INTEGRIS MARSHALL COUNTY MEDICAL CENTER

(A Division of Baptist Healthcare of Oklahoma, Inc.)

Basic Financial Statements

March 31, 2012 and June 30, 2011

(With Independent Auditors' Report Thereon)

INTEGRIS MARSHALL COUNTY MEDICAL CENTER
(A Division of Baptist Healthcare of Oklahoma, Inc.)

Table of Contents

KPMG LLP
210 Park Avenue, Suite 2850
Oklahoma City, OK 73102-5683

Independent Auditors' Report

Governing Board
INTEGRIS Marshall County Medical Center
(A Division of Baptist Healthcare of Oklahoma, Inc.):

We have audited the accompanying balance sheets of INTEGRIS Marshall County Medical Center, a division of Baptist Healthcare of Oklahoma, Inc., (the Medical Center) as of March 31, 2012 and June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the nine months ended March 31, 2012 and the year ended June 30, 2011. These financial statements are the responsibility of the Medical Center'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in note 1, the financial statements present only the Medical Center and do not purport to, and do not, present fairly the financial position of Baptist Healthcare of Oklahoma, Inc., as of March 31, 2012 and June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the nine months ended March 31, 2012 and the year ended June 30, 2011 in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of INTEGRIS Marshall County Medical Center, a division of Baptist Healthcare of Oklahoma, Inc., as of March 31, 2012 and June 30, 2011, and the changes in its financial position and its cash flows for the nine months ended March 31, 2012 and the year ended June 30, 2012, in conformity with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012, on our consideration of the Medical Center'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 audits.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG LLP

November 7, 2012

INTEGRIS MARSHALL COUNTY MEDICAL CENTER
(A Division of Baptist Healthcare of Oklahoma, Inc.)

Balance Sheets

March 31, 2012 and June 30, 2011

Assets		2012	2011
Current assets:			
Cash	$	80,676	342,186
Patient accounts receivable, net of allowance for contractuals and uncollectible accounts of $2,098,270 and $1,588,014 in 2012 and 2011, respectively		787,294	783,232
Inventories		189,528	167,588
Prepaid expenses and other current assets		493,863	249,053
Total current assets		1,551,361	1,542,059
Assets whose use is limited		14,272	14,215
Capital assets, net		7,128,761	7,072,408
Total assets	$	8,694,394	8,628,682
Liabilities and Net Assets (Deficit)			
Current liabilities:			
Accounts payable and accrued expenses	$	273,453	90,835
Due to related party		8,285,800	7,519,183
Employee compensation and related liabilities		428,331	394,534
Total current liabilities		8,987,584	8,004,552
Commitments and contingencies			
Net assets (deficit):			
Invested in capital assets		7,128,761	7,072,408
Unrestricted		(7,421,951)	(6,448,278)
Total net assets		(293,190)	624,130
Total liabilities and net assets (deficit)	$	8,694,394	8,628,682

See accompanying notes to basic financial statements.

INTEGRIS MARSHALL COUNTY MEDICAL CENTER
(A Division of Baptist Healthcare of Oklahoma, Inc.)

Statements of Revenues, Expenses and Changes in Net Assets

Nine months ended March 31, 2012 and year ended June 30, 2011

	2012	2011
Operating revenues:		
Patient service revenue, net of contractual adjustments and allowances	$ 7,769,507	11,749,290
Bad debt expense	(804,705)	(1,874,306)
Net patient service revenue	6,964,802	9,874,984
Other	5,976	296,246
Total operating revenues	6,970,778	10,171,230
Operating expenses:		
Salaries and related expenses	5,363,817	7,103,244
Supplies and other expenses	2,264,101	2,913,640
Professional services	219,409	288,541
Depreciation	401,767	558,512
Total operating expenses	8,249,094	10,863,937
Operating loss	(1,278,316)	(692,707)
Nonoperating revenues:		
Interest income	87	149
Other	80,161	134,797
Total nonoperating revenues	80,248	134,946
Excess of expenses over revenues before capital contributions	(1,198,068)	(557,761)
Capital contributions	280,748	764,476
Increase/(decrease) in net assets	(917,320)	206,715
Net assets, beginning of year	624,130	417,415
Net assets, end of year	$ (293,190)	624,130

See accompanying notes to basic financial statements.

INTEGRIS MARSHALL COUNTY MEDICAL CENTER
(A Division of Baptist Healthcare of Oklahoma, Inc.)

Statements of Cash Flows

Nine months ended March 31, 2012 and year ended June 30, 2011

		2012	2011
Operating activities:			
Receipts from and on behalf of patients	$	6,960,740	10,006,866
Payments to suppliers and contractors		(1,801,025)	(2,909,634)
Payments to and on behalf of employees		(5,330,020)	(7,120,738)
Other receipts		5,976	296,246
Net cash provided by (used in) operating activities		(164,329)	272,740
Investing activities:			
Interest income received		87	149
Net change in assets whose use is limited		(57)	(79)
Net cash provided by investing activities		30	70
Noncapital financing activities:			
Other nonoperating revenues		80,161	134,797
Net cash provided by noncapital financing activities		80,161	134,797
Capital and related financing activities:			
Purchase of property and equipment, net		(177,372)	(111,740)
Net cash used in capital and related financing activities		(177,372)	(111,740)
Increase/(decrease) in cash		(261,510)	295,867
Cash, beginning of year		342,186	46,319
Cash, end of year	$	80,676	342,186
Reconciliation of operating loss to net cash (used in)/provided by operating activities:			
Operating loss	$	(1,278,316)	(692,707)
Items not requiring cash:			
Depreciation		401,767	558,512
Changes in operating assets and liabilities:			
Patient accounts receivable, net		(4,062)	131,882
Inventories, prepaid expenses and other current assets		(266,750)	23,630
Current liabilities		983,032	251,423
Net cash (used in)/provided by operating activities	$	(164,329)	272,740
Noncash investing and financing activities:			
Contribution of long-lived assets by County	$	280,748	764,476

See accompanying notes to basic financial statements.

(1) Nature of Operations and Summary of Significant Accounting Policies

(a) Nature of Operations

INTEGRIS Marshall County Medical Center, a division of Baptist Healthcare of Oklahoma, Inc., (the Medical Center) operates a critical access hospital located in Madill, Oklahoma. The Medical Center changed its name from Marshall Memorial Hospital effective July 1, 2004. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Marshall County. It also operates two clinics in the same geographic area.

The hospital facilities are owned by Marshall County, Oklahoma, and through June 30, 1999, were governed by a Board of Control appointed by the County's Board of Commissioners. Effective July 1, 1999, the Board of Commissioners of Marshall County, Oklahoma (the lessor), entered into a long-term lease agreement with Baptist Healthcare of Oklahoma, Inc. (BHO), an Oklahoma not-for-profit corporation. The lease agreement was for an initial term of 10 years through June 30, 2009, with BHO having the sole right to renew the lease for two additional terms of five years each. Effective July 1, 2009, an amended and restated lease agreement was made for an initial 10 years through June 30, 2019, with BHO having the sole right to renew the lease for five additional terms of five years each. The lease basically provides BHO with all rights and interest in the operations of the hospital facilities during the lease term and essentially equates to ownership. BHO controls the Medical Center and the sole member of BHO is INTEGRIS *Health* (INTEGRIS). BHO created a separate division, INTEGRIS Marshall County Medical Center, to operate the Medical Center and execute its responsibilities under the lease. This separate division is the subject of the accompanying financial statements and does not purport to and does not present the financial position of BHO. Upon termination of the lease, the facilities revert to Marshall County in accordance with terms specified in the lease.

In addition, the lease agreement provides that the Medical Center's Board of Control shall continue to exist during the lease term as an advisory body to BHO and the Marshall County Board of Commissioners and shall receive, administer and expend the county sales tax receipts for capital expenditures and charity care for the benefit of the Medical Center. The lease agreement further stipulates the sales tax receipts shall never be expended for operations of the Medical Center or for any other purpose other than capital expenditures and charity care for the residents of Marshall County.

The above management agreement was in place the first nine months of fiscal year 2012. As of April 1, 2012, INTEGRIS entered into an agreement whereby all assets, operations, lease rights and licenses of the INTEGRIS Marshall County Medical Center, were sold through the BHO subsidiary company to INTEGRIS HMA, LLC, owned 20% by INTEGRIS.

(b) Basis of Accounting and Presentation

The financial statements of the Medical Center 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 federal and state grants and 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 county appropriations), property taxes and investment income are included in nonoperating revenues and expenses. The Medical Center 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 Medical Center 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 Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

(c) 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.

(d) Cash Equivalents

The Medical Center considers all liquid investments with original maturities at date of purchase of three months or less to be cash equivalents. At March 31, 2012 and June 30, 2011, the Medical Center had no cash equivalents.

(e) County Sales Taxes Benefiting the Medical Center

In September 1998, Marshall County residents approved a 1% sales tax on the gross receipts in Marshall County. This sales tax was originally for a period of ten years starting April 1, 1999. On December 12, 2006, Marshall County residents approved an extension of the current 1% sales tax for an additional ten years starting April 1, 2009. It is collected and retained by Marshall County and is appropriated by Marshall County to the Medical Center's Board of Control for indigent care and capital investments. Upon approval and purchase, these capital expenditures are recorded as capital assets and capital contributions.

(f) Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. 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.

(Continued)

(g) Medical Malpractice Coverage and Claims

The Medical Center is covered for medical malpractice risks under a medical malpractice insurance plan established by INTEGRIS for all of its owned, leased and managed facilities (see note 8). The costs of the insurance plan are allocated to controlled entities and affiliates through intercompany accounts. The Medical Center has no liability beyond those costs allocated to it by INTEGRIS.

(h) Workers' Compensation and Health Care Coverages

Medical Center employees are covered for workers' compensation and health care benefits under self-insured plans established by INTEGRIS for all of its owned, leased and managed facilities. These plans are self-insured by INTEGRIS to the extent of the deductible amounts under the excess risk insurance policies INTEGRIS has purchased. The Medical Center has no liability beyond those costs allocated to it by INTEGRIS.

(i) Assets Whose Use is Limited

Assets whose use is limited includes assets designated by the board of directors for future capital improvements. These assets consist of a one year certificate of deposit.

(j) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is recorded in the period services are provided to patients at the Medical Center's established rates net of contractual adjustments, charity care, and administrative adjustments. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered. Adjustments to estimates in future periods are recorded as final settlements are determined or as additional information becomes available.

Net patient service revenue in the accompanying statements of revenues, expenses and changes in net assets has been reduced by amounts resulting from contractual allowances related to the participation in Medicare, discount arrangements, and other prospective reimbursement programs as follows:

	2012	2011
Patient service revenue (net of contractual allowances and discounts, before provision for bad debt):		
Medicare	$ 3,353,788	4,741,627
Medicaid	972,481	1,063,619
Managed care	794,552	929,209
Commercial and other	734,866	965,780
Private pay	1,913,820	4,049,055
	$ 7,769,507	11,749,290

Accounts receivable are recorded net of an allowance for uncollectible accounts and contractual adjustments of $2,098,000 and $1,588,000 at March 31, 2012 and June 30, 2011, respectively.

Although the Medical Center estimates uncollectible accounts on a reasonable basis, the net patient accounts receivable balance is subject to an accounting loss if patients and third-party payors are unable to meet their contractual obligations.

The allowance and resulting provision for bad debts is based upon a combination of the aging of receivables and management's assessment of historical and expected net collections considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience and payment trends by payor category. Patient accounts are also monitored, and, if necessary, past due accounts are placed with collection agencies in accordance with guidelines established by the Medical Center. All patient balances regardless of payor source are collected in accordance with a predefined time limited process designed to give the patient an opportunity to pay the balance before writing off the balance to bad debt expense and turning the account over to a collection agency.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debt, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balance due for which third-party coverage exists for part of the bill), the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the billed rates (which are discounted from gross charges for all uninsured self-pay patients by 55% in 2012 as discussed below) and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts.

The IRS issued new 501(r) guidance for nonprofit hospitals recently. Section 501(r) was enacted by the Patient Protection and Affordable Care Act. Hospital organizations covered by Section 501(r) may not charge an individual eligible for a financial assistance policy more than the amount generally billed to individuals with insurance covering their health care. As a result of this guidance, the Medical Center implemented a policy effective July 1, 2011 that discounts all private pay patient charges by 55%. This adjustment is considered a contractual adjustment rather than a bad debt adjustment; therefore the 55% adjustment is recorded as a direct reduction to net patient service revenue instead of bad debt. This change resulted in less charges being written off to the provision for uncollectible accounts.

The Medical Center's allowance for doubtful accounts was approximately 100% of self-pay accounts receivable at March 31, 2012 and June 30, 2011. The Medical Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors other than for contractual allowances.

(k) Supplies

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

(l) Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation if acquired by contribution. The Medical Center capitalizes assets with a cost or fair value at date of donation in excess of $1,000. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Medical Center:

Land improvements	3 – 20 years
Building, improvements and fixed equipment	15 – 40 years
Major moveable equipment	3 – 20 years

The Medical Center's Board of Control receives and expends county sales tax appropriations for capital expenditures on behalf of the Medical Center.

(m) Compensated Absences

Medical Center policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned. 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.

(n) Net Assets

Net assets of the Medical Center are classified in three 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. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Medical Center. 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.

(o) Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, the amounts are not reported as net patient service revenue or included in net accounts receivable in the accompanying basic financial statements.

(p) Income Taxes

The activities of the Medical Center reflected on the accompanying basic financial statements are reported by BHO for federal and state tax purposes. The Internal Revenue Service has recognized BHO as exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Code Section 501(c)(3) and a similar provision of state law. However, these organizations are subject to federal income tax on any unrelated business income. The activities of the Medical Center do not include any unrelated business activities.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) Net Patient Service Revenue

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

- Medicare – Inpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary.
- Medicaid – Prior to October 1, 2005, inpatient and outpatient services rendered to patients covered by the state Medicaid program are reimbursed on a prospective basis at set per diem rates with no retroactive adjustment. Effective October 1, 2005, the state's Medicaid program changed its basis of reimbursement for inpatient services from a prospective per diem method to a prospective per discharge method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 60% of the Medical Center's gross patient service revenues is from participation in the Medicare and state-sponsored Medicaid programs for the nine months ended March 31, 2012 and year ended June 30, 2011. 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 Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

(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 Medical Center's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository

insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma. None of the Medical Center's bank balance of approximately $81,000 and $342,000 were exposed to custodial credit risk at March 31, 2012 and June 30, 2011, respectively.

(4) Patient Accounts Receivable

The Medical Center grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The mix of net patient accounts receivable at March 31, 2012 and June 30, 2011, was approximately as follows:

	2012	2011
Medicare	$ 1,314,000	877,000
Medicaid	432,000	245,000
Patients and other third-party payers	1,139,000	1,249,000
Total patient accounts receivable	2,885,000	2,371,000
Less allowance for contractuals and bad debts	(2,098,000)	(1,588,000)
Patient accounts receivable, net	$ 787,000	783,000

(5) Capital Assets

Capital assets activity for the nine months ended March 31, 2012 was as follows:

	2012				
	Beginning balance	Additions	Disposals	Transfers	Ending balance
Land and land improvements	$ 194,034	—	—	—	194,034
Building, improvements and fixed equipment	8,035,470	230,255	—	736,875	9,002,600
Major moveable equipment	3,687,262	221,233	(44,034)	(13,250)	3,851,211
Construction in progress	719,199	17,676		(736,875)	—
	12,635,965	469,164	(44,034)	(13,250)	13,047,845
Less accumulated depreciation:					
Land and land improvements	112,175	6,114	—	—	118,289
Building, improvements and fixed equipment	2,522,430	219,224	—	—	2,741,654
Major moveable equipment	2,928,952	176,429	(35,462)	(10,778)	3,059,141
	5,563,557	401,767	(35,462)	(10,778)	5,919,084
Capital assets, net	$ 7,072,408	67,397	(8,572)	(2,472)	7,128,761

Capital assets activity for the year ended June 30, 2011 was as follows:

	2011				
	Beginning balance	Additions	Disposals	Transfers	Ending balance
Land and land improvements	$ 194,034	—	—	—	194,034
Building, improvements and fixed equipment	7,957,242	79,320	(1,092)	—	8,035,470
Major moveable equipment	3,715,236	105,760	(124,496)	(9,238)	3,687,262
Construction in progress	12,075	707,124	—	—	719,199
	11,878,587	892,204	(125,588)	(9,238)	12,635,965
Less accumulated depreciation:					
Land and land improvements	104,024	8,151	—	—	112,175
Building, improvements and fixed equipment	2,251,474	272,048	(1,092)	—	2,522,430
Major moveable equipment	2,768,385	278,313	(112,744)	(5,002)	2,928,952
	5,123,883	558,512	(113,836)	(5,002)	5,563,557
Capital assets, net	$ 6,754,704	333,692	(11,752)	(4,236)	7,072,408

(6) Charity Care

The Medical Center provides care to patients who lack financial resources and are deemed medically or financially indigent. Because the healthcare related entities do not pursue collection of amounts determined to qualify as charity care, these amounts are removed from net patient service revenue. The charges related to this care, along with estimates for possible future charity care write-offs related to current accounts receivable, totaled approximately $1,166,000 and $1,636,000 in 2012 and 2011, respectively. The estimated direct and indirect cost of providing these services, calculated using the ratio of patient care cost to charges, was $514,000 and $713,000 in 2012 and 2011, respectively. In addition, the healthcare related controlled entities provide services through government-sponsored indigent health care programs (such as Medicaid) to other indigent patients.

In addition to uncompensated charges, the Medical Center also commits significant time and resources to endeavors and critical services that meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self supporting or financially viable.

(7) Retirement Plans

The Medical Center participates in a cost sharing defined benefit pension plan sponsored by INTEGRIS for all of its owned, leased and managed facilities. The plan covers certain eligible employees upon their retirement and provides monthly retirement benefits. The benefits are based on the employee's years of service and compensation. Beginning July 1, 2009 the Pension Plan was closed to new participants. The Medical Center will contribute 3% of the participant's quarterly pay for eligible employees with fewer than 10 years of vesting service and 4% for those participants with greater than 10 years of vesting service. Total contributions to the plan by the Medical Center for the nine months ended March 31, 2012 and year ended June 30, 2011 were approximately $353,000 and $420,000, respectively, which were equal to the amounts billed.

For employees hired or rehired after July 1, 2009, the Medical Center participates in a basic contribution plan sponsored by INTEGRIS for all of its owned, leased and managed facilities. The plan provides disability and survivor benefits in addition to retirement benefits. All full-time employees who have completed one year of service are eligible to participate in the plan. Eligible employees may contribute pretax wages in accordance with the retirement savings plan. The Medical Center will match 50% of each participant's contributions limited to a maximum participant's contribution of 5%. Employee contributions vest immediately and participants' rights in employer contributions vest over a period of five years. Total matching contributions to the plan by the Medical Center for the nine months ended March 31, 2012 and year ended June 30, 2011 were approximately $59,000 and $77,000, respectively.

(8) Contingencies

The Medical Center may become involved in litigation arising in the ordinary course of business. Claims alleging malpractice may be asserted against the Medical Center. The Medical Center was insured on a claims-made basis for medical malpractice and other liability risks with individual and aggregate limits of coverage through March 31, 2012, through a captive insurance company of INTEGRIS Health.

The captive insurance company was formed for the purpose of providing coverage to INTEGRIS Health and its affiliates for medical malpractice and other liability risks. The captive insurance company charges a premium to the respective entities for coverage and accrues losses for the coverage based on estimates that incorporate past experience as well as other considerations. The premiums are retrospectively rated based primarily on loss experience. The captive insurance company also maintains reinsurance coverage to reduce exposure for significant individual and aggregate losses. All amounts billed for coverage through March 31, 2012 have been paid by the Medical Center.

The U.S. Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers. The Medical Center is subject to these regulatory efforts. In consultation with legal counsel, management is aware of no significant pending regulatory issues. Resolution of such matters (if any) is not expected to have a material adverse effect on the Medical Center's financial position or results of operations.

(9) Related-Party Transactions

As described in note 1, the Medical Center has a lease agreement with Baptist Healthcare of Oklahoma, Inc., whose sole member is INTEGRIS *Health* (INTEGRIS). The Medical Center makes payments to INTEGRIS for various services provided by and secured through INTEGRIS. The following is a summary of the approximate expenses for these services for the nine months ended March 31, 2012 and year ended June 30, 2011:

	2012	2011
Administrative services	$ 173,000	230,000
Workers' compensation coverage	43,000	67,000
Health care benefits and life insurance	464,000	641,000
Malpractice and general liability insurance	231,000	120,000
	$ 911,000	1,058,000

At March 31, 2012 and June 30, 2011, the Medical Center had accounts payable to INTEGRIS and related entities of $8,285,800 and $7,519,183, respectively.

(10) Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

(a) Significant Estimates

- Estimates of allowances for adjustments included in net patient service revenue are described in notes 1 and 2.
- Estimates related to the accrual for medical malpractice claims are described in notes 1 and 8.

(b) Admitting Physicians

The Medical Center is served by six admitting physicians, each of whose patients account for more than 10% of the Medical Center's gross revenues.

(c) Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the INTEGRIS insurance programs discussed (see note 1 and 8) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

(11) Subsequent Events

The Medical Center has evaluated subsequent events through November 7, 2012, the date on which the financial statements were issued.

KPMG LLP
210 Park Avenue, Suite 2850
Oklahoma City, OK 73102-5683

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*

Governing Board
INTEGRIS Marshall County Medical Center
(A Division of Baptist Healthcare of Oklahoma, Inc.):

We have audited the financial statements of Marshall County Medical Center (the Medical Center) as of and for the nine months ended March 31, 2012, and have issued our report thereon dated November 7, 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

Management of the Medical Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Medical Center'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 Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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 the Medical Center'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*.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

This report is intended solely for the information and use of the board of directors and management and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 7, 2012