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**HARMON COUNTY HEALTHCARE
TRUST AUTHORITY**

RECEIPT #
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Financial Statements
June 30, 2011 and 2010

With Independent Auditors' Report Thereon

HARMON COUNTY HEALTH CARE
TRUST AUTHORITY

JUNE 30, 2011 and 2010

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JOHNSTON & BRYANT

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MEMBER
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Oklahoma Society of Certified Public Accountants

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, 2011 and 2010, 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.

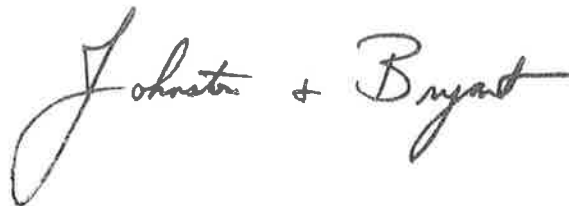
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2011 and 2010, 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 12 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 12. 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 21, 2011 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.

A handwritten signature in black ink, appearing to read "John + Bryant". The signature is written in a cursive, flowing style with a large initial "J" and a long horizontal stroke at the end.

September 21, 2011

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Balance Sheet

June 30, 2011 and 2010

| <u>ASSETS</u> | <u>2011</u> | <u>2010</u> |
|---|--------------|--------------|
| Current Assets | | |
| Cash on Hand and in Banks, including | | |
| Time Deposits | \$ 789,023 | \$ 758,593 |
| Accounts Receivable - Patients, Less | | |
| Allowances | 739,555 | 838,528 |
| Other Receivables | 8,642 | - |
| Inventories | 73,598 | 71,465 |
| Prepaid Expenses | 4,326 | 908 |
| Total Current Assets | 1,615,144 | 1,669,494 |
| RDA Reserves | 166,728 | 165,000 |
| Property, Plant and Equipment | 5,072,603 | 5,002,261 |
| Less Accumulated Depreciation | (4,140,405) | (3,947,374) |
| Net Property, Plant and Equipment | 932,198 | 1,054,887 |
| Total Assets | \$ 2,714,070 | \$ 2,889,381 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current Liabilities | | |
| Accounts Payable | \$ 122,974 | 105,456 |
| Accrued Payroll and Vacations | 145,349 | 193,226 |
| Accrued Payroll Taxes | 35,995 | 37,935 |
| Current Portion of Long - Term Debt | 168,960 | 184,822 |
| Other Current Liabilities | 41,000 | 83,089 |
| Total Current Liabilities | 514,278 | 604,528 |
| Long-Term Debt | 900,221 | 977,088 |
| Net Assets | | |
| Unrestricted | 1,399,500 | 1,344,708 |
| Invested in Capital Assets, Net of Related Debt | (99,929) | (36,943) |
| Total Net Assets | 1,299,571 | 1,307,765 |
| Total Liabilities and Net Assets | \$ 2,714,070 | \$ 2,889,381 |

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

HARMON COUNTY HEALTHCARE TRUST AUTHORITYStatement of Revenues and Expenses
and Changes in Net Assets
Years Ended June 30, 2011 and 2010

| | 2011 | 2010 |
|-----------------------------------|---------------------|---------------------|
| Net Patient Service Revenue | \$ 6,874,859 | \$ 7,447,528 |
| Other Operating Revenue | 77,199 | 54,966 |
| Total Revenues | <u>6,952,058</u> | <u>7,502,494</u> |
| Expenses | | |
| Professional Services | 4,129,318 | 4,377,741 |
| General Services | 1,203,577 | 1,130,455 |
| Administrative Services | 893,994 | 878,524 |
| Employee Health and Welfare | 561,664 | 870,797 |
| Depreciation | 220,341 | 205,116 |
| Interest | 51,678 | 57,459 |
| Total Expenses | <u>7,060,572</u> | <u>7,520,092</u> |
| Net Income (Loss) from Operations | <u>(108,514)</u> | <u>(17,598)</u> |
| Non-Operating Income (Expenses) | | |
| Interest Income | 11,414 | 14,214 |
| County Sales Tax | 136,905 | 147,191 |
| Total Non-Operating | <u>148,319</u> | <u>161,405</u> |
| Change in Net Assets | 39,805 | 143,807 |
| Net Assets, Beginning of Year | 1,307,766 | 1,211,958 |
| Transfers to County | <u>(48,000)</u> | <u>(48,000)</u> |
| Net Assets, End of Year | <u>\$ 1,299,571</u> | <u>\$ 1,307,765</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, 2011 and 2010

| | 2011 | 2010 |
|--|--------------|--------------|
| OPERATING ACTIVITIES | | |
| Patient Revenue | \$ 6,973,832 | \$ 7,964,442 |
| Payments to Suppliers and Employees | (6,917,710) | (7,545,460) |
| Other Revenues | 77,199 | 54,966 |
| NET CASH USED BY OPERATING ACTIVITIES | 133,321 | 473,948 |
| NONCAPITAL RELATED FINANCING ACTIVITIES | | |
| Sales Tax Receipts | 128,263 | 147,191 |
| NET CASH USED FOR NON CAPITAL RELATED FINANCING ACTIVITIES | 128,263 | 147,191 |
| CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES | | |
| Purchase of Capital Assets - Net | (100,111) | (62,544) |
| New Equipment Leasing | 62,500 | - |
| Principal Payments on Long-Term Debt | (155,229) | (365,761) |
| Transfer to County | (48,000) | (48,000) |
| NET CASH USED FOR CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES | (240,840) | (476,305) |
| INVESTING ACTIVITIES | | |
| Investment Income | 11,414 | 14,214 |
| Increase of RDA Reserve | (1,728) | - |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 9,686 | 14,214 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | 30,430 | 159,048 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 758,593 | 599,545 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 789,023 | \$ 758,593 |

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

HARMON COUNTY HEALTHCARE TRUST AUTHORITYStatement of Cash Flows
Years Ended June 30, 2011 and 2010

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Operating Income/(Loss) | \$ (108,514) | \$ (17,598) |
| Adjustments to Reconcile Operating Income/(Loss) To Net Cash Provided By Operating Activities: | | |
| Depreciation | 220,341 | 205,116 |
| Changes In: | | |
| Patient and Other Accounts Receivable | 90,331 | 516,914 |
| Supplies, Prepaid Expenses, and Other Assets | 5,551 | 25,646 |
| Accounts Payable and Accrued Expenses | <u>(74,388)</u> | <u>(256,130)</u> |
| Net Cash provided (used) by Operating Activities | <u>\$ 133,321</u> | <u>\$ 473,948</u> |

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

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2011 and 2010

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, 2011 and 2010

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>2011</u> | <u>2010</u> |
|----------------------------------|--------------------|--------------------|
| Total Receivable – Patients | \$ 3,702,274 | \$ 4,078,897 |
| Less Allowance for Uncollectible | <u>(2,962,719)</u> | <u>(3,240,369)</u> |
| Total | <u>\$ 739,555</u> | <u>\$ 838,528</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, 2011 and 2010.

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>2011</u> | <u>2010</u> |
|----------------------------------|------------------------------|--------------------|---------------------|
| Land and Building | 24-40 years | \$ 3,037,733 | \$ 3,029,891 |
| Major Moveable Equipment | 5-10 years | <u>2,034,870</u> | <u>1,972,370</u> |
| | | 5,072,603 | 5,002,261 |
| Less Accumulated Depreciation | | <u>(4,140,405)</u> | <u>(3,947,374)</u> |
| Net Property Plant and Equipment | | <u>\$ 932,198</u> | <u>\$ 1,054,887</u> |

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2011 and 2010

Note 6 Long Term Debt

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

| | Intrest Rate | Maturity Date | 2011 | | | | Current Portion |
|-------------------------|-----------------|------------------|----------------------|------------------|-------------------|---------------------|--------------------|
| | | | Beginning Balance | Additions | Deductions | Ending Balance | |
| Notes Payable | | | | | | | |
| USDA/RD | 5.00 | 06/2018 | \$ 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 | | 2010 | 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> |

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

| Year Ending June 30: | Principal | Interest | Total Payments |
|-------------------------|---------------------|-------------------|---------------------|
| 2012 | \$ 168,960 | \$ 49,537 | \$ 218,497 |
| 2013 | 138,876 | 42,567 | 181,443 |
| 2014 | 146,217 | 35,226 | 181,443 |
| 2015 | 153,952 | 27,491 | 181,443 |
| 2016 | 152,091 | 19,542 | 171,633 |
| 2017 | 154,789 | 11,939 | 166,728 |
| 2018 | 154,296 | 4,020 | 158,316 |
| | <u>\$ 1,069,181</u> | <u>\$ 190,322</u> | <u>\$ 1,259,503</u> |

HARMON COUNTY HEALTHCARE TRUST AUTHORITY

Notes to the Financial Statements

June 30, 2011 and 2010

Note 7. Net Patient Service Revenue

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

| | <u>2011</u> |
|--|---------------------|
| Gross Patient Service Revenues | \$ 10,948,659 |
| Less: | |
| Bad Debt | 454,513 |
| Administration and Other Insurance Adjustments | 701,830 |
| Medicaid Adjustment | 769,003 |
| Medicare Adjustment | <u>2,107,454</u> |
| Net Patient Service Revenue | <u>\$ 6,915,859</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, 2011, the Authority had bank balances as follows:

| | <u>Book Balances</u> | <u>Bank Balances</u> |
|-------------------|--------------------------|--------------------------|
| Checking | \$ 217,094 | \$ 379,503 |
| Savings and C.D.s | <u>571,929</u> | <u>571,929</u> |
| Total Deposits | <u>\$ 789,023</u> | <u>\$ 951,432</u> |

The Banks have pledged collateral sufficient to cover deposits over \$250,000.

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, 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. Pending Lawsuit

The Authority has been named in a lawsuit filed by a former employee. This lawsuit was settled subsequent to June 30, 2011 within insurance coverage.

Note 12. Going Concern

Over the past two years, the Organization has incurred operating losses due mainly to a drop in patient census at both its hospital and nursing home operations. 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.

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

Note 13. Uncertainty

The Hospital is currently under investigation by the U.S. Attorney General's office for possible violation of Medicare regulations. A tentative agreement has been reached subsequent to June 30, 2011.

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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, 2011 and 2010, and have issued our report thereon dated September 21, 2011. 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. Our report also contains a qualification as to the Organization's ability to continue as a going concern. 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.

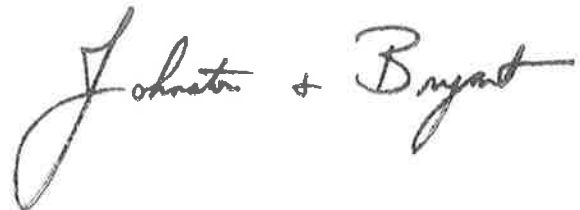
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. These deficiencies are listed in the accompanying schedule of findings as item 01-11.

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 21, 2011

A handwritten signature in cursive script, appearing to read "John + Bryant", is written in dark ink.

HARMON COUNTY HEALTHCARE TRUST AUTHORITY
SCHEDULE OF FINDINGS
June 30, 2011

01 – 11 General Ledger Reconciliation

Criteria: Proper reconciliation of individual general ledger accounts to subsidiary control records and or other supporting detail documentation is an important control activity needed to adequately protect the Entity's assets and ensure accurate financial reporting.

Condition: As of June 30, 2011, the general ledger did not reconcile with many of its subsidiary control ledgers and other supporting documentation. A majority of the balance sheet accounts had to be adjusted as of June 30, 2011 in order to bring them to their properly supported balances.

Cause: The general ledger was not being reconciled to all supporting subsidiary control accounts and/or supporting documentation on a monthly basis.

Effects or Potential Effect: Without a proper reconciliation of general ledger accounts on a monthly basis, there is a high degree of risk that individual accounts may be misstated due to errors or omissions. Also, the potential for material misstatement of financial statements is high and the board and administration could unknowingly make decisions based on misstated amounts which could be detrimental to Authority.

Recommendation: Management should take immediate steps to resolve the issue related to general ledger reconciliation process on a monthly basis.

Responsible Official's Response: Management will address the issue and take the appropriate action necessary to insure the monthly financial data is more accurately recorded and reported.