 and 2011

Note 2. Summary of Significant Accounting Policies (Continued)

Operating Revenue Expenses – The Authority’s statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating 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 occur to provide health care services, other than financing costs.

The Authority pays fixed premiums for annual medical malpractice coverage under-a-claims made policy. Based on the Authority’s own claims experience, no accrual, for medical malpractice costs, has been made in the accompanying financial statements.

Compensated Absences – The Authority’s employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay 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.

Income Taxes – The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 of the Code and is not required to file federal income tax returns.

Significant Accounting Pronouncements – GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued June 2007 and is effective for the Authority on January 1, 2011. This statement requires the Authority to classify all intangible assets not specifically excluded as capital assets.

Note 3. Amounts Payable on Cost Reimbursement Programs

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

Medicare – Inpatient acute care services provided to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority’s classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority’s Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through 2009.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2012 and 2011

Note 3. Amounts Payable on Cost Reimbursement Programs (continued)

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a per diem reimbursement methodology.

Note 4. Accounts Receivable – Patient

	<u>2012</u>	<u>2011</u>
Total Receivable – Patients	\$ 4,672,392	\$ 3,702,274
Less Allowance for Uncollectible	<u>3,551,558</u>	<u>(2,962,719)</u>
Total	<u>\$ 1,120,834</u>	<u>\$ 739,555</u>

The allowance for uncollectible accounts is based on management's estimate of potential bad debts and the aging of all Accounts Receivable as of June 30, 2012 and 2011.

Note 5. Property, Plant and Equipment

Major classification of property and equipment and their respective depreciable lives are summarized below:

	<u>Depreciable Lives</u>	<u>2012</u>	<u>2011</u>
Land and Building	24-40 years	\$ 3,037,733	\$ 3,037,733
Major Moveable Equipment	5-10 years	<u>2,042,106</u>	<u>2,034,870</u>
		5,079,839	5,072,603
Less Accumulated Depreciation		<u>(4,353,743)</u>	<u>(4,140,405)</u>
Net Property Plant and Equipment		<u>\$ 726,096</u>	<u>\$ 932,198</u>

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2012 and 2011

Note 6 Long Term Debt

A summary of long-term debt, including capital lease obligations as of June 30, 2012 and 2011 is as follows.

	Intrest Rate	Maturity Date	2011				
			Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
USDA/RD	5.00	2018	\$ 1,091,830	\$ -	\$ 114,736	\$ 977,094	\$ 120,613
Thermo Fisher Financial	6.85	2015	-	62,500	7,467	55,033	11,293
Stockmans Bank	3.01	2012	70,080	-	33,026	37,054	37,054
			<u>\$ 1,161,910</u>	<u>\$ 62,500</u>	<u>\$ 155,229</u>	<u>\$ 1,069,181</u>	<u>\$ 168,960</u>

	Intrest Rate	Maturity Date	2012				
			Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
USDA/RD	5.00	20148	\$ 977,094	\$ -	\$ 120,605	\$ 856,489	\$ 126,785
Thermo Fisher Financial	6.85	2015	55,033	-	10,322	44,711	12,093
Settlement Agreement							
United States (OIB-HHS)	0	2018	-	550,000	100,000	450,000	82,500
Stockmans Bank	3.01	2012	37,054	310,204	-	347,258	347,258
			<u>\$ 1,069,181</u>	<u>\$ 860,204</u>	<u>\$ 230,927</u>	<u>\$ 1,698,458</u>	<u>\$ 568,636</u>

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

Year Ending June 30:	Principal	Interest	Total Payments
2013	\$ 576,136	\$ 53,330	\$ 621,966
2014	236,220	35,223	271,443
2015	243,954	27,489	271,443
2016	242,093	19,540	261,633
2017	244,792	11,936	256,728
2018	162,763	4,017	166,780
	<u>\$ 1,698,458</u>	<u>\$ 151,535</u>	<u>\$ 1,849,993</u>

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2012 and 2011

Note 7. Net Patient Service Revenue

Net Patient Service Revenues for the year ended June 30, 2012 and 2011 is computed as follows:

	<u>2012</u>	<u>2011</u>
Gross Patient Service Revenues	\$ 9,499,808	\$ 10,948,659
Less:		
Bad Debt	575,098	454,513
Administration and Other Insurance Adjustments	329,183	701,830
Medicaid Adjustment	834,278	769,003
Medicare Adjustment	<u>1,042,411</u>	<u>2,148,454</u>
Net Patient Service Revenue	<u>\$ 6,718,838</u>	<u>\$ 6,874,859</u>

Note 8. Cash Deposits

It is the Authority's practice to invest only in Demand Deposit Accounts and Certificates of Deposit and savings accounts. At June 30, 2012, the Authority had bank balances as follows:

	<u>Book Balances</u>
Checking	\$ 128,932
Savings and C.D.'s	<u>619,775</u>
Total Deposits	<u>\$ 748,707</u>

Note 9. Concentration of Credit Risk

The Authority is located in Hollis, Oklahoma. The Authority grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

Note 10. Fair Value of Financial Instruments

The following methods and assumptions were used by the Authority in estimating the fair value of its financial instruments at June 30, 2012 and 2011.

The carrying amounts reported in the balance sheet for cash, assets limited as to use, accounts payable and accrued expenses and estimated amounts due to/from Medicare approximate their fair value.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2011

Note 11. Going Concern

Over the past two years, the Organization has incurred significant operating losses due mainly to a drop in patient census at both its hospital and nursing home operations and a settlement with the United States (OIG-HHS). A large part of the services are for patients whose bills are paid in whole or part by third-party payors, e.g., Medicare and Medicaid. Reductions in payments from these third-party payors has also contributed to the operational losses sustained by the organization. (See Also Note 12)

Management is working closely with its physicians and other staff to contain expenses while seeking a solution to its drop in patient census.

Note 12. Settlement With United States (OIG-HHS)

The Hospital has been under investigation by the U.S. Attorney General's office for possible violation of Medicare regulations. An agreement has been reached prior to June 30, 2012. See also Note 6.

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**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**

The Board of Trustees
Harmon County Healthcare Trust Authority
Hollis, Oklahoma

We have audited the financial statements of Harmon County Healthcare Trust Authority, Hollis, Oklahoma, as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated September 20, 2012. As stated in our report, management has elected to not prepare management discussion and analysis which is required under accounting principals generally accepted in the United States of America. . We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harmon County Healthcare Trust 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 Harmon County Healthcare Trust Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

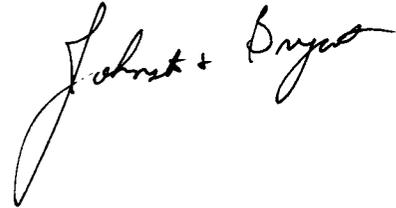
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in Internal Control over financial reporting that we consider to be material weaknesses as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Harmon County Healthcare Trust Authority's financial statements are free of material misstatement, we performed tests on 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.

This report is intended solely for the information and use of management, others within the organization, board of trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2012

A handwritten signature in black ink, appearing to read "Johnst + Bryan", is written in a cursive style.