



Management's Discussion and Analysis and
Financial Statements
June 30, 2014 and 2013

Perry Memorial Hospital Authority and Controlled Entity

Perry Memorial Hospital Authority

Table of Contents

June 30, 2014 and 2013

Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	7
Revenues, Expenses and Changes in Net Position	8
Cash Flows.....	9
Notes to Financial Statements	11
Independent Auditor's Report on Supplementary Information.....	29
Supplemental Information	
Combining Schedules	
Balance Sheet Information - June 30, 2014	30
Balance Sheet Information - June 30, 2013	31
Operations and Changes in Net Position Information – Years Ended June 30, 2014 and 2013.....	32
Schedules of Net Patient Service Revenue	33
Schedules of Other Operating Revenue.....	34
Schedules of Operating Expenses	35
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36



Independent Auditor's Report

Board of Trustees
Perry Memorial Hospital Authority
Perry, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Perry Memorial Hospital Authority (Authority), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perry Memorial Hospital Authority as of June 30, 2014 and 2013, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014 on our consideration of the 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* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
November 4, 2014

Introduction

Our discussion and analysis for Perry Memorial Hospital Authority and Controlled Entity (Authority) provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2014, 2013 and 2012. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- Cash and investments increased in 2014 by \$63,525 or 1% and decreased by \$2,173,774 or 31% in 2013.
- The Authority's net position decreased in 2014 by \$1,048,895 or 8% and decreased \$142,460 or 1% in 2013.
- The Authority reported an operating loss in 2014 of \$1,126,013 and operating loss of \$225,456 in 2013. During 2014, operating loss increased by \$900,557 compared to 2013 and increased by \$1,043,850 in 2013 compared to 2012.
- Net nonoperating income decreased by \$1,928 or 2% in 2014 compared to 2013 and decreased \$50,607 or 39% in 2013 compared to 2012.

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 Position; 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 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 Position

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 Position 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 position and changes in them. You can think of the Authority's net position - 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 position 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 Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position decreased by \$1,048,895 or 8% in 2014 and decreased \$142,460 or 1% in 2013 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

	2014	2013	2012
Assets			
Current assets	\$ 3,076,428	\$ 3,217,472	\$ 5,937,769
Capital assets, net	6,332,307	6,961,899	6,057,235
Noncurrent assets	3,839,292	3,994,536	2,599,375
Total assets	\$ 13,248,027	\$ 14,173,907	\$ 14,594,379
Liabilities			
Current	\$ 1,008,328	\$ 842,072	\$ 1,043,111
Long term debt	-	43,241	120,214
Total liabilities	1,008,328	885,313	1,163,325
Net position			
Net investment in capital assets	6,332,307	6,841,685	5,865,112
Unrestricted	5,855,975	6,395,519	7,515,936
Restricted			
Expendable	880	901	41
Nonexpendable	50,537	50,489	49,965
Total net position	12,239,699	13,288,594	13,431,054
Total liabilities and net position	\$ 13,248,027	\$ 14,173,907	\$ 14,594,379

Assets, Liabilities and Net Position

The Authority's assets decreased by \$925,880 or 7% in 2014 and decreased by \$420,472 or 3% in 2013. Capital assets decreased \$629,592 or 9 % due to depreciation and patient accounts receivables decreased \$287,261 or 25% due to a decrease in patient days. The Authority's liabilities increased by \$123,015 or 14% in 2014 and decreased by \$278,012 or 24% in 2013.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue, net of provision for bad debts	\$ 5,788,131	\$ 7,057,825	\$ 7,240,101
Other revenues	<u>1,161,912</u>	<u>1,108,882</u>	<u>1,784,000</u>
Total operating revenues	<u>6,950,043</u>	<u>8,166,707</u>	<u>9,024,101</u>
Operating Expenses			
Nursing services	2,456,641	2,724,543	2,553,528
Other professional services	1,799,404	1,743,568	1,772,340
General services	837,649	932,058	900,541
Administrative services	2,213,001	2,285,470	2,325,306
Medical office building	20,752	21,431	22,025
Depreciation	<u>748,609</u>	<u>685,093</u>	<u>631,967</u>
Total operating expenses	<u>8,076,056</u>	<u>8,392,163</u>	<u>8,205,707</u>
Operating Income (Loss)	<u>(1,126,013)</u>	<u>(225,456)</u>	<u>818,394</u>
Nonoperating Revenues (Expenses)			
Investment income	65,792	74,219	78,937
Interest expense	(5,543)	(10,698)	(15,816)
Noncapital grants and contributions	7,797	16,551	57,023
Gain (loss) on sale of assets	<u>9,024</u>	<u>(1,074)</u>	<u>9,461</u>
Total nonoperating revenues	<u>77,070</u>	<u>78,998</u>	<u>129,605</u>
Revenues in Excess of (Less Than) Expenses Before Capital Grants, Contributions and Restricted Contributions	(1,048,943)	(146,458)	947,999
Capital Grants and Contributions	-	3,474	101,432
Restricted Contributions	<u>48</u>	<u>524</u>	<u>1,643</u>
Change in Net Position	<u>\$ (1,048,895)</u>	<u>\$ (142,460)</u>	<u>\$ 1,051,074</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating loss for 2014 increased by \$900,557 as compared to 2013 and increased in 2013 by \$1,043,850 compared to 2012. The primary components of the decreased operating income are:

- A decrease in patient revenue, net of provision for bad debts, of \$1,269,694 or 18% as compared to a decrease in 2013 of \$182,276 or 3% as compared to 2012. Inpatient days decreased 540 or 45% as compared to a decrease in 2013 of 193 or 14% as compared to 2012.
- An increase in other revenue of \$53,030 or 5% as compared to a decrease in 2013 of \$675,118 or 38% as compared to 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest expense, investment earnings, noncapital grants and contributions. The investment income decreased in 2014 by \$8,427 or 11% and decreased \$4,718 or 6% in 2013. The noncapital grants and contributions decreased in 2014 by \$8,754 or 53% and decreased \$40,472 or 71% in 2013.

The Authority's Cash Flows

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

Capital Asset and Debt Administration

At the end of 2014, 2013, and 2012, the Authority had \$6,332,307, \$6,961,899, and \$6,057,235 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets costing \$159,851, \$1,591,470, and \$949,588 during 2014, 2013, and 2012.

Debt

At June 30, 2014, 2013, and 2012, the Authority had \$0, \$120,214 and \$192,123 in capital lease obligations outstanding as detailed in Note 6.

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 580-336-3541.

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	\$ 916,407	\$ 291,407
Short-term investments	193,046	563,330
Accounts receivables		
Patients, net of estimated uncollectibles of approximately \$721,000 in 2014 and \$811,000 in 2013	869,191	1,156,452
Other	758,956	932,141
Accrued interest receivable	2,564	2,904
Supplies	190,065	202,533
Prepays	146,199	68,705
Total current assets	3,076,428	3,217,472
Capital Assets		
Land	264,619	264,619
Construction in progress	16,619	1,614,079
Depreciable capital assets, net of accumulated depreciation	6,051,069	5,083,201
Total capital assets	6,332,307	6,961,899
Other Assets		
Deposits	19,000	19,000
Noncurrent investments	3,742,292	3,933,483
Notes receivables	78,000	42,053
Total other assets	3,839,292	3,994,536
Total assets	\$ 13,248,027	\$ 14,173,907

Perry Memorial Hospital Authority
Balance Sheets
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Liabilities and Net Position		
Current Liabilities		
Current portion of long-term debt	\$ -	\$ 76,973
Accounts payable		
Trade	395,431	324,494
Construction	-	19,075
Accrued liabilities	274,766	320,404
Estimated third-party payor settlements	<u>338,131</u>	<u>101,126</u>
Total current liabilities	1,008,328	842,072
Long-Term Debt, Net of Current Portion	<u>-</u>	<u>43,241</u>
Total liabilities	<u>1,008,328</u>	<u>885,313</u>
Net Position		
Net investment in capital assets	6,332,307	6,841,685
Restricted		
Expendable for employee scholarships	880	901
Nonexpendable permanent endowments	50,537	50,489
Unrestricted	<u>5,855,975</u>	<u>6,395,519</u>
Total net position	<u>12,239,699</u>	<u>13,288,594</u>
Total liabilities and net position	<u><u>\$ 13,248,027</u></u>	<u><u>\$ 14,173,907</u></u>

Perry Memorial Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$708,795 in 2014 and \$1,088,217 in 2013	\$ 5,788,131	\$ 7,057,825
Other revenues	<u>1,161,912</u>	<u>1,108,882</u>
Total operating revenues	<u>6,950,043</u>	<u>8,166,707</u>
Operating Expenses		
Nursing services	2,456,641	2,724,543
Other professional services	1,799,404	1,743,568
General services	837,649	932,058
Administrative services	2,213,001	2,285,470
Medical office building	20,752	21,431
Depreciation	<u>748,609</u>	<u>685,093</u>
Total operating expenses	<u>8,076,056</u>	<u>8,392,163</u>
Operating Loss	<u>(1,126,013)</u>	<u>(225,456)</u>
Nonoperating Revenues (Expenses)		
Investment income	65,792	74,219
Interest expense	(5,543)	(10,698)
Noncapital grants and contributions	7,797	16,551
Gain (loss) on sale of assets	<u>9,024</u>	<u>(1,074)</u>
Total nonoperating revenues	<u>77,070</u>	<u>78,998</u>
Expenses in Excess of Revenues Before Capital Grants, Contributions, and Restricted Contributions	(1,048,943)	(146,458)
Capital Grants and Contributions	-	3,474
Restricted Contributions		
Additions to permanent endowments	<u>48</u>	<u>524</u>
Change in Net Position	(1,048,895)	(142,460)
Net Position, Beginning of the Year	<u>13,288,594</u>	<u>13,431,054</u>
Net Position, End of Year	<u><u>\$ 12,239,699</u></u>	<u><u>\$ 13,288,594</u></u>

Perry Memorial Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	\$ 6,312,397	\$ 6,949,206
Other receipts and payments, net	1,335,097	179,614
Payments to suppliers and contractors	(2,960,464)	(3,075,275)
Payments to employees	(4,442,657)	(4,521,094)
Net Cash Provided by (Used for) Operating Activities	244,373	(467,549)
Noncapital Financing Activities		
Noncapital grants and contributions	7,797	16,551
Permanently restricted contributions	48	524
Net Cash Provided by Noncapital Financing Activities	7,845	17,075
Capital and Capital Related Financing Activities		
Proceeds from sale of assets	-	639
Purchase of capital assets	(178,925)	(1,718,880)
Principal paid on long-term debt	(70,357)	(71,909)
Interest paid	(5,543)	(10,891)
Capital grants and contributions	-	3,474
Net Cash Used for Capital and Capital Related Financing Activities	(254,825)	(1,797,567)
Investing Activities		
Purchases of certificates of deposit	(460,548)	(1,781,419)
Sales of certificates of deposit	1,022,023	2,945,037
Investment income	66,132	74,267
Net Cash Provided by Investing Activities	627,607	1,237,885
Increase in (Decrease) Cash and Cash Equivalents	625,000	(1,010,156)
Cash and Cash Equivalents, Beginning of Year	291,407	1,301,563
Cash and Cash Equivalents, End of Year	\$ 916,407	\$ 291,407

Perry Memorial Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of Operating Loss to Net Cash		
Used for Operating Activities		
Operating loss	\$ (1,126,013)	\$ (225,456)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation	748,609	685,093
Provision for bad debt	708,795	1,088,217
Changes in assets and liabilities		
Patient receivables	(421,534)	(947,962)
Other receivables	173,185	(929,268)
Supplies	12,468	(9,633)
Prepays	(77,494)	(18,978)
Other assets	(35,947)	(31,062)
Accounts payable	70,937	147,156
Accrued liabilities	(45,638)	23,218
Estimated third-party payor settlements	<u>237,005</u>	<u>(248,874)</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 244,373</u>	<u>\$ (467,549)</u>
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Accounts payable for construction incurred	<u>\$ -</u>	<u>\$ 19,075</u>

During the year ending June 30, 2014, the Authority terminated a lease agreement, which resulted in a reduction of long-term debt of \$49,857, the retirement of capital assets with a net book value of \$40,833, and a gain on sale of assets of \$9,024.

Note 1 - Organization and Significant Accounting Policies

Organization

Perry Memorial Hospital Authority (Authority) operates a 26-bed acute care hospital located in Perry, Oklahoma. The hospital building is leased from the City of Perry, Oklahoma, to the Perry Memorial Hospital Authority, which is a public trust created under Title 60 Oklahoma Statute 1961. The Authority was created to aid in the financing and construction of the hospital and related facilities. The Trust indenture provides for a board of trustees to conduct the business of the Authority and to provide short-term acute care services for the citizens of Perry, Oklahoma, the beneficiaries of the trust.

The accompanying financial statements include the accounts of Perry Memorial Hospital Authority and its controlled entity, Perry Memorial Hospital Foundation (Foundation). The Foundation was formed exclusively for charitable, scientific and educational purposes, and is operated for the benefit the Authority. The Foundation is considered a component unit of the Authority and is presented as a blended component unit. All material inter-company accounts and transactions have been eliminated. Separate financial statements of the Foundation are prepared. Requests for financial information should be directed to the Authority administration by calling 580-336-3541.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange 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 non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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.

The Foundation is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Foundation has determined it is not subject to unrelated business income and has not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Foundation's filings are no longer subject to Federal and state tax examinations by tax authorities for years before 2010.

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. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Short-term Investments and Investment Income

Short-term investments include certificates of deposit with a maturity date of twelve months or less and are not considered to be a cash equivalent. Certificates of deposit are recorded at historical cost and interest income is reported as earned.

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. The Authority does not charge interest on the unpaid patient receivables. 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 best 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.

Notes Receivable

The Authority issued notes receivable to a medical student and physicians as part of its recruitment process. Notes are repayable over a minimum of an eighteen-month period to a maximum of a four-year period and are issued at an interest rate of prime plus one percent. The notes are issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven.

At June 30, 2014 and 2013, the notes receivable totaled \$78,000 and \$42,053.

Supplies

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

Capital Assets

Capital asset acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows

Land improvements	10-12 years
Buildings and improvements	10-40 years
Fixed equipment	5-25 years
Major movable equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from operations, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Noncurrent Investments

Noncurrent investments include certificates of deposit with a maturity date greater than twelve months and are not considered to be a cash equivalent. Certificates of deposit are recorded at historical cost and interest income is reported as earned.

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position is presented in the following four components:

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

Restricted Expendable - Restricted expendable are those whose use by the Foundation has been limited by donors to a specific time period or purpose.

Restricted Nonexpendable - Restricted nonexpendable have been restricted by donors to be maintained by the Foundation in perpetuity.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of net investment in capital assets 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.

The Authority recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Authority recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Authority's uninsured and other self-pay patients will be unable or unwilling to pay for the services provided. Thus, the Authority records a significant provision for bad debts related to uninsured and other self-pay patients in the period the services are provided.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR “meaningful use” criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the year ended June 30, 2014, the Authority recorded \$919,820 related to the Medicare program and \$21,528 related to the Medicaid program in other operating revenue for meaningful use incentives. During the year ended June 30, 2013, the Authority recorded \$829,998 related to the Medicare program and \$99,999 related to the Medicaid program in other operating revenue for meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

Amounts recognized represent management’s best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority made SHOPP payments totaling \$183,092 and \$151,575, included in administrative services, for the years ended June 30, 2014 and 2013. In return, the Authority received \$90,213 and \$92,169, included in net patient service revenue, for the years ended June 30, 2014 and 2013. In 2014 and 2013, the Authority received funds from the Oklahoma Hospital Association totaling \$91,746 and \$58,088 included as other revenue.

Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority’s charity care policy were approximately \$82,000 and \$145,000 for the years ended June 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were approximately \$29,000 and \$46,000 at June 30, 2014 and 2013, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position 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, other than financing costs, incurred to provide health care services.

Grants and Contributions

From time to time, the Authority receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Expenses in Excess of Revenues

Expenses in excess of revenues excludes transfers of assets to and from related parties for other than goods and services, contributions of long-lived assets, including assets acquired using contributions which were restricted by donors, and restricted contributions.

Risk Management

The Authority 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Reclassifications have been made to the June 30, 2013 financial information to make it conform to the current year presentation. The reclassification had no effect on previously reported operating results or changes in net Position.

Note 2 - 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:

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedures. Home Health services are paid based on a prospectively determined amount per 60 day episode. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2012.

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

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.

Revenue from the Medicare, Blue Cross and Blue Shield and Medicaid programs accounted for approximately 35%, 29%, and 5% of the Authority's net patient service revenue for the year ended June 30, 2014 and 36% , 20% and 3% for the year ended June 30, 2013. 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. The net patient service revenue decreased approximately \$135,000 for the years ended June 30, 2014 and increased approximately \$132,000 for the year ended June 30, 2013 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations, as well as changes in estimates on the allowance for contractual adjustments and doubtful accounts.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. The Authority has accrued a liability of \$112,895 for potential RAC settlements as of June 30, 2014 and 2013. The estimate is based on historical overpayments identified.

Perry Memorial Hospital Authority
Notes to Financial Statements
Years Ended June 30, 2014 and 2013

A summary of net patient service revenue for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Total patient service revenue	\$ 17,493,398	\$ 19,641,804
Contractual adjustments and provisions for bad debt		
Contractual adjustments	(10,996,472)	(11,495,762)
Provisions for bad debt	(708,795)	(1,088,217)
Total contractual adjustments and provisions for bad debts	(11,705,267)	(12,583,979)
Net patient service revenue	\$ 5,788,131	\$ 7,057,825

Note 3 - Deposits, Investments and Investment Income

State statutes require public trusts to invest monies in financial institutions only in certificates of deposit and other evidences of deposit. State statutes also require all deposits of public funds be fully collateralized or insured. The Authority is in compliance with this statute at June 30, 2014 and 2013. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit.

The following is a summary of deposits and investments at June 30, 2014 and 2013:

	2014	2013
Total Bank Balance		
Insured (FDIC)	\$ 781,206	\$ 766,115
Collateralized with securities held by the Authority's agent in the Authority's name	4,180,957	4,111,279
	\$ 4,962,163	\$ 4,877,394
Total Carrying Value		
Cash and cash equivalents	\$ 916,407	\$ 291,407
Short-term investments	193,046	563,330
Noncurrent investments	3,742,292	3,933,483
	\$ 4,851,745	\$ 4,788,220

Custodial Credit Risk – Exposure to custodial credit 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 but not in the Authority's name.

Interest Rate Risk – The Authority’s investment policy allows for investments in mutual funds, stocks, commercial paper, obligations of the federal government and certificate of deposits. The Authority’s investment policy provides specific maturity limits to manage exposure to fair value losses arising from changing interest rates.

Investment Income

Investment income on cash and other investments consists primarily of interest income for the years ended June 30, 2014 and 2013.

Note 4 - Capital Assets

Activity for the years ended June 30, 2014 and 2013 was as follows:

	Balance June 30, 2013	Additions	Retirements and Transfers	Balance June 30, 2014
Non-depreciable capital assets				
Land	\$ 264,619	\$ -	\$ -	\$ 264,619
Construction in progress	1,614,079	80,972	(1,678,432)	16,619
Total non-depreciable capital assets	<u>\$ 1,878,698</u>	<u>\$ 80,972</u>	<u>\$ (1,678,432)</u>	<u>\$ 281,238</u>
Depreciable capital assets				
Land improvements	\$ 145,918	\$ -	\$ -	\$ 145,918
Building and fixed equipment	4,513,203	-	-	4,513,203
Building improvement	3,996,973	-	1,620,442	5,617,415
Major moveable equipment	3,928,531	78,879	57,990	4,065,400
Equipment under capital lease obligation	350,000	-	(350,000)	-
Total depreciable capital assets	<u>12,934,625</u>	<u>\$ 78,879</u>	<u>\$ 1,328,432</u>	<u>14,341,936</u>
Less accumulated depreciation				
Land improvements	112,061	\$ 8,028	\$ -	120,089
Building and building improvements	4,564,399	323,643	-	4,888,042
Major moveable equipment	2,929,964	352,772	-	3,282,736
Capital leased equipment	245,000	64,166	(309,166)	-
Total accumulated depreciation	<u>7,851,424</u>	<u>\$ 748,609</u>	<u>\$ (309,166)</u>	<u>8,290,867</u>
Depreciable capital assets, net	<u>\$ 5,083,201</u>			<u>\$ 6,051,069</u>
Capital assets, net	<u>\$ 6,961,899</u>			<u>\$ 6,332,307</u>

Perry Memorial Hospital Authority
Notes to Financial Statements
Years Ended June 30, 2014 and 2013

	Balance June 30, 2012	Additions	Retirements and Transfers	Balance June 30, 2013
Non-depreciable capital assets				
Land	\$ 264,619	\$ -	\$ -	\$ 264,619
Construction in progress	239,429	1,486,183	(111,533)	1,614,079
Total non-depreciable capital assets	<u>\$ 504,048</u>	<u>\$ 1,486,183</u>	<u>\$ (111,533)</u>	<u>\$ 1,878,698</u>
Depreciable capital assets				
Land improvements	\$ 145,918	\$ -	\$ -	\$ 145,918
Building and fixed equipment	4,513,203	-	-	4,513,203
Building improvement	3,996,973	-	-	3,996,973
Major moveable equipment	3,715,873	105,287	107,371	3,928,531
Equipment under capital lease obligation	350,000	-	-	350,000
Total depreciable capital assets	<u>12,721,967</u>	<u>\$ 105,287</u>	<u>\$ 107,371</u>	<u>12,934,625</u>
Less accumulated depreciation				
Land improvements	103,904	\$ 8,157	\$ -	112,061
Building and building improvements	4,315,026	249,373	-	4,564,399
Major moveable equipment	2,574,850	357,563	(2,449)	2,929,964
Capital leased equipment	175,000	70,000	-	245,000
Total accumulated depreciation	<u>7,168,780</u>	<u>\$ 685,093</u>	<u>\$ (2,449)</u>	<u>7,851,424</u>
Depreciable capital assets, net	<u>\$ 5,553,187</u>			<u>\$ 5,083,201</u>
Capital assets, net	<u>\$ 6,057,235</u>			<u>\$ 6,961,899</u>

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and other as operating leases. Total lease expense in June 30, 2014 and 2013 for all operating leases was approximately \$75,000 and \$69,000.

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

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2015	\$ 103,765
2016	58,200
2017	53,500
Total minimum lease payables	<u>\$ 215,465</u>

For further information on capital leases, see Note 6.

Note 6 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the years ended June 30, 2014 and 2013 follows:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Capital lease obligations	<u>\$ 120,214</u>	<u>\$ -</u>	<u>\$ 120,214</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Capital lease obligations	<u>\$ 192,123</u>	<u>\$ -</u>	<u>\$ 71,909</u>	<u>\$ 120,214</u>	<u>\$ 76,973</u>

The terms and due dates of the Authority's long-term debt, capital leases obligations, at June 30, 2014 and 2013, follow:

- Capital lease obligation, at an imputed interest rate of 6.8%, collateralized by leased equipment.

Note 7 - Retirement Plan

Defined Contribution Plan

The Authority has established Perry Memorial Hospital Retirement Plan (Plan), a defined contribution plan. A third-party has been contracted to administer the plan. Substantially all employees of the Authority participate in the Plan.

Covered employees (those employees who have attained the age of 21 and have worked 1,248 hours) are required by the Plan to contribute 1 percent of their eligible compensation. After one year of employment, the employer will match employee contributions up to 2 percent of the employees' eligible compensation. The contributions for the year ended June 30, 2014 were \$147,851 which consisted of \$47,603 from the employer and \$100,248 from employees. The contributions for the year ended June 30, 2013 were \$136,546 which consisted of \$44,253 from the employer and \$92,293 from employees. The contributions for the year ended June 30, 2012 were \$122,780 which consisted of \$39,126 from the employer and \$83,654 from employees. Benefits begin to vest after three years of service, with full vesting after seven years of service.

Note 8 - Endowments and Restricted Net Position

Restricted expendable net position is available for the following purposes at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Health Care Services		
Employee Scholarships	<u>\$ 880</u>	<u>\$ 901</u>

Restricted nonexpendable net position at June 30, 2014 and 2013, represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investments earnings from the Authority's permanent endowments are expendable to support the following purposes, as established by the contributor:

	<u>2014</u>	<u>2013</u>
Health Care Services		
Employee Scholarships	<u>\$ 50,537</u>	<u>\$ 50,489</u>

Note 9 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Medicare and Medicaid	40%	44%
Self pay	33%	28%
Other	<u>27%</u>	<u>28%</u>
	<u>100%</u>	<u>100%</u>

Note 10 - Related Parties

The Authority Board of Trustees has a management agreement with Quorum Health Resources, LLC. This agreement is a defined service agreement for managing the day-to-day operations of the Authority through June 30, 2018. During the years ended June 30, 2014 and 2013, the Authority incurred fees to Quorum Health Resources, LLC for management services of \$519,096 and \$613,377. The Authority owed Quorum Health Resources, LLC \$0 and \$65,350 as of June 30, 2014 and 2013.

Due to the size of the City of Perry, the board consists of community leaders who from time to time enter into transactions with the Authority; it is management's intention and belief that all transactions are arms length transactions.

Prior to March 4, 2013, the Authority had several lease agreements with the City of Perry for real property, land improvements and equipment. On March 4, 2013, the Authority signed a lease consolidation and amendment agreement with the City of Perry. The new lease is for additional real property and consolidates the previous leases into one lease. Rent is \$10 and due at commencement of the lease. The new lease will expire on March 3, 2038.

Note 11 - Contingencies

Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

The Authority accrues the expense, in any of its shares 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 claim experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

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 the 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.

Note 12 - Presentation of Blended Component Unit

The following is summarized combining information for the Authority and Foundation, which has been presented as a blended component unit, as of and for the year ended June 30, 2014:

Table 1: Assets, Liabilities and Net Position

	<u>Authority</u>	<u>Foundation</u>	<u>Total</u>
Assets			
Current Assets	\$ 3,002,054	\$ 74,374	\$ 3,076,428
Capital assets, net	6,332,307	-	6,332,307
Other noncurrent assets	3,560,690	278,602	3,839,292
	<u>\$ 12,895,051</u>	<u>\$ 352,976</u>	<u>\$ 13,248,027</u>
Liabilities			
Current liabilities	\$ 1,008,328	\$ -	1,008,328
Net Position			
Net investment in capital assets	6,332,307	-	6,332,307
Restricted, expendable for employee scholarships	-	880	880
Restricted, nonexpendable permanent endowments	-	50,537	50,537
Unrestricted	5,554,416	301,559	5,855,975
	<u>11,886,723</u>	<u>352,976</u>	<u>12,239,699</u>
Total net position	<u>\$ 12,895,051</u>	<u>\$ 352,976</u>	<u>\$ 13,248,027</u>
Total liabilities and net position	<u>\$ 12,895,051</u>	<u>\$ 352,976</u>	<u>\$ 13,248,027</u>

Table 2: Operating Results and Changes in Net Position

	<u>Authority</u>	<u>Foundation</u>	<u>Total</u>
Operating Revenues			
Net patient service revenue	\$ 5,788,131	\$ -	\$ 5,788,131
Other revenue	<u>1,161,912</u>	<u>-</u>	<u>1,161,912</u>
Total operating revenues	<u>6,950,043</u>	<u>-</u>	<u>6,950,043</u>
Operating expenses			
Depreciation	748,609	-	748,609
Other operating expenses	<u>7,318,670</u>	<u>8,777</u>	<u>7,327,447</u>
Total operating expenses	<u>8,067,279</u>	<u>8,777</u>	<u>8,076,056</u>
Operating loss	(1,117,236)	(8,777)	(1,126,013)
Nonoperating revenues	<u>68,313</u>	<u>8,757</u>	<u>77,070</u>
Expenses in excess of revenues	(1,048,923)	(20)	(1,048,943)
Restricted contributions	<u>-</u>	<u>48</u>	<u>48</u>
Change in net position	(1,048,923)	28	(1,048,895)
Net position, beginning of year	<u>12,935,646</u>	<u>352,948</u>	<u>13,288,594</u>
Net position, end of year	<u><u>\$ 11,886,723</u></u>	<u><u>\$ 352,976</u></u>	<u><u>\$ 12,239,699</u></u>

Perry Memorial Hospital Authority
Notes to Financial Statements
Years Ended June 30, 2014 and 2013

Table 3: Cash Flows

	<u>Authority</u>	<u>Foundation</u>	<u>Total</u>
Net cash from operating activates	\$ 244,345	\$ 28	\$ 244,373
Net cash from noncapital financing activities	7,845	-	7,845
Net cash used for capital and related financing activities	(254,825)	-	(254,825)
Net cash from (used for) investing activities	<u>632,676</u>	<u>(5,069)</u>	<u>627,607</u>
Net change in cash and cash equivalents	630,041	(5,041)	625,000
Cash and cash equivalents, beginning of year	<u>274,190</u>	<u>17,217</u>	<u>291,407</u>
Cash and cash equivalents, end of year	<u><u>\$ 904,231</u></u>	<u><u>\$ 12,176</u></u>	<u><u>\$ 916,407</u></u>

The following is summarized combining information as of and for the year ended June 30, 2013:

Table 1: Assets, Liabilities and Net Position

	<u>Authority</u>	<u>Foundation</u>	<u>Total</u>
Assets			
Current Assets	\$ 3,138,491	\$ 78,981	\$ 3,217,472
Capital assets, net	6,961,899	-	6,961,899
Other noncurrent assets	<u>3,720,569</u>	<u>273,967</u>	<u>3,994,536</u>
Total assets	<u><u>\$ 13,820,959</u></u>	<u><u>\$ 352,948</u></u>	<u><u>\$ 14,173,907</u></u>
Liabilities			
Current liabilities	\$ 842,072	\$ -	842,072
Long-term debt, less current maturities	<u>43,241</u>	<u>-</u>	<u>43,241</u>
Total liabilities	<u>885,313</u>	<u>-</u>	<u>885,313</u>
Net Position			
Net investment in capital assets	6,841,685	-	6,841,685
Restricted, expendable for employee scholarships	-	901	901
Restricted, nonexpendable permanent endowments	-	50,489	50,489
Unrestricted	<u>6,093,961</u>	<u>301,558</u>	<u>6,395,519</u>
Total net position	<u>12,935,646</u>	<u>352,948</u>	<u>13,288,594</u>
Total liabilities and net position	<u><u>\$ 13,820,959</u></u>	<u><u>\$ 352,948</u></u>	<u><u>\$ 14,173,907</u></u>

Table 2: Operating Results and Changes in Net Position

	<u>Authority</u>	<u>Foundation</u>	<u>Total</u>
Operating Revenues			
Net patient service revenue	\$ 7,057,825	\$ -	\$ 7,057,825
Other revenue	<u>1,108,882</u>	<u>-</u>	<u>1,108,882</u>
Total operating revenues	<u>8,166,707</u>	<u>-</u>	<u>8,166,707</u>
Operating expenses			
Depreciation	685,093	-	685,093
Other operating expenses	<u>7,679,318</u>	<u>27,752</u>	<u>7,707,070</u>
Total operating expenses	<u>8,364,411</u>	<u>27,752</u>	<u>8,392,163</u>
Operating loss	(197,704)	(27,752)	(225,456)
Nonoperating revenues	<u>68,868</u>	<u>10,130</u>	<u>78,998</u>
Expenses in excess of revenues	(128,836)	(17,622)	(146,458)
Capital grants and contributions	3,474	-	3,474
Restricted contributions	<u>-</u>	<u>524</u>	<u>524</u>
Change in net position	(125,362)	(17,098)	(142,460)
Net position, beginning of year	<u>13,061,008</u>	<u>370,046</u>	<u>13,431,054</u>
Net position, end of year	<u><u>\$ 12,935,646</u></u>	<u><u>\$ 352,948</u></u>	<u><u>\$ 13,288,594</u></u>

Table 3: Cash Flows

	<u>Authority</u>	<u>Foundation</u>	<u>Total</u>
Net cash used for operating activities	\$ (450,451)	\$ (17,098)	\$ (467,549)
Net cash from noncapital financing activities	17,075	-	17,075
Net cash used for capital and related financing activities	(1,797,567)	-	(1,797,567)
Net cash from (used for) investing activities	<u>1,243,260</u>	<u>(5,375)</u>	<u>1,237,885</u>
Net change in cash and cash equivalents	(987,683)	(22,473)	(1,010,156)
Cash and cash equivalents, beginning of year	<u>1,261,873</u>	<u>39,690</u>	<u>1,301,563</u>
Cash and cash equivalents, end of year	<u><u>\$ 274,190</u></u>	<u><u>\$ 17,217</u></u>	<u><u>\$ 291,407</u></u>

Note 13 - Subsequent Events

The Authority has evaluated subsequent events through November 4, 2014, the date which the financial statements were available to be issued.

The Authority constructed a parking lot subsequent to year end at a cost of approximately \$225,000.



Supplementary Information
June 30, 2014 and 2013

Perry Memorial Hospital Authority and Controlled Entity



Independent Auditor's Report on Supplementary Information

The Board of Trustees
Perry Memorial Hospital Authority
Perry, Oklahoma

We have audited the financial statements of the Perry Memorial Hospital Authority (Authority) as of and for the years ended June 30, 2014 and 2013, and our report thereon dated November 4, 2014, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining schedules of balance sheet information, combining schedules of revenues, expenses and changes in net position information, and schedules of hospital net patient service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
November 4, 2014

	2014			
	Perry Memorial Hospital Authority	Perry Memorial Hospital Foundation	Eliminations	Combined
Assets				
Current Assets				
Cash and cash equivalents	\$ 904,231	\$ 12,176	\$ -	\$ 916,407
Short-term investments	130,848	62,198	-	193,046
Receivables				
Patient, net	869,191	-	-	869,191
Other	758,956	-	-	758,956
Accrued interest receivable	2,564	-	-	2,564
Supplies	190,065	-	-	190,065
Prepays	146,199	-	-	146,199
Total current assets	3,002,054	74,374	-	3,076,428
Capital Assets, Net				
Non-depreciable capital assets	264,619	-	-	264,619
Construction in progress	16,619	-	-	16,619
Depreciable capital assets, net	6,051,069	-	-	6,051,069
Total capital assets, net	6,332,307	-	-	6,332,307
Other Assets				
Deposits	19,000	-	-	19,000
Noncurrent investments	3,463,690	278,602	-	3,742,292
Notes receivables	78,000	-	-	78,000
Total other assets	3,560,690	278,602	-	3,839,292
Total assets	\$ 12,895,051	\$ 352,976	\$ -	\$ 13,248,027

Perry Memorial Hospital Authority
Combining Schedule – Balance Sheet Information
June 30, 2014

	2014			
	Perry Memorial Hospital Authority	Perry Memorial Hospital Foundation	Eliminations	Combined
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ -
Accounts payable		-	-	
Trade	395,431	-	-	395,431
Construction	-	-	-	-
Accrued liabilities	274,766	-	-	274,766
Estimated third-party payor settlements	338,131	-	-	338,131
Total current liabilities	1,008,328	-	-	1,008,328
Long-Term Debt, Net	-	-	-	-
Total liabilities	1,008,328	-	-	1,008,328
Net Position				
Net investment in capital assets	6,332,307	-	-	6,332,307
Restricted				
Expendable for employee scholarships	-	880	-	880
Nonexpendable permanent endowments	-	50,537	-	50,537
Unrestricted	5,554,416	301,559	-	5,855,975
Total net position	11,886,723	352,976	-	12,239,699
Total liabilities and net position	\$ 12,895,051	\$ 352,976	\$ -	\$ 13,248,027

	2013			
	Perry Memorial Hospital Authority	Perry Memorial Hospital Foundation	Eliminations	Combined
Assets				
Current Assets				
Cash and cash equivalents	\$ 274,190	\$ 17,217	\$ -	\$ 291,407
Short-term investments	501,566	61,764	-	563,330
Receivables				
Patient, net	1,156,452	-	-	1,156,452
Other	932,141	-	-	932,141
Accrued interest receivable	2,904	-	-	2,904
Supplies	202,533	-	-	202,533
Prepays	68,705	-	-	68,705
Total current assets	<u>3,138,491</u>	<u>78,981</u>	<u>-</u>	<u>3,217,472</u>
Capital Assets, Net				
Non-depreciable capital assets	264,619	-	-	264,619
Construction in progress	1,614,079	-	-	1,614,079
Depreciable capital assets, net	<u>5,083,201</u>	<u>-</u>	<u>-</u>	<u>5,083,201</u>
Total capital assets, net	<u>6,961,899</u>	<u>-</u>	<u>-</u>	<u>6,961,899</u>
Other Assets				
Deposits	19,000	-	-	19,000
Noncurrent investments	3,659,516	273,967	-	3,933,483
Notes receivables	<u>42,053</u>	<u>-</u>	<u>-</u>	<u>42,053</u>
Total other assets	<u>3,720,569</u>	<u>273,967</u>	<u>-</u>	<u>3,994,536</u>
Total assets	<u>\$ 13,820,959</u>	<u>\$ 352,948</u>	<u>\$ -</u>	<u>\$ 14,173,907</u>

Perry Memorial Hospital Authority
Combining Schedule – Balance Sheet Information
June 30, 2013

	2013			
	Perry Memorial Hospital Authority	Perry Memorial Hospital Foundation	Eliminations	Combined
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 76,973	\$ -	\$ -	\$ 76,973
Accounts payable		-	-	
Trade	324,494	-	-	324,494
Construction	19,075	-	-	19,075
Accrued liabilities	320,404	-	-	320,404
Estimated third-party payor settlements	101,126	-	-	101,126
Total current liabilities	842,072	-	-	842,072
Long-Term Debt, Net	43,241	-	-	43,241
Total liabilities	885,313	-	-	885,313
Net Position				
Net investment in capital assets	6,841,685	-	-	6,841,685
Restricted				
Expendable for employee scholarships	-	901	-	901
Nonexpendable permanent endowments	-	50,489	-	50,489
Unrestricted	6,093,961	301,558	-	6,395,519
Total net position	12,935,646	352,948	-	13,288,594
Total liabilities and net position	\$ 13,820,959	\$ 352,948	\$ -	\$ 14,173,907

	2014			
	Perry Memorial Hospital Authority	Perry Memorial Hospital Foundation	Eliminations	Combined
Operating Revenues				
Net patient service revenue	\$ 5,788,131	\$ -		\$ 5,788,131
Other revenue	1,161,912	-	-	1,161,912
Total operating revenues	6,950,043	-	-	6,950,043
Operating Expenses				
Nursing services	2,456,641	-	-	2,456,641
Other professional services	1,799,404	-	-	1,799,404
General services	837,649	-	-	837,649
Administrative services	2,204,224	8,777	-	2,213,001
Medical office building	20,752	-	-	20,752
Depreciation	748,609	-	-	748,609
Total operating expenses	8,067,279	8,777	-	8,076,056
Operating Loss	(1,117,236)	(8,777)	-	(1,126,013)
Non Operating Revenues (Expenses)				
Investment income	61,630	4,162	-	65,792
Interest expense	(5,543)	-	-	(5,543)
Noncapital grant revenue and contributions	3,202	4,595	-	7,797
Gain (loss) on sale of asset	9,024	-	-	9,024
Total non-operating revenues (expenses)	68,313	8,757	-	77,070
Expenses in excess of revenues before capital contributions	(1,048,923)	(20)	-	(1,048,943)
Capital Grants and Contributions	-	-	-	-
Restricted Contributions				
Additions to permanent endowments	-	48	-	48
Change in Net Position	(1,048,923)	28	-	(1,048,895)
Net Position, Beginning of Year	12,935,646	352,948	-	13,288,594
Net Position, End of Year	\$ 11,886,723	\$ 352,976	\$ -	\$ 12,239,699

Perry Memorial Hospital Authority
Combining Schedule –Operations and Changes in Net Position Information
Years Ended June 30, 2014 and 2013

2013			
Perry Memorial Hospital Authority	Perry Memorial Hospital Foundation	Eliminations	Combined
\$ 7,057,825	\$ -	\$ -	\$ 7,057,825
1,108,882	-	-	1,108,882
8,166,707	-	-	8,166,707
2,724,543	-	-	2,724,543
1,743,568	-	-	1,743,568
932,058	-	-	932,058
2,257,718	27,752	-	2,285,470
21,431	-	-	21,431
685,093	-	-	685,093
8,364,411	27,752	-	8,392,163
(197,704)	(27,752)	-	(225,456)
70,154	4,065	-	74,219
(10,698)	-	-	(10,698)
10,486	6,065	-	16,551
(1,074)	-	-	(1,074)
68,868	10,130	-	78,998
(128,836)	(17,622)	-	(146,458)
3,474	-	-	3,474
-	524	-	524
(125,362)	(17,098)	-	(142,460)
13,061,008	370,046	-	13,431,054
\$ 12,935,646	\$ 352,948	\$ -	\$ 13,288,594

Perry Memorial Hospital Authority
Schedules of Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Daily Patient Services		
Medical and surgical	\$ 603,800	\$ 1,049,613
Swing bed	<u>732,770</u>	<u>926,625</u>
	<u>1,336,570</u>	<u>1,976,238</u>
Other Nursing Services		
Central service supplies	348,937	470,744
Emergency services	3,367,048	3,436,877
Home health	567,813	550,005
Operating and recovery rooms	<u>481,076</u>	<u>722,336</u>
	<u>4,764,874</u>	<u>5,179,962</u>
Other Professional Services		
Industrial service	40,200	35,616
Inhalation therapy	577,338	826,343
Laboratory	4,089,045	4,444,812
Pharmacy	1,119,064	1,447,995
Physical therapy	968,829	888,386
Physician practice	345,421	335,833
Radiology	<u>4,334,354</u>	<u>4,652,109</u>
	<u>11,474,251</u>	<u>12,631,094</u>
Charity Care	<u>(82,297)</u>	<u>(145,490)</u>
Total patient service revenue	<u>17,493,398</u>	<u>19,641,804</u>
Reductions from Revenue		
Contractual adjustments	(10,996,472)	(11,495,762)
Provision for bad debts	<u>(708,795)</u>	<u>(1,088,217)</u>
Total reductions from revenue	<u>(11,705,267)</u>	<u>(12,583,979)</u>
Net Patient Service Revenue	<u><u>\$ 5,788,131</u></u>	<u><u>\$ 7,057,825</u></u>

Perry Memorial Hospital Authority
Schedules of Other Operating Revenue
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Other Revenue		
Cafeteria	\$ 21,673	\$ 23,732
Medical records fee	1,154	1,059
Government incentive for electronic health records	941,348	929,997
Supplemental Hospital Offset Payment Program Act	91,746	58,088
Rental income - Hospital annex	20,400	20,400
Rental income - Medical office building	50,113	50,113
Rental income - Specialty clinic	14,950	11,600
Supplies sold	1,603	2,371
Miscellaneous	<u>18,925</u>	<u>11,522</u>
Total Other Revenue	<u>\$ 1,161,912</u>	<u>\$ 1,108,882</u>

2014

	Perry Memorial Hospital Foundation	Perry Memorial Hospital Authority		
	Other	Salaries	Other	Total
Nursing Services				
Medical and surgical	\$ -	\$ 811,781	\$ 78,284	\$ 890,065
Central services and supply	-	57,577	76,061	133,638
Emergency services	-	287,631	799,709	1,087,340
Home health	-	178,417	21,867	200,284
Operating and recovery rooms	-	80,738	64,576	145,314
	<u>\$ -</u>	<u>\$ 1,416,144</u>	<u>\$ 1,040,497</u>	<u>\$ 2,456,641</u>
Other Professional Services				
Industrial services	\$ -	\$ 189	\$ 2,440	\$ 2,629
Inhalation therapy	-	37,781	24,450	62,231
Laboratory	-	328,128	295,450	623,578
Pharmacy	-	31,050	177,028	208,078
Physical therapy	-	178,290	28,275	206,565
Physician practice	-	146,545	50,600	197,145
Radiology	-	250,596	223,502	474,098
Specialty clinic	-	22,432	2,648	25,080
	<u>\$ -</u>	<u>\$ 995,011</u>	<u>\$ 804,393</u>	<u>\$ 1,799,404</u>
General Services				
Dietary	\$ -	\$ 87,361	\$ 75,417	\$ 162,778
Housekeeping	-	93,594	20,564	114,158
Laundry and linen	-	-	45,998	45,998
Medical records	-	192,469	77,762	270,231
Plant operations	-	57,543	186,941	244,484
	<u>\$ -</u>	<u>\$ 430,967</u>	<u>\$ 406,682</u>	<u>\$ 837,649</u>
Administrative Services				
Administrative and office	\$ 8,777	\$ 764,386	\$ 656,179	\$ 1,429,342
Employee benefits	-	-	783,659	783,659
Insurance	-	-	-	-
	<u>\$ 8,777</u>	<u>\$ 764,386</u>	<u>\$ 1,439,838</u>	<u>\$ 2,213,001</u>
Medical Office Building	<u>\$ -</u>	<u>\$ 6,852</u>	<u>\$ 13,900</u>	<u>\$ 20,752</u>
Depreciation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 748,609</u>	<u>\$ 748,609</u>

Perry Memorial Hospital Authority
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

2013			
Perry Memorial Hospital Foundation	Perry Memorial Hospital Authority		
Other	Salaries	Other	Total
\$ -	\$ 893,813	\$ 82,739	\$ 976,552
-	57,028	95,236	152,264
-	328,473	904,802	1,233,275
-	165,781	23,303	189,084
-	80,765	92,603	173,368
<u>\$ -</u>	<u>\$ 1,525,860</u>	<u>\$ 1,198,683</u>	<u>\$ 2,724,543</u>
\$ -	\$ 1,105	\$ 3,502	\$ 4,607
-	34,243	25,206	59,449
-	317,168	312,987	630,155
-	32,445	147,516	179,961
-	184,252	18,926	203,178
-	135,065	48,443	183,508
-	242,519	216,637	459,156
-	21,336	2,218	23,554
<u>\$ -</u>	<u>\$ 968,133</u>	<u>\$ 775,435</u>	<u>\$ 1,743,568</u>
\$ -	\$ 92,117	\$ 90,204	\$ 182,321
-	108,582	23,236	131,818
-	-	53,271	53,271
-	201,469	77,612	279,081
-	60,952	224,615	285,567
<u>\$ -</u>	<u>\$ 463,120</u>	<u>\$ 468,938</u>	<u>\$ 932,058</u>
\$ 27,752	\$ 803,502	\$ 650,880	\$ 1,482,134
-	-	776,371	776,371
-	-	26,965	26,965
<u>\$ 27,752</u>	<u>\$ 803,502</u>	<u>\$ 1,454,216</u>	<u>\$ 2,285,470</u>
<u>\$ -</u>	<u>\$ 7,326</u>	<u>\$ 14,105</u>	<u>\$ 21,431</u>



**Independent Auditor's 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***

Board of Trustees
Perry Memorial Hospital Authority
Perry, Oklahoma

We have audited, 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, the financial statements of Perry Memorial Hospital Authority (Authority), which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 40, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Perry Memorial Hospital Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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. *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.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
November 4, 2014