

**HARMON COUNTY HEALTHCARE  
TRUST AUTHORITY**

Financial Statements  
June 30, 2014 and 2013

With Independent Auditors' Report Thereon

**HARMON COUNTY HEALTH CARE**  
**TRUST AUTHORITY**

**June 30, 2014 and 2013**

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## Independent Auditors' Report

Board of Control  
Harmon County Healthcare Trust Authority  
Hollis, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Harmon County Healthcare Trust Authority, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harmon County Healthcare Trust Authority as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis-of-Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the hospital will continue as a going concern. As discussed in Note 11 to the financial statements, the hospital has suffered significant losses from operations which has reduced the hospital's working capital and raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

## **Other Information**

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2014 on our consideration of Harmon County Healthcare Trust 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 Harmon County Healthcare Trust Authority's internal control over financial reporting and compliance.



Ada, Oklahoma  
November 15, 2014

**HARMON COUNTY HEALTHCARE TRUST AUTHORITY**Balance Sheet  
June 30, 2014 and 2013

| <u>ASSETS</u>                                   | <u>2014</u>                | <u>2013</u>                |
|---|----------------------------|----------------------------|
| Current Assets                                  |                            |                            |
| Cash on Hand and in Banks, including            |                            |                            |
| Time Deposits                                   | \$ 1,145,381               | \$ 818,039                 |
| Accounts Receivable - Patients, Less            |                            |                            |
| Allowances                                      | 523,575                    | 547,169                    |
| Other Assets                                    | 23,881                     | 24,477                     |
| Inventories                                     | 80,668                     | 67,632                     |
| Due Under Cost Contracts                        | -                          | 22,005                     |
| Total Current Assets                            | <u>1,773,505</u>           | <u>1,479,322</u>           |
| RDA Reserves                                    | <u>166,728</u>             | <u>166,728</u>             |
| Property, Plant and Equipment                   | 5,743,474                  | 5,286,678                  |
| Less Accumulated Depreciation                   | <u>(4,713,030)</u>         | <u>(4,569,661)</u>         |
| Net Property, Plant and Equipment               | <u>1,030,444</u>           | <u>717,017</u>             |
| Total Assets                                    | <u><u>\$ 2,970,677</u></u> | <u><u>\$ 2,363,067</u></u> |
| <u>LIABILITIES AND NET POSITION</u>             |                            |                            |
| Current Liabilities                             |                            |                            |
| Accounts Payable                                | \$ 373,016                 | \$ 397,496                 |
| Accrued Payroll and Vacations                   | 304,501                    | 170,236                    |
| Accrued Payroll Taxes                           | 340                        | 342                        |
| Current Portion of Long - Term Debt             | 570,691                    | 579,585                    |
| Other Current Liabilities                       | <u>32,078</u>              | <u>-</u>                   |
| Total Current Liabilities                       | <u>1,280,626</u>           | <u>1,147,659</u>           |
| Long-Term Debt                                  | <u>648,631</u>             | <u>900,168</u>             |
| Net Position                                    |                            |                            |
| Unrestricted                                    | 952,798                    | 710,474                    |
| Invested in Capital Assets, Net of Related Debt | <u>(88,622)</u>            | <u>(395,234)</u>           |
| Total Net Position                              | <u>1,041,420</u>           | <u>315,240</u>             |
| Total Liabilities and Net Position              | <u><u>\$ 2,970,677</u></u> | <u><u>\$ 2,363,067</u></u> |

See accompanying notes.

**HARMON COUNTY HEALTHCARE TRUST AUTHORITY**Statement of Revenues and Expenses  
and Changes in Net Position  
Years Ended June 30, 2014 and 2013

|                                    | <u>2014</u>         | <u>2013</u>       |
|------------------------------------|---------------------|-------------------|
| Net Patient Service Revenue        | \$ 5,491,321        | \$ 5,552,036      |
| Other Operating Revenue            | <u>1,866,282</u>    | <u>757,637</u>    |
| Total Revenues                     | <u>7,357,603</u>    | <u>6,309,673</u>  |
| Expenses                           |                     |                   |
| Professional Services              | 3,617,544           | 3,757,606         |
| General Services                   | 1,203,843           | 1,188,085         |
| Administrative Services            | 1,009,377           | 1,062,517         |
| Employee Health and Welfare        | 710,127             | 426,660           |
| Depreciation                       | <u>144,719</u>      | <u>217,268</u>    |
| Total Expenses                     | <u>6,685,610</u>    | <u>6,652,136</u>  |
| Net Income (Loss) from Operations  | <u>671,993</u>      | <u>(342,463)</u>  |
| Non-Operating Income (Expenses)    |                     |                   |
| Interest Expense                   | (33,101)            | (53,702)          |
| Donations for Capital Expenditures | -                   | 2,000             |
| Interest Income                    | 4,953               | 4,906             |
| County Sales Tax                   | <u>130,335</u>      | <u>133,988</u>    |
| Total Non-Operating Income         | <u>102,187</u>      | <u>87,192</u>     |
| Change in Net Position             | 774,180             | (255,271)         |
| Net Position, Beginning of Year    | 315,240             | 618,511           |
| Transfers to County                | <u>(48,000)</u>     | <u>(48,000)</u>   |
| Net Position, End of Year          | <u>\$ 1,041,420</u> | <u>\$ 315,240</u> |

See accompanying notes.

**HARMON COUNTY HEALTHCARE TRUST AUTHORITY**Statement of Cash Flows  
Years Ended June 30, 2014 and 2013

|   | 2014         | 2013         |
|---|--------------|--------------|
| OPERATING ACTIVITIES  |              |              |
| Patient Revenue   | \$ 5,514,945 | \$ 6,125,701 |
| Payments to Suppliers and Employees                                   | (6,390,845)  | (6,630,769)  |
| Other Revenues  | 1,866,282    | 744,732      |
| NET CASH USED BY OPERATING ACTIVITIES                                 | 990,382      | 239,664      |
| NONCAPITAL RELATED FINANCING ACTIVITIES                               |              |              |
| Transfers to County   | (48,000)     | (48,000)     |
| Sales Tax Receipts  | 130,335      | 133,988      |
| Net Cash Provided (Used) for Non Capital Related Financing Activities | 82,335       | 85,988       |
| CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES                      |              |              |
| Interest Expense  | (33,101)     | (53,702)     |
| Purchase of Capital Assets - Net                                      | (456,796)    | (206,839)    |
| Long-Term Borrowing   | -            | -            |
| Principal Payments on Long-Term Debt                                  | (260,431)    | (218,705)    |
| Donations for Capital Expenditures                                    | -            | 2,000        |
| NET CASH USED FOR CAPITAL AND CAPITAL<br>RELATED FINANCING ACTIVITIES | (750,328)    | (477,246)    |
| INVESTING ACTIVITIES  |              |              |
| (Decrease) Increase In Assets Whose Use Is Limited                    | -            | 216,020      |
| Interest Income   | 4,953        | 4,906        |
| NET CASH PROVIDED BY<br>INVESTING ACTIVITIES                          | 4,953        | 220,926      |
| NET INCREASE IN CASH AND CASH<br>EQUIVALENTS                          | 327,342      | 69,332       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR                          | 818,039      | 748,707      |
| CASH AND CASH EQUIVALENTS, END OF YEAR                                | \$ 1,145,381 | \$ 818,039   |

See accompanying notes.

**HARMON COUNTY HEALTHCARE TRUST AUTHORITY**

## Statement of Cash Flows

Years Ended June 30, 2014 and 2013

|  | <u>2014</u>       | <u>2013</u>       |
|--|-------------------|-------------------|
| Cash Flows from Operating Activities             |                   |                   |
| Operating Income/(Loss)                          | \$ 671,993        | \$ (342,463)      |
| Adjustments to Reconcile Operating Income/(Loss) |                   |                   |
| To Net Cash Provided By Operating Activities:    |                   |                   |
| Depreciation                                     | 144,719           | 217,268           |
| Changes In:                                      |                   |                   |
| Accounts Receivable                              | 23,594            | 573,665           |
| Supplies, Prepaid Expenses, and Other Assets     | 9,565             | 95,510            |
| Accounts Payable and Accrued Expenses            | <u>140,511</u>    | <u>(304,316)</u>  |
| Net Cash provided (used) by Operating Activities | <u>\$ 990,382</u> | <u>\$ 239,664</u> |

See accompanying notes.



# **HARMON COUNTY HEALTHCARE TRUST AUTHORITY**

## **Notes to the Financial Statements**

June 30, 2014 and 2013

### **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, 2014 and 2013

### 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, 2014 and 2013

#### **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 2011.

# HARMON COUNTY HEALTHCARE TRUST AUTHORITY

## Notes to the Financial Statements

June 30, 2014 and 2013

### 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

|                                  | 2014               | 2013               |
|----------------------------------|--------------------|--------------------|
| Total Receivable – Patients      | \$ 4,710,436       | \$ 4,936,607       |
| Less Allowance for Uncollectible | <u>(4,186,861)</u> | <u>(4,389,438)</u> |
| Total                            | <u>\$ 523,575</u>  | <u>\$ 547,169</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, 2014 and 2013.

### Note 5. Property, Plant and Equipment

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

|                                  | Depreciable<br>Lives | 2014                | 2013               |
|----------------------------------|----------------------|---------------------|--------------------|
| Land and Building                | 24-40 years          | \$ 3,037,733        | \$ 3,037,733       |
| Major Moveable Equipment         | 5-10 years           | <u>2,705,741</u>    | <u>2,248,945</u>   |
|                                  |                      | 5,743,474           | 2,286,678          |
| Less Accumulated Depreciation    |                      | <u>(4,713,030)</u>  | <u>(4,569,661)</u> |
| Net Property Plant and Equipment |                      | <u>\$ 1,030,444</u> | <u>\$ 717,017</u>  |

# HARMON COUNTY HEALTHCARE TRUST AUTHORITY

## Notes to the Financial Statements

June 30, 2014 and 2013

### Note 6 Long Term Debt

A summary of long-term debt, including capital lease obligations as of June 30, 2014 and 2013 is as follows:

|   |                 |                  | 2013                 |                 |                   |                     |                    |
|---|-----------------|------------------|----------------------|-----------------|-------------------|---------------------|--------------------|
|   | Intrest<br>Rate | Maturity<br>Date | Beginning<br>Balance | Additions       | Deductions        | Ending<br>Balance   | Current<br>Portion |
| Notes Payable                                   |                 |                  |                      |                 |                   |                     |                    |
| USDA/RD   | 5.00%           | 2018             | \$ 856,489           | \$ -            | \$ 126,776        | \$ 729,713          | \$ 126,785         |
| Thermo Fisher Financial<br>Settlement Agreement | 6.85%           | 2015             | 44,711               | -               | 12,025            | 32,686              | 12,947             |
| United States (OIG-HHS)                         | 0%              | 2018             | 450,000              | -               | 82,500            | 367,500             | 90,000             |
| Stockmans Bank                                  | 3.01%           | 2012             | 347,258              | 2,595           | -                 | 349,853             | 349,853            |
|   |                 |                  | <u>\$ 1,698,458</u>  | <u>\$ 2,595</u> | <u>\$ 221,301</u> | <u>\$ 1,479,752</u> | <u>\$ 579,585</u>  |

|   |                 |                  | 2014                 |             |                   |                     |                    |
|---|-----------------|------------------|----------------------|-------------|-------------------|---------------------|--------------------|
|   | Intrest<br>Rate | Maturity<br>Date | Beginning<br>Balance | Additions   | Deductions        | Ending<br>Balance   | Current<br>Portion |
| Notes Payable                                   |                 |                  |                      |             |                   |                     |                    |
| USDA/RD   | 5.00%           | 2018             | \$ 729,713           | \$ -        | \$ 133,262        | \$ 596,451          | \$ 140,155         |
| Thermo Fisher Financial<br>Settlement Agreement | 6.85%           | 2015             | 32,686               | -           | 12,874            | 19,812              | 14,977             |
| United States (OIG-HHS)                         | 0%              | 2018             | 367,500              | -           | 90,000            | 277,500             | 90,000             |
| Stockmans Bank                                  | 2.40%           | 2015             | 349,853              | -           | 24,294            | 325,559             | 325,559            |
|   |                 |                  | <u>\$ 1,479,752</u>  | <u>\$ -</u> | <u>\$ 260,430</u> | <u>\$ 1,219,322</u> | <u>\$ 570,691</u>  |

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

| Year Ending<br>June 30: | Principal           | Interest          | Total<br>Payments   |
|-------------------------|---------------------|-------------------|---------------------|
| 2015                    | \$ 570,691          | \$ 105,851        | \$ 676,542          |
| 2016                    | 242,092             | 19,540            | 261,632             |
| 2017                    | 244,791             | 11,937            | 256,728             |
| 2018                    | 161,748             | 4,016             | 165,764             |
|                         | <u>\$ 1,219,322</u> | <u>\$ 141,344</u> | <u>\$ 1,360,666</u> |

# HARMON COUNTY HEALTHCARE TRUST AUTHORITY

## Notes to the Financial Statements

June 30, 2014 and 2013

### Note 7. Net Patient Service Revenue

Net Patient Service Revenues for the year ended June 30, 2014 and 2013 is computed as follows:

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Gross Patient Service Revenues                 | \$ 10,102,590       | \$ 10,729,678       |
| Less:  |                     |                     |
| Bad Debt                                       | 1,042,300           | 929,042             |
| Administration and Other Insurance Adjustments | 911,247             | 749,541             |
| Medicaid Adjustment                            | 845,418             | 1,165,239           |
| Medicare Adjustment                            | <u>1,812,304</u>    | <u>2,333,820</u>    |
| Net Patient Service Revenue                    | <u>\$ 5,491,321</u> | <u>\$ 5,552,036</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, 2014 the Authority had bank balances as follows:

|                    | <u>Book<br/>Balances</u> |
|--------------------|--------------------------|
| Checking           | \$ 352,513               |
| Savings and C.D.'s | <u>792,868</u>           |
| Total Deposits     | <u>\$ 1,145,381</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, 2014 and 2013.

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, 2014 and 2013

### **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 was reached in the fiscal year ended June 30, 2013 See also Note 6.

### **Note 13. Subsequent Events**

Management has evaluated subsequent events through November 15, 2014 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

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**INDEPENDENT AUDITORS' 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 Control  
Harmon County Healthcare Trust Authority  
Hollis, Oklahoma

We have audited, in accordance with the 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 financial statements of Harmon County Healthcare Trust Authority, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Harmon County Healthcare Trust 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harmon County Healthcare Trust Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Harmon County Healthcare Trust 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 entity's 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.

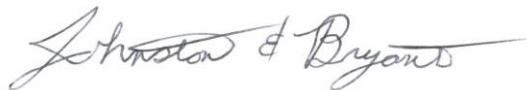
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Harmon County Healthcare Trust Authority's 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 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*.

### **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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script, reading "Johnston & Bryant", with a long horizontal flourish extending to the right.

Ada, Oklahoma  
November 15, 2014

