Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Accountants' Reports and Financial Statements

September 30, 2011 and 2010

BKD LLP
CPAs & Advisors

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
September 30, 2011 and 2010

Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Control
Harper County Community Hospital
Buffalo, Oklahoma

We have audited the accompanying balance sheets of Harper County Community Hospital (the Hospital), a component unit of Harper County, Oklahoma, as of September 30, 2011 and 2010, 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 Hospital'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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harper County Community Hospital as of September 30, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2012, on our consideration of the Hospital'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 considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

February 17, 2012

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Management's Discussion and Analysis
Years Ended September 30, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Harper County Community Hospital (the Hospital) provides an overview of the Hospital's financial activities for the years ended September 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- The Hospital's net assets increased in 2011 by $566,184 or 47% and in 2010 by $189,990 or 19%.
- In fiscal 2011, the Hospital accrued an amount due from the state Medicaid program of $450,000 in connection with its participation in the electronic health record incentive program.
- In fiscal 2011 and 2010, the Hospital invested in capital assets costing $90,043 and $42,441, respectively.
- The Hospital reported operating losses of $63,274 in 2011 and $275,315 in 2010.
- The Hospital's unrestricted appropriations from Harper County increased $166,812 or 37% in 2011 compared to 2010 and $26,058 or 6% in 2010 as compared to 2009.
- Cash, cash equivalents and short-term certificates of deposit increased in 2011 by $59,009 or 8% and in 2010 by $148,988 or 25%.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital's net assets increased by $566,184 (47%) in 2011 and by $189,990 (19%) in 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash, cash equivalents and short-term certificates of deposit	$ 795,283	$ 736,274	$ 587,286
Patient accounts receivable, net	367,865	451,057	364,836
Other current assets	643,290	215,686	196,540
Capital assets, net	428,942	417,163	448,835
Total assets	$ 2,235,380	$ 1,820,180	$ 1,597,497
Liabilities			
Long-term debt (including current maturities)	$ 126,132	$ 79,165	$ 137,865
Other current and noncurrent liabilities	326,894	524,845	433,452
Total liabilities	453,026	604,010	571,317
Net Assets			
Invested in capital assets, net of related debt	302,810	298,108	310,970
Unrestricted	1,479,544	918,062	715,210
Total net assets	1,782,354	1,216,170	1,026,180
Total liabilities and net assets	$ 2,235,380	$ 1,820,180	$ 1,597,497

One significant change in the Hospital's financial position was an increase in other current assets, due primarily to management accruing $450,000 due from the state Medicaid program under the electronic health record incentive program. Another significant change in the Hospital's financial position in 2011 is the decrease in accounts payable and accrued expenses over 2010. This is primarily due to payroll being paid before year-end and a decrease in accounts payable due to fixed asset purchases in accounts payable at the prior year-end. There was also a significant decrease in patient accounts receivable over 2010 due to patient volume decreases.

A significant change in the Hospital's financial position in 2010 is the increase in cash, cash equivalents and short-term certificates of deposit over 2009. This is primarily due to the Hospital's improved financial results as compared to 2009. There was also a significant increase in patient accounts receivable over 2009 due to patient volume increases.

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by $566,184 (47%) as shown in Table 2. This increase is made up of several different components and compares to the increase in net assets for 2010 of $189,990 (19%) and the decrease for 2009 of $185,035 (15%).

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 2,833,522	$ 2,950,863	$ 2,481,444
Other operating revenues	503,685	41,345	43,328
Total operating revenues	3,337,207	2,992,208	2,524,772
Operating Expenses			
Salaries and wages and employee benefits	2,256,065	2,196,055	1,958,092
Purchased services and professional fees	382,641	302,914	386,585
Depreciation	78,264	74,113	85,974
Other operating expenses	683,511	694,441	716,423
Total operating expenses	3,400,481	3,267,523	3,147,074
Operating Loss	(63,274)	(275,315)	(622,302)
Nonoperating Revenues (Expenses)			
County appropriations – unrestricted	623,687	456,875	430,817
Investment income	4,051	5,379	8,561
Interest expense	(8,135)	(7,130)	(10,609)
Noncapital gifts	9,855	10,181	8,498
Total nonoperating revenues (expenses)	629,458	465,305	437,267
Increase (Decrease) in Net Assets	$ 566,184	$ 189,990	$ (185,035)

Operating Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Harper County, Oklahoma, and the surrounding area. Harper County levies sales taxes which are provided to the Hospital as unrestricted appropriations to assist with operations and capital improvements.

The operating loss decreased by $212,041 for 2011 as compared to 2010. The primary components of the changes in operating losses for 2011 are:

- An increase in other operating revenues caused primarily by the Hospital accruing $450,000 due from the state Medicaid program under the electronic health record incentive program.
- A decrease in net patient service revenue of $117,341 or 4% primarily due to decreases in volumes and the suspension of obstetrics services.
- An increase in salaries and wages and employee benefits of $60,010 or 3% due to an increase in nursing salaries to be in line with market wages.
- An increase in purchased services and professional fees of $79,727 or 26% primarily due to physical therapy labor being provided by contracted providers rather than salaried employees.

The operating loss decreased by $346,987 for 2010 as compared to 2009. The primary components of the changes in operating losses for 2010 are:

- An increase in net patient service revenue of $469,419 or 19% primarily due to increases in volumes and the first full year of service at the Buffalo clinic.
- An increase in salaries and wages and employee benefits of $237,963 or 12% due to the addition of a new physician late in the previous year and the first full year of service at the Buffalo clinic.
- A decrease in purchased services and professional fees of $83,671 or 22% due to the employment of a physician.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of unrestricted county appropriations, noncapital gifts, investment income and interest expense. County appropriations from sales taxes increased by $166,812 (37%) in 2011 compared to 2010 and by $26,058 (6%) in 2010 over 2009.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2011 and 2010 as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

In 2011 and 2010, the Hospital acquired new capital assets costing $90,043 and $42,441, respectively. In 2011, $21,590 of these assets was acquired under capital lease.

Debt

During 2011, two new notes payable were incurred for $91,397. The Hospital also entered into a capital lease for $21,590 to purchase equipment. During 2010, no new notes payable or capital leases were incurred.

Contacting the Hospital's Financial Management

This financial report is designed to provide the Hospital's patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration office by telephoning 580.735.2555.

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Balance Sheets
September 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 625,069	$ 541,777
Short-term certificates of deposit	170,214	194,497
Patient accounts receivable, net of allowance; 2011 – $688,000, 2010 – $615,000	367,865	451,057
Estimated amounts due from third-party payers	394,398	-
Supplies and prepaid expenses	193,739	177,007
Other receivables	55,153	38,679
Total current assets	1,806,438	1,403,017
Capital Assets, Net	428,942	417,163
Total assets	$ 2,235,380	$ 1,820,180

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 50,375	$ 51,756
Accounts payable	164,111	215,369
Accrued expenses	162,783	247,405
Estimated amounts due to third-party payers	-	62,071
Total current liabilities	377,269	576,601
Long-term Debt	75,757	27,409
Total liabilities	453,026	604,010
Net Assets		
Invested in capital assets, net of related debt	302,810	298,108
Unrestricted	1,479,544	918,062
Total net assets	1,782,354	1,216,170
Total liabilities and net assets	$ 2,235,380	$ 1,820,180

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – $286,966, 2010 – $227,460	$ 2,833,522	$ 2,950,863
Other	503,685	41,345
Total operating revenues	3,337,207	2,992,208
Operating Expenses		
Salaries and wages	1,859,866	1,806,009
Employee benefits	396,199	390,046
Purchased services and professional fees	382,641	302,914
Medical supplies and drugs	118,970	148,680
Supplies and other	564,541	545,761
Depreciation	78,264	74,113
Total operating expenses	3,400,481	3,267,523
Operating Loss	(63,274)	(275,315)
Nonoperating Revenues (Expenses)		
County appropriations – unrestricted	623,687	456,875
Investment income	4,051	5,379
Interest expense	(8,135)	(7,130)
Noncapital gifts	9,855	10,181
Total nonoperating revenues (expenses)	629,458	465,305
Excess of Revenues over Expenses and Increase in Net Assets	566,184	189,990
Net Assets, Beginning of Year	1,216,170	1,026,180
Net Assets, End of Year	$ 1,782,354	$ 1,216,170

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 2,460,245	$ 2,901,713
Payments to suppliers and contractors	(1,094,252)	(986,501)
Payments to and on behalf of employees	(2,340,687)	(2,196,622)
Other receipts and payments, net	503,685	41,345
Net cash used in operating activities	(471,009)	(240,065)
Noncapital Financing Activities		
Noncapital appropriations – Harper County	607,213	441,874
Noncapital gifts	9,855	10,181
Net cash provided by noncapital financing activities	617,068	452,055
Capital and Related Financing Activities		
Principal paid on long-term debt	(66,020)	(58,700)
Interest paid on long-term debt	(8,135)	(7,130)
Purchase of capital assets	(108,343)	(2,551)
Proceeds from issuance of note payable to bank	91,397	-
Net cash used in capital and related financing activities	(91,101)	(68,381)
Investing Activities		
Interest on investments	4,051	5,379
Net sales (purchases) of certificates of deposit	24,283	(3,105)
Net cash provided by investing activities	28,334	2,274
Increase in Cash and Cash Equivalents	83,292	145,883
Cash and Cash Equivalents, Beginning of Year	541,777	395,894
Cash and Cash Equivalents, End of Year	$ 625,069	$ 541,777

See Notes to Financial Statements

	2011	2010
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (63,274)	$ (275,315)
Depreciation	78,264	74,113
Changes in operating assets and liabilities		
Patient accounts receivable, net	83,192	(86,221)
Estimated amounts due from or to third-party payers	(456,469)	37,071
Accounts payable and accrued expenses	(95,990)	14,432
Supplies and prepaid expenses	(16,732)	(4,145)
Net cash used in operating activities	$ (471,009)	$ (240,065)
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	$ -	$ 39,890
Capital lease obligations incurred for capital assets	$ 21,590	$ -

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Harper County Community Hospital (the Hospital) is a critical access hospital located in Buffalo, Oklahoma. The Hospital is a component unit of Harper County, Oklahoma (the County). The Board of County Commissioners of Harper County, Oklahoma, appoints members to the Board of Control of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in northwestern Oklahoma and also operates physician clinics in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, unrestricted county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as unrestricted county appropriations, investment income and interest on capital assets-related debt) are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2011 and 2010, cash equivalents consisted of certificates of deposit.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Risk Management

The Hospital 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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Investments consist of certificates of deposit, which are carried at amortized cost. Investment income consists of interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10–20 years
Buildings	5–50 years
Equipment	3–20 years

Compensated Absences

Hospital policies permit many employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

County Appropriations

Effective May 1, 1990, the citizens of Harper County, Oklahoma, approved a 1% sales tax for the operations and capital improvements of county health care facilities. The tax expires April 30, 2013. The County appropriates these amounts monthly to the Hospital. The Hospital received approximately 16% and 13% in 2011 and 2010, respectively, of its financial support from county appropriations related to the sales tax. Revenue from county appropriations is recognized in the year in which the sales taxes are earned.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. The payment arrangements include:

- **Medicare** – The Hospital is reimbursed based on a cost reimbursement methodology for inpatient and outpatient services provided to Medicare program beneficiaries as a critical access hospital. The Hospital is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through the year ended September 30, 2009.

- **Medicaid** – The Hospital has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 56% and 54% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Hospital does not have a formal policy to address custodial credit risk.

At September 30, 2011 and 2010, none of the Hospital's bank balances of $883,321 and $779,983, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits shown below are included in the accompanying balance sheets as follows:

	2011	2010
Cash and cash equivalents	$ 625,069	$ 541,777
Short-term certificates of deposit	170,214	194,497
	$ 795,283	$ 736,274

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2011 and 2010, consisted of:

	2011	2010
Medicare	$ 138,521	$ 231,503
Medicaid	26,656	44,587
Other third-party payers	123,602	83,146
Patients	767,086	706,821
	1,055,865	1,066,057
Less allowance for uncollectible accounts	688,000	615,000
	$ 367,865	$ 451,057

Note 5: Capital Assets

Capital assets activity for the years ended September 30, was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 8,875	$ -	$ -	$ -	$ 8,875
Land improvements	26,998	11,375	-	-	38,373
Buildings	500,259	49,957	(13,940)	-	536,276
Equipment	1,304,790	28,711	(107,754)	-	1,225,747
	1,840,922	90,043	(121,694)	-	1,809,271
Less accumulated depreciation					
Land improvements	21,216	2,169	-	-	23,385
Buildings	332,235	12,917	(13,940)	-	331,212
Equipment	1,070,308	63,178	(107,754)	-	1,025,732
	1,423,759	78,264	(121,694)	-	1,380,329
Capital assets, net	$ 417,163	$ 11,779	$ -	$ -	$ 428,942

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 8,875	$ -	$ -	$ -	$ 8,875
Land improvements	26,998	-	-	-	26,998
Buildings	500,259	-	-	-	500,259
Equipment	1,273,936	42,441	(11,587)	-	1,304,790
	1,810,068	42,441	(11,587)	-	1,840,922
Less accumulated depreciation					
Land improvements	19,640	1,576	-	-	21,216
Buildings	320,962	11,273	-	-	332,235
Equipment	1,020,631	61,264	(11,587)	-	1,070,308
	1,361,233	74,113	(11,587)	-	1,423,759
Capital assets, net	$ 448,835	$ (31,672)	$ -	$ -	$ 417,163

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, the Hospital has accrued $10,000 and $0 at September 30, 2011 and 2010, respectively. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-Term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30:

2011	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable to banks	$ 79,165	$ 91,397	$ (63,306)	$ 107,256	$ 46,517
Capital lease obligation	-	21,590	(2,714)	18,876	3,858
	$ 79,165	$ 112,987	$ (66,020)	$ 126,132	$ 50,375

2010	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable to banks	$ 128,255	$ -	$ (49,090)	$ 79,165	$ 51,756
Capital lease obligation	9,610	-	(9,610)	-	-
	$ 137,865	$ -	$ (58,700)	$ 79,165	$ 51,756

Notes Payable to Bank

Bank note payable dated November 30, 2006, in the original amount of $41,004 has monthly payments of $793, including interest at 6% and matures in fiscal 2012. The note is unsecured. At September 30, 2011 and 2010, the note had a balance of $1,569 and $10,697, respectively.

Bank note payable dated April 17, 2007, in the original amount of $129,450 has monthly payments of $2,473, including interest at 5.5% and matures in 2012. The note is unsecured. At September 30, 2011 and 2010, the note had a balance of $14,628 and $42,634, respectively.

Bank note payable dated June 26, 2007, in the original amount of $39,620 has monthly payments of $769, including interest at 6% and matures in 2012. The note is unsecured. At September 30, 2011 and 2010, the note had a balance of $6,746 and $15,285, respectively.

Bank note payable dated June 2, 2009, in the original amount of $18,398 has monthly payments of $552, including interest at 5% and matures in 2012. The note is secured by certain equipment. At September 30, 2011 and 2010, the note had a balance of $4,320 and $10,549, respectively.

Bank note payable dated November 11, 2010, in the original amount of $42,442 has monthly payments of $968, including interest at 4.5% and matures in fiscal 2015. The note is unsecured. At September 30, 2011, the note had a balance of $34,071.

Bank note payable dated June 30, 2011, in the original amount of $48,955 has monthly payments of $916, including interest at 4.75% and matures in 2016. The note is secured by certain equipment. At September 30, 2011, the note had a balance of $45,922.

The debt service requirements as of September 30, 2011, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2012	$ 50,488	$ 46,517	$ 3,971
2013	22,605	20,161	2,444
2014	22,604	21,112	1,492
2015	12,780	12,122	658
2016	7,504	7,344	160
	$ 115,981	$ 107,256	$ 8,725

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at September 30, 2011, totaled $21,590, net of accumulated depreciation of $2,570. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 4.75% together with present value of the future minimum lease payments as of September 30, 2011:

Year Ending September 30,	
2012	$ 5,253
2013	5,253
2014	5,253
2015	5,253
2016	1,444
Total minimum lease payments	22,456
Less amount representing interest	3,580
Present value of future minimum lease payments	$ 18,876

Note 8: Operating Leases

Rental expense under month-to-month and other operating lease agreements totaled approximately $37,000 and $33,000 for the years ended September 30, 2011 and 2010, respectively.

Note 9: Pension Plan

In fiscal 2007, the Hospital began contributing to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's contributions determined in accordance with the terms of the plan. The plan is administered by a third-party administrator. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 8% and 4%, respectively, for 2011 and 7% and 3%, respectively, for 2010. Contributions actually made by plan members and the Hospital aggregated approximately $87,000 and $50,000 during 2011 and $81,000 and $40,000 during 2010, respectively.

Note 10: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in allowances for accounts that could negatively impact the Hospital's ability to maintain sufficient liquidity.

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

Board of Control
Harper County Community Hospital
Buffalo, Oklahoma

We have audited the financial statements of Harper County Community Hospital (the Hospital), a component unit of Harper County, Oklahoma, as of and for the year ended September 30, 2011, and have issued our report thereon dated February 17, 2012. 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 the Hospital'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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 Hospital'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 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 the Hospital'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*.

Board of Control
Harper County Community Hospital

We noted certain matters that we reported to the Hospital's management in a separate letter dated February 17, 2012.

This report is intended solely for the information and use of the governing body, management and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 17, 2012

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Schedule of Findings and Reponses
Year Ended September 30, 2011

Reference Number	Finding
	No matters are reportable.

BKD LLP
CPAs & Advisors

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Board of Control and Management
Harper County Community Hospital
Buffalo, Oklahoma

As part of our audit of the financial statements of Harper County Community Hospital, a component unit of Harper County, Oklahoma as of and for the year ended September 30, 2011, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under 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

An audit performed 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, is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The Hospital's significant accounting policies are described in Note 1 of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Allowances for contractual adjustments and uncollectible accounts
- Estimated amounts due to or from third-party payers
- Reserve for malpractice claim

Financial Statement Disclosures

The following area involves particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Revenue recognition

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Record amount due from Medicaid under the electronic health record incentive program

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Written Communication

Listed below is another material written communication between management and us related to the audit:

- Management representation letter (attached)

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Hospital as of and for the year ended September 30, 2011, 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, we considered the Hospital's internal control over financial reporting (internal control) 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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency 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 of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 Hospital'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.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting. An important component of an internal control system is the segregation of duties so that one individual may not have access to assets, the ability to account for those assets or the responsibility for monitoring or reconciling accounts related to those assets. We identified the following instances where individuals' duties may not be properly segregated to adequately protect the Hospital's assets.

- In the patient revenues and cash receipts accounting transactions cycle, the billing and collections clerk has access to patient payments, access to patient billing files and the responsibility for issuing patient bills and statements. The employee could misappropriate a payment and cover the misappropriation through suppressing statements. While monitoring procedures, such as bank reconciliations and review of deposit totals to cash receipts, could detect a possible misappropriation, we recommend management consider whether there are additional cost-beneficial controls which, if implemented, could prevent this.
- In the vendor payments transactions cycle, the accounts payable clerk may issue purchase orders, approve vendor invoices for payment, has access to signed checks, can record accounts payable and can change vendor master files. While management has implemented monitoring procedures, such as dual signatures on all checks, bank reconciliations and Board and management oversight of payments, the employee could misappropriate a signed check and hide the misappropriation through the recording process. We recommend management consider whether there are additional controls which could prevent this, and if deemed cost effective, implement those controls.
- In the payroll transactions cycle, the payroll clerk may change payroll master files, authorize payroll payments, sign checks and record payroll transactions. One risk is that the employee could create a fictitious employee and issue a payment or alter signed payroll checks. While monitoring procedures, including dual signatures and bank reconciliations, could identify such an occurrence, we recommend management consider whether additional controls could be implemented that would be cost effective in preventing a misappropriation.

Audit Journal Entry

During the audit, we observed that management had not recorded the amount due under the state electronic health record incentive program. Management had attested during fiscal 2011 that the requirements for the payment had been met, but the amount had not been recorded in the financial statements. We proposed and posted an audit entry for $450,000 to increase amounts due from third-party payers and other revenues to correctly record the transaction in the audited financial statements.

OTHER MATTERS

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Cash Clearing Account

During our testing of bank account reconciliations, we noted there were reconciling items related to cash received via electronic funds transfer for which remittance advices had not yet been received. These were treated as a reduction in the cash account to reconcile to the bank. However, these should have been classified as a reduction in accounts receivable. We recommend management consider using a cash clearing account in the general ledger for such transactions and include the account with accounts receivable in the financial statements.

This communication is intended solely for the information and use of management, the Board of Control and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

February 17, 2012

Harper County Community Hospital
P.O. Box 60
Buffalo, Oklahoma 73834-0060
580.735.2555

February 17, 2012

BKD, LLP
Certified Public Accountants
6120 South Yale Avenue, Suite 1400
Tulsa, OK 74136

We are providing this letter in connection with your audits of our financial statements as of and for the years ended September 30, 2011 and 2010. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following:

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.

2. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

3. We have made available to you:

   (a) All financial records and related data.

   (b) All minutes of Board of Control meetings held through the date of this letter.

   (c) All significant contracts and grants.

(d) All peer review organizations, fiscal intermediary and third-party payer reports and information.

4. We have informed you of all current risks of a material amount that are not adequately prevented or detected by Hospital procedures with respect to:

   (a) Misappropriation of assets.

   (b) Misrepresented or misstated assets or liabilities.

5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any known or suspected:

   (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.

   (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.

   (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Hospital received in communications from employees, customers, regulators, suppliers or others.

9. Except as reflected in the financial statements, there are no:

   (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.

   (b) Material transactions omitted or improperly recorded in the financial records.

(c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.

(d) Events occurring subsequent to the balance sheet date requiring adjustment or disclosure in the financial statements.

(e) Related-party transactions, balances, arrangements or guarantees.

We understand that the term related party refers to an affiliate; principal owners, management and members of their immediate families; subsidiaries accounted for by the equity method; and any other party with which the Hospital may deal if the Hospital can significantly influence, or be influenced by, management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the Hospital.

(f) Agreements to purchase assets previously sold.

(g) Violations of laws, regulations or requirements of regulatory agencies for which losses should be accrued or matters disclosed in the financial statements.

(h) Unasserted claims or assessments that our attorneys have advised us are probable of assertion.

(i) Restrictions on cash balances or compensating balance agreements.

(j) Guarantees, whether written or oral, under which the Hospital is contingently liable.

10. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the Hospital's participation in the Medicare or other governmental health care programs.

11. Adequate provisions and allowances have been accrued for any material losses from:

(a) Uncollectible receivables.

(b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.

(c) Reducing obsolete or excess inventories to estimated net realizable value.

(d) Purchase commitments in excess of normal requirements or above prevailing market prices.

12. Except as disclosed in the financial statements, the Hospital has:

(a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.

(b) Complied with all aspects of contractual agreements for which noncompliance would materially affect the financial statements.

13. With respect to the Hospital's possible exposure to past or future medical malpractice assertions:

(a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.

(b) All known incidents have been reported to the appropriate medical malpractice insurer.

(c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.

(d) Management does not expect any claims to exceed malpractice insurance limits.

14. With regard to deposit and investment activities:

(a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.

(b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.

(c) We understand that your audit does not represent an opinion regarding the enforceability of collateral pledges.

15. With respect to any nonattest services you have provided us during the year, including drafting our financial statements and, related footnotes and assisting in reconciling our due from (to) third-party payers accounts:

    (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.

    (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    (d) We have evaluated the adequacy of the services performed and any findings that resulted.

16. We are an organization exempt from income tax under Section 115 of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

17. We acknowledge that we are responsible for compliance with applicable laws, regulations and provisions of contracts and grant agreements.

18. We have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.

19. We have identified and disclosed to you any violations or possible violations of laws, regulations and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.

20. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts or violations of provisions of contracts or grant agreements that you or other auditors report.

21. We have a process to track the status of audit findings and recommendations.

22. We have identified to you any previous financial audits, attestation engagements, performance audits or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements or other studies.

23. The supplementary information required by the Governmental Accounting Standards Board (GASB), consisting of management's discussion and analysis, has been prepared and is presented in conformity with the applicable GASB pronouncements. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. There has been no change from the preceding period in the methods of measurement and presentation.

24. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply or markets for which events <u>could</u> occur which would significantly disrupt normal finances within the next year.

25. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.

26. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.

27. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

28. With regard to cost reports filed with Medicare, Medicaid or other third parties:

    (a) All required reports have been properly filed.

(b) Management is responsible for the accuracy and propriety of those reports.

(c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.

(d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.

(e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

(f) Recorded allowances for third-party settlements are necessary and are based on historical experience or new or ambiguous regulations that may be subject to differing interpretations.

29. We acknowledge the current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. Hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts receivable, etc., that could negatively impact the Hospital's ability to maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the Hospital's financial statements. Further, management and the Board are solely responsible for all aspects of managing the Hospital, including questioning the quality and valuation of assets, evaluating assumptions regarding defined benefit pension plan obligations, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.

Karen A Ives | Georganna Buss

Karen Ives, Administrator | Georganna Buss, CFO

Harper County Community Hospital
ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflects the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	1,806,438	71,656	1,878,094	3.97%
Non-Current Assets	428,942	5,344	434,286	1.25%
Current Liabilities	(377,269)	(55,000)	(432,269)	14.58%
Non-Current Liabilities	(75,757)		(75,757)	
Current Ratio	4.788		4.345	-9.25%
Total Assets	2,235,380	77,000	2,312,380	3.44%
Invest in Capital Assets, net of Debt	(302,810)		(302,810)	
Restricted Net Assets				
Unrestricted Net Assets	(1,479,544)	(22,000)	(1,501,544)	1.49%
Total Net Assets	(1,782,354)	(22,000)	(1,804,354)	1.23%
Operating Revenues	(3,337,207)	(22,000)	(3,359,207)	0.66%
Operating Expenses	3,400,481		3,400,481	
Nonoperating Revenues (Expenses)	(629,458)		(629,458)	
Change in Net Assets	(566,184)	(22,000)	(588,184)	3.89%

Client: Harper County Community Hospital

Period Ending: September 30, 2011

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Type of Misstatement (Known or Likely)	Assets – Current DR (CR)	Assets – Non-Current DR (CR)	Liabilities – Current DR (CR)	Liabilities – Non-Current DR (CR)	Operating Revenues DR (CR)	Operating Expenses DR (CR)	Nonoperating Revenues (Expenses) DR (CR)	Net Assets (Beg. of year) DR (CR)	Invested in Capital Assets, Net DR (CR)	Restricted Net Assets DR (CR)	Unrestricted Net Assets DR (CR)	Net Effect on Following Year – Change in Net Assets DR (CR)	Net Effect on Following Year – Net Assets DR (CR)
PY Turnaround Effect														
NONE														
CY Passed Adjustments														
Overreserve of allowances on A/R	Likely	22,000				(22,000)						(22,000)	22,000	(22,000)
Reclass of cash clearing amounts to A/R	Known	3,360											N/A	N/A
		(3,360)												
Reclass of long-term portion of physician receivable	Known	(5,344)	5,344										N/A	N/A
Reclassify amount due to Medicare as a current liability	Likely	55,000		(55,000)										
Total passed adjustments		71,656	5,344	(55,000)		(22,000)						(22,000)	22,000	(22,000)

Impact on Change in Net Assets	(22,000)
Impact on Net Assets	(22,000)

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