Management's Discussion and Analysis
and Financial Statements
June 30, 2011 and 2010

Lindsay Municipal Hospital Authority A Component Unit of the City of Lindsay

Independent Auditor's Report

The Board of Trustees
Lindsay Municipal Hospital Authority
Lindsay, Oklahoma

We have audited the accompanying balance sheets of Lindsay Municipal 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 Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lindsay Municipal 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 a report dated November 25, 2011, on our consideration of Lindsay Municipal Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 3 through 6 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Eide Bailly LLP

Oklahoma City, Oklahoma
November 25, 2011

Our discussion and analysis for Lindsay Municipal Hospital Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net assets decreased by $51,410 or 2 percent in 2011 and increased by $234,440 or 9 percent in 2010 compared with 2009
- The Authority reported operating loss in 2011 of $76,851 and operating income of $286,569 in 2010 and operating income of $327,995 in 2009
- The Authority reported contributions of $25,302 in 2011 compared to $9,101 in 2010 and $57,615 in 2009

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 the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the Authority's finances begins on page 7. One of the most important questions asked about the Authority's finances is, "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 helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the 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. 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 to 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. This 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 on page 6. The Authority's net assets decreased by $51,410 or 2 percent in 2011 and increased by $234,440 or 9 percent in 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash and investments	$ 1,085,689	$ 1,203,892	$ 1,526,193
Patient accounts receivable, net	834,032	1,049,942	872,377
Other current assets	353,588	314,120	367,089
Capital assets, net	1,263,613	1,072,304	1,112,281
Total assets	$ 3,536,922	$ 3,640,258	$ 3,877,940
Liabilities			
Long-term debt	$ 40,185	$ 92,292	$ 240,123
Other current liabilities	516,076	376,340	561,076
Deferred revenue	152,778	292,333	431,888
Total liabilities	709,039	760,965	1,233,087
Net Assets			
Invested in capital assets, net of related debt	1,110,835	779,971	680,393
Restricted expendable	-	60,369	60,000
Unrestricted	1,717,048	2,038,953	1,904,460
Total net assets	2,827,883	2,879,293	2,644,853
Total liabilities and net assets	$ 3,536,922	$ 3,640,258	$ 3,877,940

Assets, Liabilities, and Net Assets

The significant components of the change in the Authority's assets and liabilities are as follows:

- Cash and investments decreased by approximately $118,200 or 10% in 2011 decreased by approximately $323,000 or 21% in 2010 compared with 2009
- Long-term debt decreased by approximately $52,100 or 56% in 2011 and $148,700 or 62% in 2010 compared with 2009
- Other current liabilities increased by approximately $139,700 or 37% in 2011 and decreased by $185,000 or 33% in 2010 compared with 2009
- Deferred revenue decreased by approximately $140,000 or 48% in 2011 and $140,000 or 32% in 2010 compared with 2009

Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 7,979,226	$ 7,534,777	$ 8,175,436
Other operating revenue	169,629	171,451	171,950
Total operating revenues	8,148,855	7,706,228	8,347,386
Operating Expenses			
Salaries and wages and employee benefits	4,127,197	4,254,067	4,272,626
Purchased services and professional fees	1,422,795	1,166,948	1,502,806
Supplies and other operating expense	2,300,610	1,731,374	2,000,373
Depreciation	375,104	267,270	243,586
Total operating expenses	8,225,706	7,419,659	8,019,391
Operating Income (Loss)	(76,851)	286,569	327,995
Nonoperating Revenues (Expenses)			
Interest income	9,166	6,603	7,422
Interest expense	(9,027)	(67,833)	(26,348)
Total nonoperating revenues (expenses)	139	(61,230)	(18,926)
Capital Grants and Gifts	25,302	9,101	57,615
(Decrease) Increase in Net Assets	$ (51,410)	$ 234,440	$ 366,684

In 2011 the Authority's net assets decreased by $51,410 or 2% as shown in Table 2. This decrease is made up of different components and represents a decrease compared with the increase in net assets in 2010 of 234,440 or 9% when compared with 2009.

Operating Income

The first component of the overall change in the Authority's net assets is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2011, the Authority reported operating loss with a decrease from the previous year. Operating loss in 2011 increased by $363,420 or 127%. In 2010 operating income decreased over 2009 by 41,000 or 13%.

The primary components of the decrease in operating income are:

- An increase in purchased services and professional fees of $255,847 or 22% in 2011 compared with a decrease of $335,858 or 22% in 2010 when compared with 2009.
- An increase in supplies and other operating expenses of $569,236 or 33% in 2011 compared with a decrease of $268,999 or 13% in 2010 when compared with 2009

The Authority sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Authority when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Authority.

Nonoperating Revenues and Expenses

Nonoperating revenues (expenses) consist primarily of interest income and interest expense. Nonoperating expenses decreased by $61,369 in 2011 and decreased by $42,304 in 2010, when compared with 2009. This was due primarily to a decrease in interest expense on debt in the current year.

The Authority's Cash Flows

The Authority's overall liquidity increased during the year with a net increase to cash and investments of $196,572 in 2011 compared to a decrease of 727,697. Cash flows from operating activities increased by $369,924 in 2011 compared with a decrease of $344,227 in 2010. Cash used in capital and capital related financing activities in 2011 was $541,111 compared with cash used in 2010 of $218,192.

Capital Assets and Debt Administration

At the end of 2011, the Authority had $1,263,613 invested in capital assets compared with $1,072,304 at the end of 2010, as detailed in Note 4 to the financial statements. In 2011, the Authority acquired capital assets valued at $566,413 compared to $227,293 in 2010.

Debt

At year-end, the Authority had $40,185 in long-term debt, a decrease of $52,107 from the prior year. For additional information regarding long-term debt, please see Note 7 in the financial statements.

Contacting the Authority's Financial Management

This financial report is designated to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lindsay Municipal Hospital Authority, Chief Financial Officer's Office, 1305A West Cherokee Street, Lindsay, OK 73052.

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 674,597	$ 417,656
Short-term investments	411,092	725,867
Patient accounts receivable, net of allowance of approximately $1,334,000 in 2011 and $1,067,000 in 2010	834,032	1,049,942
Supplies	174,529	145,539
Prepaid expenses	179,059	168,581
Total current assets	2,273,309	2,507,585
Assets Limited as to Use		
Restricted for capital acquisitions	-	60,369
Capital Assets		
Land and construction in progress	258,670	116,666
Depreciable assets, net of accumulated depreciation	1,004,943	955,638
	1,263,613	1,072,304
Total assets	$ 3,536,922	$ 3,640,258
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 27,953	$ 25,403
Accounts payable	293,283	77,814
Accrued expenses	206,166	281,936
Estimated third-party payor settlements	16,627	16,590
Deferred revenue, current	130,242	139,555
Total current liabilities	674,271	541,298
Long-Term Debt, Net current maturities	12,232	66,889
Deferred Revenue, Net	22,536	152,778
Total liabilities	709,039	760,965
Net Assets		
Invested in capital assets, net of related debt	1,110,835	779,971
Restricted, expendable for capital acquisitions	-	60,369
Unrestricted	1,717,048	2,038,953
Total net assets	2,827,883	2,879,293
Total liabilities and net assets	$ 3,536,922	$ 3,640,258

See Notes to Financial Statements

	2011	2010
Operating Revenues		
Patient service revenue, net of provision for uncollectible accounts of approximately $307,000 in 2011 and $257,000 in 2010	$ 7,979,226	$ 7,534,777
Other revenue	169,629	171,451
Total operating revenues	8,148,855	7,706,228
Expenses		
Salaries and wages	3,391,513	3,466,251
Employee benefits	735,684	787,816
Purchased services and professional fees	1,422,795	1,166,948
Supplies and other	2,300,610	1,731,374
Depreciation	375,104	267,270
Total operating expenses	8,225,706	7,419,659
Operating Income (Loss)	(76,851)	286,569
Non Operating Revenues (Expenses)		
Interest income	9,166	6,603
Interest expense	(9,027)	(67,833)
Total nonoperating revenues (expenses)	139	(61,230)
Revenues in Excess of (Less than) Expenses Before Capital Grants and Gifts	(76,712)	225,339
Capital Grants and Gifts	25,302	9,101
(Decrease) Increase in Net Assets	(51,410)	234,440
Net Assets, Beginning of the Year	2,879,293	2,644,853
Net Assets, End of the Year	$ 2,827,883	$ 2,879,293

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 8,195,173	$ 7,358,802
Payments to suppliers and contractors	(3,547,404)	(3,044,876)
Payments to and on behalf of employees	(4,202,967)	(4,240,870)
Other receipts, net	30,074	31,896
Net cash provided by operating activities	474,876	104,952
Noncapital Financing Activities		
Principal paid on noncapital debt	(52,107)	(147,831)
Interest paid on noncapital debt	(9,027)	(67,833)
Net cash used in noncapital financing activities	(61,134)	(215,664)
Capital and Related Financing Activities		
Capital grants and gifts	25,302	9,101
Purchase of capital assets	(566,413)	(227,293)
Net cash used in capital and related financing activities	(541,111)	(218,192)
Investing Activities		
Interest on investments	9,166	6,603
Purchases of investments	(8,100)	(405,396)
Redemption of investments	322,875	-
Net cash provided by (used in) investing activities	323,941	(398,793)
Net Increase (Decrease) in Cash and Cash Equivalents	196,572	(727,697)
Cash and Cash Equivalents, Beginning of Year	478,025	1,205,722
Cash and Cash Equivalents, End of Year	$ 674,597	$ 478,025

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating (loss) income	$ (76,851)	$ 286,569
Depreciation	375,104	267,270
Provision for bad debts	307,151	257,034
Changes in operating assets and liabilities		
Patients accounts receivable	(91,241)	(434,599)
Estimated amounts due to third-party payors	37	1,590
Accounts payable and accrued expenses	139,699	(186,326)
Supplies and prepaid expenses	(39,468)	52,969
Deferred revenue	(139,555)	(139,555)
Net cash provided by operating activities	$ 474,876	$ 104,952

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

The Lindsay Municipal Hospital Authority (Authority) operates Lindsay Municipal Hospital (Hospital) a 26 bed facility under a lease with the City of Lindsay, Oklahoma. The Authority is an acute care hospital located in Lindsay, Oklahoma. The Authority is a component unit of the City of Lindsay, Oklahoma (City), and the city council appoints members to the Board of Trustees of the Authority. The Authority primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in central Oklahoma and to the Oklahoma Department of Corrections' patients.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Accounting Standards

The financial statements of the Authority 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. Operating revenues and expenses include exchange transactions. Town appropriations, interest income and interest expense are included in nonoperating revenues and expenses. The authority 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 Authority 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 Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. 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 allowance that reflects management's estimate of amounts that will not be collected from patients 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.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Capital Assets

Capital asset acquisitions in excess of $5,000 are capitalized and recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. All capital assets other than land and construction-in-progress are depreciated or amortized using the straight-line method of depreciation using these asset lives:

Land improvements	8-15 years
Buildings and improvements	10-30 years
Equipment	3-20 years

Grants and Contributions

From time to time, the Authority receives contributions 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 operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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.

Net Assets

Net assets are presented in the following three components:

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

Restricted Expendable Net Assets - Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditor, grantors, or contributors external to the Authority, discussed in Note 9.

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 or restricted.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Authority'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, other than financing costs.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The amount of charity care is included in net patient service revenue and is not separately classified form the provision for uncollectible accounts.

Compensated Absences

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

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Certain items in the prior year financial statements have been reclassified for comparability purposes with the current financial statements. These reclassifications did not affect the financial position or changes in net assets as previously reported.

Note 2 - Cash and Deposits

At June 30, 2011 and 2010, the Authority had bank balances as follows:

	2011	2010
Total bank balance		
Insured	$ 960,982	$ 1,008,121
Collateralized	237,784	385,482
	$ 1,198,766	$ 1,393,603
Total carrying value		
Cash and cash equivalents	$ 674,597	$ 417,656
Short-term investments	411,092	725,867
Noncurrent cash and investments	-	60,369
	$ 1,085,689	$ 1,203,892

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized 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 exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent 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 $1,085,689 and $1,203,892 and the bank balance was $1,198,766 and $1,393,603, respectively. The Hospital's cash balances are maintained in various bank deposit accounts. At June 30, 2011 and 2010, none of these deposits were in excess of federally insured limits.

Investment Credit Risk – Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy limits investments to the following types of securities: U.S. Treasury securities, Federal Agency securities, and certificates of deposits. At June 30, 2011 and 2010, investments consisted solely of certificates of deposit held by banks.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration.

Note 3 - Patient Accounts Receivable

Patient accounts receivable reported as current assets by the Authority at June 30, 2011 and 2010, consisted of these amounts:

	2011	2010
Medicare	$ 206,669	$ 181,960
Medicaid	53,384	70,263
Private pay	638,293	417,392
Oklahoma Department of Corrections	621,694	685,298
Others	647,917	761,973
	2,167,957	2,116,886
Less allowance for uncollectible accounts	(1,333,925)	(1,066,944)
Patient account receivable, net	$ 834,032	$ 1,049,942

Note 4 - Capital Assets

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

	Balance June 30, 2010	Additions	Disposals/ Transfers	Balance June 30, 2011
Non-depreciable capital assets				
Land	$ 14,164	$ -	$ -	$ 14,164
Construction in progress	102,502	244,506	(102,502)	244,506
Total non-depreciable capital assets	$ 116,666	$ 244,506	$ (102,502)	$ 258,670
Depreciable capital assets				
Land improvements	34,266	-	-	34,266
Buildings	1,845,001	-	-	1,845,001
Equipment	1,974,651	321,907	102,502	2,399,060
Total depreciable capital assets	3,853,918	321,907	102,502	4,278,327
Less accumulated depreciation				
Land improvements	34,265	-	-	34,265
Buildings	1,464,175	110,241	-	1,574,416
Equipment	1,399,840	264,863	-	1,664,703
Total accumulated depreciation	2,898,280	375,104	-	3,273,384
Net depreciable capital assets	$ 955,638	$ (53,197)	$ 102,502	$ 1,004,943
Capital assets, net	$ 1,072,304	$ 191,309	$ -	$ 1,263,613

	Balance June 30, 2009	Additions	Disposals/ Transfers	Balance June 30, 2010
Non-depreciable capital assets				
Land	$ 14,164	$ -	$ -	$ 14,164
Construction in progress	-	102,502	-	102,502
Total non-depreciable capital assets	$ 14,164	$ 102,502	$ -	$ 116,666
Depreciable capital assets				
Land improvements	34,266	-	-	34,266
Buildings	1,814,026	30,975	-	1,845,001
Equipment	1,880,835	93,816	-	1,974,651
Total depreciable capital assets	3,729,127	124,791	-	3,853,918
Less accumulated depreciation				
Land improvements	33,682	583	-	34,265
Buildings	1,354,720	109,455	-	1,464,175
Equipment	1,242,608	157,232	-	1,399,840
Total accumulated depreciation	2,631,010	267,270	-	2,898,280
Net depreciable capital assets	$ 1,098,117	$ -	$ -	$ 955,638
Capital assets, net	$ 1,112,281	$ -	$ -	$ 1,072,304

Construction in progress at June 30, 2011 represents the purchase and installation of a new software package and the construction of a CT building. The estimated cost to complete the software project is $206,480 and the cost to complete the CT building is approximately $500,000. Both projects are to be financed with Authority funds from operations.

Note 5 - Charity Care

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were approximately $0 and $14,000 for the years ended June 30, 2011 and 2010.

Note 6 - Net Patient Service Revenue

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

Oklahoma Department of Corrections: Inpatient and outpatient services rendered to the Oklahoma Department of Corrections patients are reimbursed under a cost-based reimbursement methodology. The Authority receives 110% of cost for inpatient services and 115% of cost for outpatient services (see note 9). The Authority is reimbursed for certain services at tentative rates with settlements based on quarterly filings.

Medicare: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority subject to audits thereof by the Medicare intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2009.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates for each day of hospitalization with no retrospective adjustment.

Approximately 9% and 12% of net patient service revenues are from participation in the Medicare and state sponsored Medicaid programs for the years ended June 30, 2011 and 2010. Approximately 78% and 77% of net patient service revenues are from patients covered under agreements with the Oklahoma Department of Corrections for the years ended June 30, 2011 and 2010.

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Total patient service revenue	$ 10,583,630	$ 9,224,719
Reductions in revenue		
Medicare	(391,520)	(363,704)
Medicaid	(208,557)	(214,711)
Other	(1,697,176)	(854,493)
Provision for bad debts	(307,151)	(257,034)
Total reductions in revenue	(2,604,404)	(1,689,942)
Net patient service revenue	$ 7,979,226	$ 7,534,777

A summary of revenue by payor type for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Department of Corrections	78%	77%
Medicare and Medicaid	9%	12%
Other third-party payors	7%	4%
Patients	6%	7%
	100%	100%

Note 7 - Long-Term Debt and Other Long-Term Liabilities

Long-term debt and other long term liabilities consist of:

June 30, 2011	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Due to City of Lindsay	$ 92,292	$ -	$ 52,107	$ 40,185	$ 27,953
Other long-term liabilities					
Deferred revenue	292,333	-	139,555	152,778	130,242
Total long-term obligations	$ 384,625	$ -	$ 191,662	$ 192,963	$ 158,195

June 30, 2010	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Due to City of Lindsay	$ 240,123	$ -	$ 147,831	$ 92,292	$ 25,403
Other long-term liabilities					
Deferred revenue	431,888	-	139,555	292,333	139,555
Total long-term obligations	$ 672,011	$ -	$ 287,386	$ 384,625	$ 164,958

Due to City of Lindsay

During 2002, the City transferred $500,000 from the capital improvement fund to the Authority to assist in the reopening of the facility. The amount received from the City is to be repaid interest free as funds become available. In October 2006, the Authority entered into a new promissory note with the City agreeing to repay the note in 180 monthly installments of $2,453, with a maturity date of December 2021. Interest is imputed at 5% on the new note agreement. The Authority has made accelerated principal payments totaling $35,135.

Scheduled principle and interest repayments on long-term debt at June 30, are as follows:

	Total	Principal	Interest
2012	$ 29,441	$ 27,953	$ 1,488
2013	12,444	12,232	212
Total	$ 41,885	$ 40,185	$ 1,700

Note 8 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Total lease expense for the years ended June 30, 2011 and 2010, for all operating leases was $136,026 and $184,330.

Minimum future lease payments for the operating leases are as follows:

Year ending June 30,	Amount
2012	$ 50,438
2013	4,276
Total minimum lease payments	$ 54,714

Note 9 - Contracts with the Oklahoma Department of Corrections

During 2001, the Authority entered into three agreements with the Oklahoma Department of Corrections (DOC) related to services to be provided by the Authority. Those agreements were the Occupancy Agreement, Contract for Inpatient Medical Services, and Outpatient Medical Services Contract. Each agreement was for an initial period of ten years, with two five-year renewal options. Subsequent to year end, a new agreement was signed to begin on September 1, 2011 (See Note 14).

Under the Occupancy Agreement, the Authority granted the DOC exclusive rights to occupy 21 beds of the Authority and certain outpatient facilities for provision of medical services to prisoners of the DOC. As consideration for these exclusive rights, the DOC agreed to pay an amount not to initially exceed $950,000 for the building improvements and equipment necessary to equip the Authority for the DOC's use. Under the Occupancy Agreement, the Authority will amortize all leasehold improvements made by the DOC over the initial term of ten years and all equipment purchased by the DOC over a period of five years. Additionally, a reserve fund of $60,369 for replacement of equipment was funded by the Authority and the DOC. This amount was expended for capital acquisitions during 2011. At June 30, 2010, this fund was recorded on the balance sheets as noncurrent cash – restricted for capital acquisitions.

In the event of termination of the Occupancy Agreement, the Authority may either pay the DOC the unamortized balance of leasehold improvements made by the DOC and the unamortized balance of major movable equipment or return such equipment to the DOC. Accordingly, the portion of the DOC's advance under the Occupancy Agreement related to the leasehold improvements and major moveable equipment are reflected on the accompanying balance sheets as deferred revenue as of June 30, 2011 and 2010, of $152,778 and $292,333. Lease revenue recognized during 2011 and 2010 was $139,555 and $139,555.

Scheduled deferred revenue recognition:

	Total
2012	$ 130,242

Under the Contract for Inpatient Medical Services, the DOC agreed to reimburse the Authority under a cost reimbursement methodology for care provided to prisoners under the contract. The cost reimbursement is based on inpatient utilization and will be no less than 84% and no more than 95%. In addition to the cost reimbursement, the DOC agrees to pay a 10% administrative fee to the Authority. All reimbursements from the DOC under the Contract for Inpatient Medical Services is reflected as net patient service revenue on the accompanying statements of revenues, expenses and changes in net assets.

Under the Outpatient Medical Services Contract, the DOC agreed to reimburse the Authority under a cost reimbursement methodology at 115% of the Authority's costs for outpatient services provided to prisoners under the contract. All reimbursement from the DOC under the Outpatient Medical Services Contract is reflected as net patient service revenue on the accompanying statements of revenue, expenses and changes in net assets.

During November of 2010, reimbursement was temporarily decreased by 5% at the request of the DOC due to the financial situation of the DOC. The agreement states that the Authority will reserve the right to reassess the reduction after six months to evaluate the economy and the operations of the Hospital. The reduction remained in effect until the new contract began on September 1, 2011.

Note 10 - Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount, if any, of the Authority's required contributions, determined in accordance with the terms of the plan. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Pension expense related to the above plan was approximately $51,000 and $34,000 for the years ended June 30, 2011 and 2010, respectively.

Note 11 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2011 and 2010 was as follows:

	2011	2010
Department of Corrections	16%	30%
Medicare and Medicaid	17%	18%
Other third-party payors	34%	33%
Patients	33%	19%
	100%	100%

Note 12 - Commitments and Contingencies

Medical Malpractice Claims

The Authority pays fixed premiums for annual medical malpractice coverage under occurrence-basis policies. In general, the Authority bears risk for any individual claims with costs exceeding $1,000,000 and the excess, if any, over aggregate costs of $3,000,000 for claims occurring during the policy year. The Authority accrues the expense, if any, of its share of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claims experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

Note 13 - Litigation

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously, billed and collected revenues from patient services. Management believes that the hospital is in substantial compliance with current laws and regulations.

Note 14 - Subsequent Event

On September 1, 2011, the Authority entered into a new contract with the Department of Corrections for an additional ten years. Under the agreement, the Department of Corrections has the right to renew for two additional 5 year terms under the same terms and conditions. The new agreement sets the cost reimbursement methodology described in Note 9 at 107% from September 1, 2011 through August 31, 2012. Per the agreement, the parties will negotiate a new threshold reimbursement amount for September 1, 2012 to August 31, 2013.

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CPAs & BUSINESS ADVISORS

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
Lindsay Municipal Hospital Authority
Lindsay, Oklahoma

We have audited the financial statements of Lindsay Municipal Hospital Authority (the "Authority"), as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 25, 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 the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2011-01 and 2011-02 to be significant deficiencies in internal control over financial reporting.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, 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*.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Oklahoma City, Oklahoma
November 25, 2011

Significant deficiencies

2011-01 Preparation of Financial Statements

Condition: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The Authority does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations.

Criteria: The Auditing standards require the auditor to assess the Authority's accounting staff's ability to apply General Accepted Accounting Principles (GAAP) on an ongoing basis.

Cause: The board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Effect: Material misstatements could occur in the financial statements and not be detected and corrected by management in a timely manner.

Recommendation: It is recommended that the Authority implement a system that allows the preparation of financial statements in accordance with GAAP.

Response: The Authority is willing to accept the degree of risk associated with this condition.

2011-02 Lack of Segregation of Duties

Condition: Individuals within the cash receipts, disbursement, and payroll cycles have authorization ability while also performing recording and monitoring duties.

Criteria: Management is responsible for establishing and maintaining effective internal controls.

Cause: Duties in payroll cycle are not adequately segregated.

Effect: Potential material misstatements in the financial statements or material misappropriations due to error or fraud could occur or not be detected and corrected in a timely manner.

Recommendation: Management should evaluate the cost benefit of further segregation of duties.

Response: The Authority does have some compensating controls over cash disbursements and is willing to accept the degree of risk associated with this condition.