

HOLDENVILLE HOSPITAL AUTHORITY

FINANCIAL STATEMENTS

June 30, 2012 and 2011

With Independent Auditors' Report Thereon

HOLDENVILLE HOSPITAL AUTHORITY

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Management's Discussion and Analysis The Holdenville Hospital Authority

Introduction

Our discussion and analysis of the Holdenville Hospital Authority's (the Authority) provides and overview of the Authority's financial activities for the year ended June 30, 2012. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments increased in 2012 by \$737,325 or 71.6%.
- Capital assets increased in 2012 by \$36,655 or 0.8%.
- Long-term debt decreased in 2012 by \$425,510 or 44.3%.
- The Authority's net assets increased in 2012 by \$443,591 or 14.0%.
- The Authority reported an operating loss in 2012 of (122,403). During 2012, operating losses decreased by \$844,559 or 87.4%.
- Net nonoperating revenues decreased by \$118,407 or 17.0% in 2012 compared to 2011.

Using this Annual Report

The Authority'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 financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority 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 the Authority's finances, "Is the Authority 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 Authority's resources and its activities in a way that help answers this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets-the difference between assets and liabilities-as one way to measure the Authority's financial health, or financial position.

Management's Discussion and Analysis
The Holdenville Hospital Authority

Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing 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 balance during the reporting period.

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net assets increased by \$443,591 or 14.0% in 2012 over 2011 as shown in Table 1

Table 1: Assets, Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets	\$ 3,278,558	2,734,777
Capital Assets, Net	1,357,943	1,696,106
Other Assets	-	-
Total Assets	<u>\$ 4,636,501</u>	<u>\$ 4,430,883</u>
Liabilities		
Long-term debt Outstanding	\$ 535,020	\$ 960,530
Other current and noncurrent liabilities	497,963	310,426
Total Liabilities	<u>\$ 1,032,983</u>	<u>\$ 1,270,956</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 822,923	\$ 735,576
Unrestricted	2,780,595	2,424,351
Total Net Assets	<u>\$ 3,603,518</u>	<u>\$ 3,159,927</u>
Total Liabilities and Net Assets	<u>\$ 4,636,501</u>	<u>\$ 4,430,883</u>

Management's Discussion and Analysis
The Holdenville Hospital Authority

Operating Results and Changes in Net Assets

In 2012, the Authority's net assets increased by \$443,591 or 14.0% as shown in Table 2. The 2012 net asset increase represents an increase of 253.2% compared with the decrease of net assets for 2011 of \$(289,561).

Table 2: Operating Results and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue	\$ 8,964,060	\$ 8,001,171
Other operating revenues	62,742	61,392
Total Operating Revenues	<u>9,026,802</u>	<u>8,062,563</u>
Operating Expenses		
Nursing services	2,163,382	2,310,572
Other professional services	3,733,301	3,569,180
General services	794,269	775,295
Administrative services	2,083,435	2,042,708
Depreciation	374,818	336,770
Total Operating Expenses	<u>9,149,205</u>	<u>9,034,525</u>
Operating Loss	<u>(122,403)</u>	<u>(971,962)</u>
Nonoperating Revenues (Expenses)		
Investment income	8,728	13,818
Interest Expense	(50,600)	(70,570)
Intergovernmental transfer (sales tax from city)	507,576	503,418
Other Nonoperating Revenue	100,290	235,735
Total Nonoperating revenues (expenses)	<u>565,994</u>	<u>682,401</u>
Change in Net Assets	<u>\$ 443,591</u>	<u>\$ (289,561)</u>

Management's Discussion and Analysis

The Holdenville Hospital Authority

Operating Income

The first component of the overall change in the Authority's net assets is its operating income (loss) generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past two years the Authority has had operating losses.

The operating loss for 2012 decreased by \$849,559 or 87.4% as compared to 2011. The primary components of the decreased operating loss are:

- An increase in net patient services revenue of \$962,889 or 12.0%.

Nonoperating Revenues and Expenses

Nonoperating revenue consists primarily of interest income and sales tax transfers from the City. Interest income in 2012 was \$8,728 compared to \$13,818 in 2011. While sales tax transfers were \$507,576 and \$503,418 for 2012 and 2011 respectively.

The Authority received gifts of \$14,226 from various sources in 2012 and \$24,715 in 2011. Substantially all of these gifts have been expended and are reflected in unrestricted net assets as of June 30, 2012.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with the changes in operating income and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Authority had \$1,357,943 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012, the Authority purchased new capital assets costing \$36,655.

Debt

At June 30, 2011, the Authority had \$535,020 in notes and capital lease obligations outstanding.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling (405) 379-4200.

JOHNSTON & BRYANT

Certified Public Accountants

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Oklahoma Society of Certified Public Accountants

Independent Auditors' Report

Board of Trustees
The Holdenville Hospital Authority
Holdenville, Oklahoma

We have audited the accompanying balance sheets of The Holdenville Hospital Authority as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Holdenville Hospital Authority as of June 30, 2012 and 2011, and the results of its operations, changes in net assets 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 September 19, 2012, on our consideration of The Holdenville Hospital Authority's internal control structure 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 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 management's discussion and analysis on pages 1 through 5, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules of net patient service revenue, other operating revenue and operating expenses on pages 22 through 24 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 19, 2012

A handwritten signature in black ink, appearing to read "Johnston E. Bryan". The signature is written in a cursive style with a long horizontal flourish extending to the right.

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HOLDENVILLE HOSPITAL AUTHORITY
 Balance Sheet
 June 30, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and Cash Equivalents	\$ 1,767,745	\$ 1,030,417
Accounts Receivable		
Patients Net	1,052,861	1,308,201
Sales Tax	86,069	90,350
Amounts Due Under Cost Contracts	200,000	50,000
Inventories	169,419	220,292
Prepaid Expenses	2,464	35,517
Total Current Assets	<u>3,278,558</u>	<u>2,734,777</u>
 Capital Assets		
Property, Plant and Equipment	4,532,058	4,495,403
Less Accumulated Depreciation	<u>(3,174,115)</u>	<u>(2,799,297)</u>
Total Capital Assets-Net	<u>1,357,943</u>	<u>1,696,106</u>
 Total Assets	 <u>\$ 4,636,501</u>	 <u>\$ 4,430,883</u>

See accompanying notes to the financial statements

<u>Liabilities and Net Assets</u>	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current Portion of Long-Term Debt	\$ 449,651	\$ 602,254
Accounts Payable	186,510	73,116
Accrued Expenses	311,453	237,310
Total Current Liabilities	<u>947,614</u>	<u>912,680</u>
 Non-Current Liabilities		
Long Term Debt, Net	<u>85,369</u>	<u>358,276</u>
Non-Current Liabilities	<u>85,369</u>	<u>358,276</u>
 Total Liabilities	<u>1,032,983</u>	<u>1,270,956</u>
 Net Assets		
Invested in Capital Assets - Net of Related Debt	822,923	735,576
Unrestricted	<u>2,780,595</u>	<u>2,424,351</u>
Total Net Assets	<u>3,603,518</u>	<u>3,159,927</u>
 Total Liabilities and Net Assets	<u>\$ 4,636,501</u>	<u>\$ 4,430,883</u>

HOLDENVILLE HOSPITAL AUTHORITY
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Net Patient Service Revenues	\$ 8,964,060	\$ 8,001,171
Other Operating Revenue	<u>62,742</u>	<u>61,392</u>
Total Operating Revenue	<u>9,026,802</u>	<u>8,062,563</u>
Expenses		
Nursing Services	2,163,382	2,310,572
Other Professional Services	3,733,301	3,569,180
General Services	794,269	775,295
Administrative Services	2,083,435	2,042,708
Provision for Depreciation	<u>374,818</u>	<u>336,770</u>
Total Expenses	<u>9,149,205</u>	<u>9,034,525</u>
Net Income (Loss) from Operations	(122,403)	(971,962)
Non-Operating Revenue		
Interest Income	8,728	13,818
Intergovernmental Transfer - Sales Tax from City	507,576	503,418
Contributions	14,226	24,715
Grant Income	22,314	11,020
EMR Incentive Payments	63,750	200,000
Interest Expense	<u>(50,600)</u>	<u>(70,570)</u>
Change in Net Assets	443,591	(289,561)
Net Assets - Beginning	<u>3,159,927</u>	<u>3,449,488</u>
Net Assets - Ending	<u>\$ 3,603,518</u>	<u>\$ 3,159,927</u>

See accompanying notes to the financial statements

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

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activity		
Patient Service Revenue	\$ 9,069,400	\$ 8,273,592
Other Revenue	62,742	61,392
Interest Income	8,728	13,818
Payments to Employees	(4,194,743)	(4,263,551)
Payments to Vendors and Suppliers	(4,308,181)	(4,429,993)
Net Cash Used in Operating Activity	<u>637,946</u>	<u>(344,742)</u>
Noncapital Financing Activities		
Sales Tax Transfers	511,857	499,540
Donations	14,226	24,715
Grant Income	63,750	200,000
	22,314	11,020
Net Cash Provided by Noncapital Financing Activities	<u>612,147</u>	<u>735,275</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(36,655)	(204,695)
Loan Advances	-	295,151
Principal Payments	(425,510)	(358,168)
Interest Payments	(50,600)	(70,570)
Net Cash Flows from Capital and Related Financing Activities	<u>(512,765)</u>	<u>(338,282)</u>
Increase (Decrease) in Cash	737,328	52,251
Cash - Beginning	<u>1,030,417</u>	<u>978,166</u>
Cash - Ending	<u>\$ 1,767,745</u>	<u>\$ 1,030,417</u>

See accompanying notes to the financial statements.

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

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Net (Loss) Income from Operations	\$ (122,403)	\$ (971,962)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	374,818	336,770
Income from Investments	8,728	13,818
Changes in Operating Assets and Liabilities		
Accounts Receivable	105,340	272,421
Prepays	33,053	1,451
Inventory	50,873	(1,637)
Accounts Payable	<u>187,537</u>	<u>4,397</u>
Net Cash Provided (Used) by Operations	<u>\$ 637,946</u>	<u>\$ (344,742)</u>

See accompanying notes to the financial statements.

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 1. **Organization**

Holdenville General Hospital (the "Hospital") is leased from the City of Holdenville, Oklahoma, to The Holdenville Hospital Authority (the "Authority"), which is a public trust created under Title 60, Oklahoma Statute for the benefit of residents of Holdenville, Oklahoma, the beneficiaries of the trust. The Authority is empowered to provide physical facilities, improvements, and services for the purpose of providing public health care. The Hospital provides inpatient, outpatient, emergency care, rural health clinics and home health services for residents of Holdenville, Oklahoma. Admitting physicians are primarily practitioners in the local area. The Authority has entered into an operating contract with the Hospital Board for the operation of the Hospital, and retains the right to appoint members of the Hospital Board as vacancies occur.

Note 2. **Significant Accounting Policies**

Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Report 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 and 37, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and GASB Statement No. 38 Certain Financial Statement Note Disclosures. Under GASB Statement No. 34, the Authority is required to present a balance sheet classified between current and Noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows using the direct methods.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents – Investments that have an original maturity of three months or less are considered to be cash equivalents.

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 2. Significant Accounting Policies (continued)

Allowance for uncollectible accounts

Patient receivables are uncollateralized customer and third-party payor obligations.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowances that reflects management's best estimate of amounts that will not be collected from patient and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third-parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Inventories

Inventories are valued at a lower cost (first-in, first-out method) or market.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or retirements are included in income in the period of disposition.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The ranges of such useful lives are as follows:

Land improvements	10 years
Building	20-40 years
Equipment	3-20 years

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 2. Significant Accounting Policies (continued)

Net Assets

Net assets in the Hospital are classified in two components.

Net Assets Invested in Capital Assets Net of Related Debt – Invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted Net Assets – Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Net Patient Service revenue

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

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operation and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital'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 are all expenses incurred to provide health care services.

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 2. Significant Accounting Policies (continued)

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; 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 two preceding years. The provision, if any, for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Sales Tax Revenue

The Hospital received approximately 5.26 percent and 5.71 percent of its financial support during 2012 and 2011 from sales taxes. These funds were used 100 percent to support operations.

Grants and Contributions

From time to time, the Hospital receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operation purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operation purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Compensated absences

The Hospital'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 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 not required to file federal income tax returns.

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 3. Cash and Deposits

State statutes require public trusts to invest only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Hospital's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following summarizes the cash deposits as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Insured (FDIC)	\$ 250,000	\$ 250,275
Collateralized by securities held by the pledging financial institution's trust department in the (Authority's) name	1,604,612	949,267
Uninsured, uncollateralized or collateralized by securities held its trust department or agent in other than the (Authority's) name	<u>-</u>	<u>-</u>
Total	<u>\$ 1,854,612</u>	<u>\$ 1,199,542</u>
Carrying Value	<u>\$ 1,767,745</u>	<u>\$ 1,030,417</u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and un collateralized; uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exist when the authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

The Authority secures cash deposits in excess of \$250,000 with U.S. Government or federal agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2012 and 2011 the carrying amount of the Authority's deposits was \$1,767,745 and \$1,030,417 and the bank balance was \$1,854,612 and \$1,199,542 respectively. As of June 30, 2012 and 2011 the Authority was not exposed to custodial credit risk.

Note 4. Accounts Receivable – Patients

Patient accounts receivable at June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Patient Accounts	\$ 2,473,396	\$ 2,579,336
Less: Contractual Adjustments	835,360	740,301
Less: Allowance For Uncollectible Accounts	<u>585,175</u>	<u>530,834</u>
	<u>\$ 1,052,861</u>	<u>\$ 1,308,201</u>

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 5. Capital Assets

Capital asset activity for the years ended June 30, 2012 and 2011 was as follows:

	2012				
	Beginning Balance	Addition	Transfers	Retirements	Ending Balance
Land	\$ 33,919	\$ -	\$ -	\$ -	\$ 33,919
Building	2,098,777	-	-	-	2,098,777
Equipment	567,176	36,655	-	-	603,831
Capital Lease Equipment	1,795,531	-	-	-	1,795,531
Total Capital Assets	<u>4,495,403</u>	<u>36,655</u>	<u>-</u>	<u>-</u>	<u>4,532,058</u>
Less Accumulated Depreciation					
Building	1,382,601	60,701	-	-	1,443,302
Equipment	278,492	99,483	-	-	377,975
Capital Lease Equipment	1,138,204	214,634	-	-	1,352,838
	<u>2,799,297</u>	<u>374,818</u>	<u>-</u>	<u>-</u>	<u>3,174,115</u>
Capital Assets - Net	<u>\$ 1,696,106</u>	<u>\$ (338,163)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,357,943</u>
	2011				
	Beginning Balance	Addition	Transfers	Retirements	Ending Balance
Land	\$ 33,919	\$ -	\$ -	\$ -	\$ 33,919
Building	2,098,777	-	-	-	2,098,777
Equipment	469,698	97,478	-	-	567,176
Capital Lease Equipment	1,686,246	109,285	-	-	1,795,531
Total Capital Assets	<u>4,288,640</u>	<u>206,763</u>	<u>-</u>	<u>-</u>	<u>4,495,403</u>
Less Accumulated Depreciation					
Building	1,320,513	62,088	-	-	1,382,601
Equipment	218,058	60,434	-	-	278,492
Capital Lease Equipment	921,888	216,316	-	-	1,138,204
	<u>2,460,459</u>	<u>338,838</u>	<u>-</u>	<u>-</u>	<u>2,799,297</u>
Capital Assets - Net	<u>\$ 1,828,181</u>	<u>\$ (132,075)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,696,106</u>

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 6. Long-Term Debt

A Summary of long-term debt, including capital lease obligations as of June 30, 2012 and 2011 are as follows:

			2012				
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
Insurance Note Payable	6.00%	3/31/2009	\$ 36,031	\$ -	\$ 36,031	\$ -	\$ -
Line of Credit	4.40%	11/5/2009	143,909	-	52,898	91,012	91,012
C-Arm	7.00%	10/18/2015	50,923	-	50,923	-	-
Anesthesia Machine	5.00%	5/20/2016	30,275	-	30,275	-	-
Radiology Equipment	6.25%	7/21/2014	124,184	-	32,829	91,355	34,954
Building Note Payable	4.30%	5/27/2009	189,169	-	42,335	146,834	146,834
			<u>574,491</u>	<u>-</u>	<u>245,291</u>	<u>329,201</u>	<u>272,800</u>
Capital Leases							
PACS Lease	5.97%	9/30/2008	-	-	-	-	-
Lung CAD	10.00%	6/30/2011	-	-	-	-	-
MDG Lease	9.60%	10/1/2012	36,405	-	27,105	9,300	9,300
HMS	8.91%	6/23/2008	349,633	-	153,114	196,519	167,551
			<u>386,038</u>	<u>-</u>	<u>180,219</u>	<u>205,819</u>	<u>176,851</u>
			<u>\$ 960,529</u>	<u>\$ -</u>	<u>\$ 425,510</u>	<u>\$ 535,020</u>	<u>\$ 449,651</u>
			2011				
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
Insurance Note Payable	6.00%	3/31/2009	\$ 33,235	\$ 106,934	\$ 104,138	\$ 36,031	\$ 36,031
Line of Credit	4.40%	11/5/2009	43,909	100,000	-	143,909	143,909
X-Ray Equipment	4.00%	7/28/2009	-	57,498	6,575	50,923	10,454
Anesthesia Machine	5.00%	5/20/2016	-	30,719	444	30,275	5,560
Radiology Equipment	6.25%	7/21/2014	155,344	-	31,160	124,184	32,842
Building Note Payable	4.30%	5/27/2009	232,680	-	43,511	189,169	189,169
			<u>465,168</u>	<u>295,151</u>	<u>185,828</u>	<u>574,491</u>	<u>417,965</u>
Capital Leases							
PACS Lease	5.97%	9/30/2008	-	-	-	-	-
Lung CAD	10.00%	6/30/2011	-	-	-	-	-
MDG Lease	9.60%	10/1/2012	60,879	-	24,474	36,405	26,890
HMS	8.91%	6/23/2008	497,499	-	147,866	349,633	157,399
			<u>558,378</u>	<u>-</u>	<u>172,340</u>	<u>386,038</u>	<u>184,289</u>
			<u>\$ 1,023,546</u>	<u>\$ 295,151</u>	<u>\$ 358,168</u>	<u>\$ 960,529</u>	<u>\$ 602,254</u>

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 6. Long-Term Debt (continued)

Scheduled principal and interest payment on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30:	Notes Payable		Capital Lease	
	Principal	Interest	Principal	Interest
2012	\$ 272,800	\$ 11,208	\$ 176,851	\$ 7,745
2013	37,202	2,490	28,968	216
2014	19,199	357	-	-
2015	-	-	-	-
2016	-	-	-	-
Total	<u>\$ 329,201</u>	<u>\$ 14,055</u>	<u>\$ 205,819</u>	<u>\$ 7,961</u>

Note 7. Net Patient Service Revenue

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

Medicare:

Under Prospective Payment System: Prior to critical access designation, services rendered to Medicare program beneficiaries were paid at prospectively determined rates per visit. These rates carried according to a patient classification system that was based on clinical, diagnostic, and other factors. The Hospital was reimbursed for these services as a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare Fiscal intermediary through the year ended June 30, 2008.

Under Critical Access Hospital Designation: Effective August 1, 2003, the Hospital was relicensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Hospital subject to audits thereof by the Medicare intermediary.

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 7. Net Patient Service Revenue (continued)

The Hospital's classification of patents 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 Hospital.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined per-diem rate or established fee.

Other carriers: 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 8. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were \$51,552 and \$97,234 for 2012 and 2011 respectively.

Note 9. Defined Benefit Pension/Profit Sharing Plan

The Hospital adopted the Holdenville General Hospital Profit Sharing Plan, a qualified plan and trust under Section 401 and 501(s) of the Internal Revenue Code. The plan covers all full time employees who have completed one full year of service with the Hospital. The Hospital, at its option, may contribute to the plan. During 2011 and 2010, the Hospital made no contributions to the plan.

Note 10. Future Lease Commitments

The Hospital leases various equipment under operating leases expiring at various dates through June 2013. Total rental expenses in 2012 and 2011, for all operating leases were approximately \$266,973 and \$251,533 respectively.

HOLDENVILLE HOSPITAL AUTHORITY

Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Note 11. Related Party Transactions

A one percent sales tax ordinance was re-voted on April 6, 2010 for term of five years. The proceeds of the sales tax are to further any lawful purpose of the Hospital, including but not limited to the support, capital improvements, operating and maintenance of the Hospital. During the years ended June 30, 2012 and 2011, proceeds of \$507,576 and \$503,418 respectively, were generated by this tax and were deposited in the general fund of the Hospital.

HOLDENVILLE HOSPITAL AUTHORITY

Patient Service Revenue

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Daily Patient Service		
Medical and Surgical	\$ 1,424,676	\$ 1,457,949
Total Daily Patient Service	<u>1,424,676</u>	<u>1,457,949</u>
Other Nursing Units		
Central Service and Supply	1,093,950	1,139,610
Emergency Services	4,137,946	4,179,587
Operating and Recovery Room	1,400,668	2,068,334
Total Other Nursing Units	<u>6,632,564</u>	<u>7,387,531</u>
Other Professional Services		
Laboratory	3,455,194	3,295,371
Electrocardiology	128,192	115,940
Radiology	4,238,734	4,525,750
Pharmacy	1,116,487	1,125,623
Anesthesiology	174,300	215,550
Respiratory Therapy	227,988	275,939
Physical Therapy	649,357	469,531
Physician Clinic	1,762,709	1,808,911
Rural Clinic	447	-
Specialty Clinic	169,100	98,700
Total Other Professional Services	<u>11,922,508</u>	<u>11,931,315</u>
Total Patient Service Revenue	<u>19,979,748</u>	<u>20,776,795</u>
Less Contractual Adjustments		
Medicare	4,319,639	5,237,496
Medicaid	1,693,034	2,380,512
Discounts and other allowances	3,001,371	3,006,699
Provisions for Bad Debts	2,001,644	2,150,917
	<u>11,015,688</u>	<u>12,775,624</u>
Net Patient Service Revenue	<u>\$ 8,964,060</u>	<u>\$ 8,001,171</u>

HOLDENVILLE HOSPITAL AUTHORITY
Other Operating Revenue
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 40,131	\$ 42,877
Medical Records Fees	1,834	1,637
Rental Income	16,525	12,050
Miscellaneous	<u>4,252</u>	<u>4,828</u>
Total Other Operating Revenue	<u>\$ 62,742</u>	<u>\$ 61,392</u>

HOLDENVILLE HOSPITAL AUTHORITY
Patient Service Expense
Years Ended June 30, 2012 and 2011

	2012		Totals
	Salaries and Wages	Supplies and Other Expense	
Nursing Services			
Medical and Surgical	\$ 648,059	\$ 179,821	\$ 827,880
Emergency Room	402,506	448,547	851,053
Operating and Recovery Room	106,376	378,073	484,449
Total Nursing Services	\$ 1,156,941	\$ 1,006,441	\$ 2,163,382
Other Professional Services			
Laboratory	\$ 241,252	\$ 422,823	\$ 664,075
Radiology	357,332	729,031	1,086,363
Pharmacy	35,260	242,428	277,688
Anesthesiology	-	90,209	90,209
Respiratory Therapy	48,474	44,183	92,657
Physical Therapy	134,308	33,485	167,793
Rural Clinic	632,220	71,310	703,530
Physician Clinic	538,792	81,545	620,337
Specialty Clinic	2,698	27,951	30,649
Total Other Professional Services	\$ 1,990,336	\$ 1,742,965	\$ 3,733,301
General Services			
Dietary	92,949	73,392	166,341
Medical Records	126,010	28,784	154,794
Plant Engineering	68,033	271,150	339,183
Housekeeping	69,534	26,568	96,102
Laundry and Linen	-	37,849	37,849
Total General Services	\$ 356,526	\$ 437,743	\$ 794,269
Administrative Services			
Administration and Business Offices	765,083	428,953	1,194,036
Insurance	-	98,843	98,843
Employee Benefits	-	790,556	790,556
Total Administrative Services	\$ 765,083	\$ 1,318,352	\$ 2,083,435

2011		
Salaries and Wages	Supplies and Other Expense	Totals
\$ 663,178	\$ 83,971	\$ 747,149
508,275	432,177	940,452
88,334	534,637	622,971
<u>\$ 1,259,787</u>	<u>\$ 1,050,785</u>	<u>\$ 2,310,572</u>
\$ 224,560	\$ 382,236	\$ 606,796
332,524	692,472	1,024,996
27,169	286,054	313,223
-	80,223	80,223
48,053	36,817	84,870
91,736	57,114	148,850
596,219	38,857	635,076
568,950	89,453	658,403
1,698	15,045	16,743
<u>\$ 1,890,909</u>	<u>\$ 1,678,271</u>	<u>\$ 3,569,180</u>
92,424	79,894	172,318
128,929	22,382	151,311
82,159	247,548	329,707
62,008	26,484	88,492
-	33,467	33,467
<u>\$ 365,520</u>	<u>\$ 409,775</u>	<u>\$ 775,295</u>
720,864	414,253	1,135,117
-	131,100	131,100
-	776,491	776,491
<u>\$ 720,864</u>	<u>\$ 1,321,844</u>	<u>\$ 2,042,708</u>

**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
The Holdenville Hospital Authority
Holdenville, Oklahoma

We have audited the financial statements of Holdenville Hospital Authority as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated September 19, 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 Holdenville Hospital 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 Holdenville Hospital Authority'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

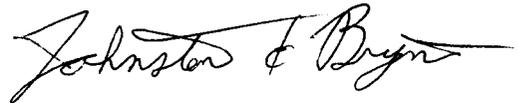
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holdenville Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliances 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, board of trustees, others within the entity, 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 19, 2012

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