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HOLDENVILLE HOSPITAL AUTHORITY

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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, 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments decreased in 2011 by $52,251 or 5.3%.
- Capital assets increased in 2011 by $206,763 or 4.8%.
- Long-term debt decreased in 2011 by $63,017 or 6.2%.
- The Authority's net assets decreased in 2011 by $289,561 or 8.4%.
- The Authority reported an operating loss in 2011 of (1,042,532). During 2011, operating losses increased by $711,536 or 214.9%.
- Net nonoperating revenues increased by $83,833 or 12.5% in 2011 compared to 2010.

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. Theses 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 nonfinacial 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 decreased by $289,561 or 8.4% in 2011 over 2010 as shown in Table 1

Table 1: Assets, Liabilities and Net Assets

	2011	2010
Assets		
Current Assets	$ 2,734,777	2,950,883
Capital Assets, Net	1,696,106	1,828,181
Other Assets	-	-
Total Assets	$ 4,430,883	$ 4,779,064
Liabilities		
Long-term debt Outstanding	$ 960,530	$ 1,023,547
Other current and noncurrent liabilities	310,426	306,029
Total Liabilities	$ 1,270,956	$ 1,329,576
Net Assets		
Invested in capital assets, net of related debt	$ 735,576	$ 804,634
Unrestricted	2,424,351	2,644,854
Total Net Assets	$ 3,159,927	$ 3,449,488
Total Liabilities and Net Assets	$ 4,430,883	$ 4,779,064

Operating Results and Changes in Net Assets

In 2011, the Authority's net assets decreased by $289,561 or 8.4% as shown in Table 2. The 2011 net asset increase represents a decrease of 185.6% compared with the increase of net assets for 2010 of $338,142.

Table 2: Operating Results and Changes in Net Assets

	2011	2010
Operating Revenues		
Net patient service revenue	$ 8,001,171	$ 8,753,767
Other operating revenues	61,392	75,818
Total Operating Revenues	8,062,563	8,829,585
Operating Expenses		
Nursing services	2,310,572	2,164,446
Other professional services	3,569,180	3,450,301
General services	775,295	791,381
Administrative services	2,042,708	2,304,402
Interest Expense	70,570	92,543
Depreciation	336,770	357,508
Total Operating Expenses	9,105,095	9,160,581
Operating Loss	(1,042,532)	(330,996)
Nonoperating Revenues (Expenses)		
Investment income	13,818	20,168
Intergovernmental transfer (sales tax from city)	503,418	487,498
Other Nonoperating Revenue	235,735	161,472
Total Nonoperating revenues (expenses)	752,971	669,138
Change in Net Assets	$ (289,561)	$ 338,142

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 2011 increased by $711,536 or 214.9% as compared to 2010. The primary components of the decreased operating loss are:

- A decrease in net patient services revenue of $752,596 or 8.6%.

Nonoperating Revenues and Expenses

Nonoperating revenue consists primarily of interest income and sales tax transfers from the City. Interest income in 2011 was $13,818 compared to $20,168 in 2010. While sales tax transfers were $503,418 and $487,798 for 2011 and 2010 respectively.

The Authority received gifts of $24,715 from various sources in 2011 and $43,472 in 2010. Substantially all of these gifts have been expended and are reflected in unrestricted net assets as of June 30, 2011.

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 2011, the Authority had $1,696,106 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Authority purchased new capital assets costing $206,763.

Debt

At June 30, 2011, the Authority had $960,529 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.

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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, 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 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, 2011 and 2010, 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 15, 2011, 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 15, 2011

Johnston & Bryant

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Exhibit A

HOLDENVILLE HOSPITAL AUTHORITY
Balance Sheet
June 30, 2011 and 2010

ASSETS	2011	2010
Current Assets		
Cash and Cash Equivalents	$ 1,030,417	$ 978,166
Accounts Receivable		
Patients Net	1,308,201	1,605,622
Sales Tax	90,350	86,472
Amounts Due Under Cost Contracts	50,000	25,000
Inventories	220,292	218,655
Prepaid Expenses	35,517	36,968
Total Current Assets	2,734,777	2,950,883
Capital Assets		
Property, Plant and Equipment	4,495,403	4,288,640
Less Accumulated Depreciation	(2,799,297)	(2,460,459)
Total Capital Assets-Net	1,696,106	1,828,181
Total Assets	$ 4,430,883	$ 4,779,064

See accompanying notes to the financial statements

Liabilities and Net Assets	2011	2010
Current Liabilities		
Current Portion of Long-Term Debt	$ 602,254	$ 512,987
Accounts Payable	73,116	42,248
Accrued Expenses	237,310	263,781
Total Current Liabilities	912,680	819,016
Non-Current Liablilities		
Long Term Debt, Net	358,276	510,560
Non-Current Liabilities	358,276	510,560
Total Liabilities	1,270,956	1,329,576
Net Assets		
Invested in Capital Assets - Net of Related Debt	735,576	804,634
Unrestricted	2,424,351	2,644,854
Total Net Assets	3,159,927	3,449,488
Total Liabilities and Net Assets	$ 4,430,883	$ 4,779,064

Exhibit B

HOLDENVILLE HOSPITAL AUTHORITY
Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010
Revenues		
Net Patient Service Revenues	$ 8,001,171	$ 8,753,767
Other Operating Revenue	61,392	75,818
Total Operating Revenue	8,062,563	8,829,585
Expenses		
Nursing Services	2,310,572	2,164,446
Other Professional Services	3,569,180	3,450,301
General Services	775,295	791,381
Administrative Services	2,042,708	2,304,402
Interest	70,570	92,543
Provision for Depreciation	336,770	357,508
Total Expenses	9,105,095	9,160,581
Net Income (Loss) from Operations	(1,042,532)	(330,996)
Non-Operating Revenue		
Interest Income	13,818	20,168
Intergovernmental Transfer - Sales Tax from City	503,418	487,498
Contributions	24,715	43,472
Grant Income	11,020	-
EMR Incentive Payments	200,000	-
Gain on Disposal of Assets	-	118,000
Change in Net Assets	(289,561)	338,142
Net Assets - Beginning	3,449,488	3,111,346
Net Assets - Ending	$ 3,159,927	$ 3,449,488

See accompanying notes to the financial statements

HOLDENVILLE HOSPITAL AUTHORITY
Statement of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activity		
Patient Service Revenue	$ 8,273,592	$ 8,687,872
Other Revenue	61,392	75,818
Interest Income	13,818	20,168
Payments to Employees	(4,263,551)	(3,877,519)
Payments to Vendors and Suppliers	(4,429,993)	(4,965,934)
Net Cash Used in Operating Activity	(344,742)	(59,595)
Noncapital Financing Activities		
Sales Tax Transfers	499,540	484,651
Donations	24,715	43,472
Grant Income	200,000	-
	11,020	-
Net Cash Provided by Noncapital Financing Activities	735,275	528,123
Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(204,695)	(193,290)
LoanAdvances	295,151	203,301
Principal Payments	(358,168)	(404,711)
Interest Payments	(70,570)	(92,543)
Net Cash Flows from Capital and Related Financing Activities	(338,282)	(487,243)
Increase (Decrease) in Cash	52,251	(18,715)
Cash - Beginning	978,166	996,881
Cash - Ending	$ 1,030,417	$ 978,166

See accompanying notes to the financial statements.

HOLDENVILLE HOSPITAL AUTHORITY
Statement of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Net (Loss) Income from Operations	$ (1,042,532)	$ (330,996)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	336,770	357,508
Interest Expense	70,570	92,543
Income from Investments	13,818	20,168
Changes in Operating Assets and Liabilities		
Accounts Receivable	272,421	(65,895)
Prepaids	1,451	(1,856)
Inventory	(1,637)	(47,607)
Accounts Payable	4,397	(83,460)
Net Cash Provided (Used) by Operations	$ (344,742)	$ (59,595)

See accompanying notes to the financial statements.

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 heath 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.

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

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.

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 5.52 percent and 5.13 percent of its financial support during 2011 and 2010 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.

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, 2011 and 2010:

	2011	2010
Insured (FDIC)	$ 250,275	$ 250,275
Collateralized by securities held by the pledging financial institution's trust department in the (Authority's) name	949,267	825,445
Uninsured, uncollateralized or collateralized by securities held its trust department or agent in other than the (Authority's) name	-	-
Total	$ 1,199,542	$ 1,075,720
Carrying Value	$ 1,030,417	$ 978,166

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, 2011 and 2010 the carrying amount of the Authority's deposits was $1,030,417 and $978,166 and the bank balance was $1,199,542 and $1,075,720 respectively. As of June 30, 2011 and 2010 the Authority was not exposed to custodial credit risk.

Note 4. Accounts Receivable – Patients

Patient accounts receivable at June 30, 2011 and 2010 consists of the following:

	2011	2010
Patient Accounts	$ 2,579,336	$ 2,939,460
Less: Contractual Adjustments	740,301	789,420
Less: Allowance For Uncollectible Accounts	530,834	544,418
	$ 1,308,201	$ 1,605,622

Note 5. Capital Assets

Capital asset activity for the years ended June 30, 2011 and 2010 was as follows:

	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	-	-	179,531
Total Capital Assets	4,288,640	206,763	-	-	4,495,403
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
	2,460,459	338,838	-	-	2,799,297
Capital Assets - Net	$ 1,828,181	$ (132,075)	$ -	$ -	$ 1,696,106

	2010				
	Beginning Balance	Addition	Transfers	Retirements	Ending Balance
Land	$ 33,919	$ -	$ -	$ -	$ 33,919
Building	2,098,777	-	-	-	2,098,777
Equipment	276,408	193,290	-	-	469,698
Capital Lease Equipment	1,851,246	-	-	(165,000)	1,686,246
Total Capital Assets	4,260,350	193,290	-	(165,000)	4,288,640
Less Accumulated Depreciation					
Building	1,259,177	61,336	-	-	1,320,513
Equipment	164,774	53,284	-	-	218,058
Capital Lease Equipment	822,000	242,888	-	(143,000)	921,888
	2,245,951	357,508	-	(143,000)	2,460,459
Capital Assets - Net	$ 2,014,399	$ (164,218)	$ -	$ (22,000)	$ 1,828,181

Note 6. **Long-Term Debt**

A Summary of long-term debt, including capital lease obligations as of June 30, 2011 and 2010 are as follows:

			2010				
	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
C-Arm	7.00%	10/18/2015	-	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
			465,168	295,151	185,828	574,491	417,965
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
			558,378	-	172,340	386,038	184,289
			$ 1,023,546	$ 295,151	$ 358,168	$ 960,529	$ 602,254

			2010				
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
Insurance Note Payable	6.00%	3/31/2009	$ 34,904	$ 33,235	$ 34,904	$ 33,235	$ 33,235
Line of Credit	4.40%	11/5/2009	190,000	-	146,091	43,909	43,909
X-Ray Equiptment	4.00%	7/28/2009	2,115	-	2,115	-	-
Radiology Equipment	6.25%	7/21/2014	-	170,066	14,722	155,344	30,857
Building Note Payable	4.30%	5/27/2009	278,437	-	45,757	232,680	232,680
			505,456	203,301	243,589	465,168	340,681
Capital Leases							
Lung CAD	10.00%	6/30/2011	140,000	-	140,000	-	-
MDG Lease	9.60%	10/1/2012	83,092	-	22,213	60,879	24,440
HMS	8.91%	6/23/2008	636,408	-	138,909	497,499	147,866
			859,500	-	301,122	558,378	172,306
			$ 1,364,956	$ 203,301	$ 544,711	$ 1,023,546	$ 512,987

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	$ 417,966	$ 24,578	$ 184,289	$ 20,039
2013	52,017	8,334	177,066	7,745
2014	55,379	4,972	24,683	216
2015	38,551	1,650		
2016	10,578	222	-	-
Total	$ 574,491	$ 39,756	$ 386,038	$ 28,000

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.

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 $97,234 and $42,118 for 2011 and 2010 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 2011 and 2010, for all operating leases were approximately $251,533 and $258,711, respectively.

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, 2011 and 2010, proceeds of $503,418 and $487,498 respectively, were generated by this tax and were deposited in the general fund of the Hospital.

Schedule 1

HOLDENVILLE HOSPITAL AUTHORITY
Patient Service Revenue
Years Ended June 30, 2011 and 2010

	2011	2010
Daily Patient Service		
Medical and Surgical	$ 1,457,949	$ 1,418,317
Swing Bed	-	-
Total Daily Patient Service	1,457,949	1,418,317
Other Nursing Units		
Central Service and Supply	1,139,610	999,196
Emergency Services	4,179,587	3,553,918
Operating and Recovery Room	2,068,334	1,997,213
Total Other Nursing Units	7,387,531	6,550,327
Other Professional Services		
Laboratory	3,295,371	3,695,042
Electrocardiology	115,940	122,592
Radiology	4,525,750	4,857,682
Pharmacy	1,125,623	1,146,349
Anesthesiology	215,550	222,593
Respiratory Therapy	275,939	315,717
Physical Therapy	469,531	310,509
Physician Clinic	1,808,911	1,646,666
Specialty Clinic	98,700	72,700
Total Other Professional Services	11,931,315	12,389,850
Total Patient Service Revenue	20,776,795	20,358,494
Less Contractual Adjustments		
Medicare	5,237,496	5,556,123
Medicaid	2,380,512	1,925,864
Discounts and other allowances	3,006,699	2,380,374
Provisions for Bad Debts	2,150,917	1,742,366
	12,775,624	11,604,727
Net Patient Service Revenue	$ 8,001,171	$ 8,753,767

Schedule 3

HOLDENVILLE HOSPITAL AUTHORITY

Patient Service Expense

Years Ended June 30, 2011 and 2010

	2011		
	Salaries and Wages	Supplies and Other Expense	Totals
Nursing Services			
Medical and Surgical	$ 663,178	$ 83,971	$ 747,149
Emergency Room	508,275	432,177	940,452
Operating and Recovery Room	88,334	534,637	622,971
Total Nursing Services	$ 1,259,787	$ 1,050,785	$ 2,310,572
Other Professional Services			
Laboratory	$ 224,560	$ 382,236	$ 606,796
Radiology	332,524	692,472	1,024,996
Pharmacy	27,169	286,054	313,223
Anesthesiology	-	80,223	80,223
Respiratory Therapy	48,053	36,817	84,870
Physical Therapy	91,736	57,114	148,850
Rural Clinic	596,219	38,857	635,076
Physician Clinic	568,950	89,453	658,403
Specialty Clinic	1,698	15,045	16,743
Total Other Professional Services	$ 1,890,909	$ 1,678,271	$ 3,569,180
General Services			
Dietary	92,424	79,894	172,318
Medical Records	128,929	22,382	151,311
Plant Engineering	82,159	247,548	329,707
Housekeeping	62,008	26,484	88,492
Laundry and Linen	-	33,467	33,467
Total General Services	$ 365,520	$ 409,775	$ 775,295
Administrative Services			
Administration and Business Offices	720,864	414,253	1,135,117
Insurance	-	131,100	131,100
Employee Benefits	-	776,491	776,491
Total Administrative Services	$ 720,864	$ 1,321,844	$ 2,042,708

2010		
Salaries and Wages	Supplies and Other Expense	Totals
$ 607,230	$ 96,724	$ 703,954
452,751	380,944	833,695
127,102	499,695	626,797
$ 1,187,083	$ 977,363	$ 2,164,446
$ 214,601	$ 446,445	$ 661,046
258,642	670,864	929,506
27,463	269,529	296,992
-	66,924	66,924
45,283	37,338	82,621
125,370	8,658	134,028
454,971	76,575	531,546
477,834	264,262	742,096
92	5,450	5,542
$ 1,604,256	$ 1,846,045	$ 3,450,301
94,658	86,081	180,739
120,582	22,272	142,854
73,667	246,172	319,839
76,803	29,899	106,702
-	41,247	41,247
$ 365,710	$ 425,671	$ 791,381
646,259	781,278	1,427,537
-	131,684	131,684
-	745,181	745,181
$ 646,259	$ 1,658,143	$ 2,304,402

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, 2011 and 2010, and have issued our report thereon dated September 15, 2011. 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 15, 2011

Johnston & Bryant