Jackson County Memorial Hospital Authority

Accountants' Reports and Financial Statements

June 30, 2011 and 2010

BKD LLP
CPAs & Advisors

Jackson County Memorial Hospital Authority

June 30, 2011 and 2010

Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Jackson County Memorial Hospital Authority
Altus, Oklahoma

We have audited the accompanying basic financial statements of Jackson County Memorial Hospital Authority (the Authority) and its discretely presented component unit as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Jackson County Memorial Hospital Authority and its discretely presented component unit as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

October 19, 2011

Jackson County Memorial Hospital Authority
Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Jackson County Memorial Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise noted, information and financial data included in the management's discussion and analysis relates solely to the Authority and does not include the Authority's discretely presented component unit, JCMH Health Care Corporation (the Corporation).

Financial Highlights

- Cash and investments decreased in 2011 by $7,328,750 or 55.2% and increased in 2010 by $1,254,612 or 10.4%.
- The outstanding balance of patient accounts receivable decreased in 2011 by $114,484 or 1.1% and in 2010 by $2,258,509 or 18.0%.
- The Authority's net assets increased in 2011 by $4,667,249 or 17.5% and decreased in 2010 by $158,010 or 0.6%.
- The Authority reported operating income of $829,130 in 2011 and $537,156 in 2010. Operating income in 2011 increased by $291,974 or 54.4% compared to the 2010 amount. The operating income in 2010 decreased by $2,130,276 or 79.9% compared to the operating income for 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 statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Jackson County Memorial Hospital Foundation (the Foundation), a nonprofit corporation organized and operated for the exclusive benefit and support of the Authority, is a component unit included in the Authority's financial statements, using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the accompanying financial statements. JCMH Health Care Corporation (the Corporation), a nonprofit corporation organized for the purpose of carrying out the objectives of the Authority and to enhance and support the health care services to the community of Altus, Oklahoma, and the surrounding Jackson County, Oklahoma, area, is included in the Authority's financial statements as a component unit using the discrete presentation method. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any organization's finances is, "Is the organization 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. Using the accrual basis of accounting means that 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. The Authority's total net assets—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents 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 sheets. The Authority's net assets increased in 2011 by approximately $4,667,000 (17.5%) over 2010 and decreased by $159,000 (0.6%) in 2010 over 2009 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets (Amounts in Thousands)

	2011	2010	2009
Assets			
Cash, cash equivalents and current investments	$ 5,943	$ 10,235	$ 7,939
Patient accounts receivable, net	10,193	10,308	12,566
Other current assets	3,219	4,225	5,617
Noncurrent cash and investments	-	3,037	4,079
Capital assets, net	16,576	17,263	22,077
Other noncurrent assets	3,162	2,742	2,819
Total assets	$ 39,093	$ 47,810	$ 55,097
Liabilities			
Long-term debt (including current maturities)	$ 743	$ 13,529	$ 14,761
Other current liabilities	6,951	7,549	13,445
Total liabilities	7,694	21,078	28,206
Net Assets			
Invested in capital assets, net of related debt	15,833	6,171	10,171
Restricted expendable	103	1,712	1,603
Unrestricted	15,463	18,849	15,117
Total net assets	31,399	26,732	26,891
Total liabilities and net assets	$ 39,093	$ 47,810	$ 55,097

Significant changes in the Authority's 2011 assets are found in cash and investments, other current assets and other noncurrent assets. Cash and investments decreased by approximately $7,329,000 or 55.2% primarily due to the payoff of the Authority's outstanding bonds during the year. Other current assets decreased by approximately $1,006,000 or 23.8% due primarily to decreases in the amounts due to the Authority from Medicare. Other noncurrent assets increased by approximately $420,000 or 15.3% primarily due to increased investment in joint ventures in 2011 of approximately $574,000.

Significant changes in the Authority's 2011 liabilities are related to changes in long-term debt. Long-term debt decreased approximately $12,786,000 or 94.5% primarily due to the payoff of the Series 1994 bonds in June 2011. The remaining decrease was due to the paydown of the outstanding capital leases.

Significant changes in the Authority's 2010 assets are found in the categories of cash and investments, patient accounts receivable and capital assets. Cash and investments increased by approximately $1,255,000 or 10.4% primarily due to increased collections on patient accounts receivable. Patient accounts receivable decreased by approximately $2,259,000 or 18.0% due to the write off of significant amounts of private pay accounts deemed uncollectible during the year and increased collection efforts of other collectible patient accounts. Capital assets decreased approximately $4,814,000 or 21.8% primarily due to the sale of the building and equipment to Cancer Centers of Southwest Oklahoma, LLC (CCSO).

Significant changes in the Authority's 2010 liabilities are related to changes in long-term debt and notes payable to the Corporation. Long-term debt decreased approximately $1,232,000 or 8.3% as a result of the continued paydown on the Series 1994 Hospital Revenue Refunding Bonds of $1,630,000. The reduction in the bonds was partially offset by the $508,000 in equipment capital lease obligation added in 2010. During 2010, all notes payable to the Corporation were paid in full.

Operating Results and Changes in the Authority's Net Assets

In 2011, the Authority's net assets increased by approximately $4,667,000 or 17.5%, as shown in Table 2. This increase is made up of several different components and represents an increase of 3035% compared with the decrease in net assets for 2010 of approximately $159,000. The Authority's change in net assets decreased from an increase of approximately $1,851,000 in 2009 to a decrease of $159,000 in 2010 or a decrease of approximately $2,010,000 (108.5%).

Table 2: Operating Results and Changes in Net Assets (Amounts in Thousands)

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 68,026	$ 64,409	$ 68,707
Other operating revenues	1,348	1,607	1,811
Total operating revenues	69,374	66,016	70,518
Operating Expenses			
Salaries, wages and employee benefits	43,564	39,686	40,034
Purchased services and professional fees	5,740	5,982	6,742
Depreciation and amortization	2,455	2,513	3,048
Other operating expenses	16,786	17,298	18,026
Total operating expenses	68,545	65,479	67,850
Operating Income	829	537	2,668
Nonoperating Revenues (Expenses)			
Investment income	34	102	344
Noncapital gifts and grants	5,038	784	47
Interest expense	(853)	(1,017)	(1,133)
Loss on extinguishment of debt	(43)	-	-
Loss on investments in joint ventures	(345)	(587)	(90)
Total nonoperating revenues (expenses)	3,831	(718)	(832)
Capital Gifts	7	22	15
Increase (Decrease) in Net Assets	$ 4,667	$ (159)	$ 1,851

Operating Income

The first component of the overall change in the Authority's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported an operating income.

The operating income for 2011 increased by approximately $292,000 or 54.4% as compared to 2010. The primary components of the increased operating income for 2011 are:

- An increase in net patient service revenue of approximately $3,617,000 or 5.6%. This increase is due primarily to an overall increase in volumes.
- An increase in salaries, wages and employee benefits of approximately $3,878,000 or 9.8%. This increase is due primarily to an increase in employee health care claims and increased nursing salary.
- A decrease in purchased services and professional fees of approximately $242,000 or 4.0%. This decrease is due primarily to the decreased use of contract nursing during the year.

The operating income for 2010 decreased by approximately $2,131,000 or 79.9% as compared to 2009. The primary components of the decreased operating income for 2010 were a decrease in net patient service revenue of approximately $4,298,000 (6.3%), a decrease in purchased services and professional fees of approximately $760,000 (11.3%), a decrease in depreciation and amortization of approximately $535,000 (17.6%) and a decrease in other operating expenses of approximately $728,000 (4.0%).

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of investment income, noncapital gifts and grants, loss on investments in joint ventures and interest expense. Interest expense continues to decrease each year with the principal reduction of the Authority's bonds. Interest expense decreased approximately $164,000 (16.1%) from 2010 to 2011 and approximately $116,000 (10.2%) from 2009 to 2010. The Authority's noncapital gifts and grants for 2011 and 2010 were approximately $5,038,000 and $784,000, respectively. The increase for 2011 is the result of a $5,000,000 gift from the Corporation. Investment income decreased in 2011 by approximately $68,000 from 2010 and decreased in 2010 by $242,000 from 2009 due mainly to decreased interest rates and overall market conditions. The Authority recognized approximately $345,000 in 2011 and $587,000 in 2010 in losses related to its joint venture investments.

Capital Gifts

During 2011, the Authority received approximately $7,000 in capital gifts. During 2010, the Authority received approximately $22,000 in capital gifts to assist in funding various current and future capital asset additions.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income, nonoperating revenues and expenses and the changes in net patient accounts receivable, other receivables and the estimated amount due from a third-party payer as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011 and 2010, the Authority had approximately $16,576,000 and $17,263,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2011, the Authority purchased new equipment costing approximately $1,012,000 compared to 2010 of which approximately $1,432,000 was spent on equipment acquisitions. Also in 2011, the Authority spent approximately $7,000 on land, buildings and improvements and $775,000 on various construction projects. In 2010, the Authority spent approximately $125,000 on land, buildings and improvements and $535,000 on various construction projects. During 2010, the Authority sold the cancer treatment facility to CCSO for a cost of approximately $4.3 million.

Debt

At June 30, 2011 and 2010, the Authority had $0 and $12,615,000, respectively, of tax-exempt bonds outstanding, as detailed in *Note 8* to the financial statements. In June 2011, the Authority paid off the outstanding bonds. No new debt was incurred in 2011. During 2010, the Authority purchased equipment under a capital lease for approximately $508,000. Approximately $743,000 and $914,000 are outstanding under capital lease obligations at June 30, 2011 and 2010, respectively.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's 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. Questions about this report and requests for additional financial information should be directed to the Authority's chief financial officer by telephoning 580.379.5510.

Jackson County Memorial Hospital Authority

Balance Sheets

June 30, 2011 and 2010

Assets

	2011		2010	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Current Assets				
Cash and cash equivalents	$ 3,980,957	$ 7,232,270	$ 4,675,814	$ 5,838,832
Short-term investments	1,962,289	1,092,586	3,559,991	2,744,085
Restricted cash and investments – current	-	-	1,999,552	-
Patient accounts receivable, net of allowance; 2011 – $7,347,000, 2010 – $7,100,000	10,193,437	-	10,307,921	-
Trade accounts receivable, net of allowance; 2011 – $250,936, 2010 – $272,306	-	395,638	-	290,335
Due from the Authority	-	15,284	-	2,921
Other receivables – related parties	594,593	-	367,355	-
Other receivables	77,475	508	254,104	12,986
Supplies	1,571,157	253,785	1,518,453	257,520
Prepaid expenses and other	700,824	28,033	734,862	42,259
Estimated amounts due from third-party payer	275,000	-	1,350,000	-
Total current assets	19,355,732	9,018,104	24,768,052	9,188,938
Noncurrent Cash and Investments				
Held by trustee for debt service	-	-	4,673,555	-
Less amount required to meet current obligations	-	-	1,999,552	-
	-	-	2,674,003	-
Other noncurrent cash and investments	-	-	362,636	-
	-	-	3,036,639	-
Capital Assets, Net	16,576,058	17,828,229	17,263,486	17,813,612
Other Assets				
Investments in joint ventures	2,897,279	-	2,323,724	-
Other	264,569	193,390	418,234	208,266
	3,161,848	193,390	2,741,958	208,266
Total assets	$ 39,093,638	$ 27,039,723	$ 47,810,135	$ 27,210,816

Liabilities and Net Assets

	2011		2010	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Current Liabilities				
Current maturities of long-term debt	$ 171,823	$ -	$ 1,912,269	$ 316,975
Accounts payable	1,054,728	301,780	1,904,921	417,055
Accrued interest payable	-	-	383,706	4,399
Accrued payroll and other expenses	5,896,351	-	5,260,093	-
Total current liabilities	7,122,902	301,780	9,460,989	738,429
Long-term Debt	571,177	-	11,616,836	1,210,049
Total liabilities	7,694,079	301,780	21,077,825	1,948,478
Net Assets				
Invested in capital assets, net of related debt	15,833,058	17,828,229	6,170,725	16,041,090
Restricted expendable for				
Debt service	-	-	1,615,846	-
Capital expenditures	103,444	-	96,347	-
Unrestricted	15,463,057	8,909,714	18,849,392	9,221,248
Total net assets	31,399,559	26,737,943	26,732,310	25,262,338
Total liabilities and net assets	$ 39,093,638	$ 27,039,723	$ 47,810,135	$ 27,210,816

Jackson County Memorial Hospital Authority

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2011 and 2010

	2011		2010	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; 2011 – $8,810,773, 2010 – $9,618,209	$ 68,026,407	$ -	$ 64,409,616	$ -
Medical equipment and supplies sales and rentals, net of provision for uncollectible accounts; 2011 – $56,748, 2010 – $52,443	-	1,534,567	-	1,377,145
Lease revenue	-	740,155	-	601,654
Scanner services revenue, net of provision for uncollectible accounts; 2011 – $470,277, 2010 – $483,490	-	3,276,172	-	3,496,424
Retirement center revenue	-	1,234,467	-	1,104,331
Other	1,348,450	1,883	1,606,682	3,271
Total operating revenues	69,374,857	6,787,244	66,016,298	6,582,825
Operating Expenses				
Salaries and wages	34,533,238	-	33,526,036	-
Employee benefits	9,031,075	-	6,160,050	-
Purchased services and professional fees	5,740,052	783,892	5,982,327	751,678
Supplies and other	16,786,217	2,846,448	17,298,296	2,607,167
Depreciation and amortization	2,455,145	823,680	2,512,433	831,656
Total operating expenses	68,545,727	4,454,020	65,479,142	4,190,501
Operating Income	829,130	2,333,224	537,156	2,392,324
Nonoperating Revenues (Expenses)				
Investment income	33,901	102,356	102,559	165,702
Noncapital gifts and grants	5,038,143	(876,800)	783,922	(133,050)
Interest expense	(852,885)	(83,175)	(1,017,000)	(183,777)
Loss on extinguishment of debt	(43,352)	-	-	-
Loss on investments in joint ventures	(344,785)	-	(586,971)	-
Total nonoperating revenues (expenses)	3,831,022	(857,619)	(717,490)	(151,125)
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts	4,660,152	1,475,605	(180,334)	2,241,199
Capital Gifts	7,097	-	22,324	-
Increase (Decrease) in Net Assets	4,667,249	1,475,605	(158,010)	2,241,199
Net Assets, Beginning of Year	26,732,310	25,262,338	26,890,320	23,021,139
Net Assets, End of Year	$ 31,399,559	$ 26,737,943	$ 26,732,310	$ 25,262,338

Jackson County Memorial Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011		2010	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Operating Activities				
Receipts from and on behalf of patients	$ 69,215,891	$ 3,201,284	$ 66,018,125	$ 3,607,801
Receipts from and on behalf of customers – medical equipment and supplies sales and rentals	-	1,504,152	-	1,348,031
Receipts from and on behalf of residents – retirement center	-	1,234,467	-	1,104,331
Receipts from equipment and medical office space leasing	-	740,155	-	601,654
Payments to suppliers and contractors	(23,003,804)	(3,921,630)	(22,759,863)	(3,294,249)
Payments to employees	(42,928,055)	-	(40,510,569)	-
Other receipts and payments, net	1,443,994	(10,480)	1,607,058	73,438
Net cash provided by operating activities	4,728,026	2,747,948	4,354,751	3,441,006
Noncapital Financing Activities				
Noncapital gifts and grants received (made)	5,038,143	(876,800)	783,922	(133,050)
Net cash provided by (used in) noncapital financing activities	5,038,143	(876,800)	783,922	(133,050)
Capital and Related Financing Activities				
Principal paid on long-term debt	(12,786,105)	(1,527,024)	(1,740,554)	(1,577,665)
Interest paid on long-term debt	(1,236,591)	(87,574)	(1,046,045)	(190,489)
Principal paid on notes payable to JCMH HCC	-	-	(5,528,575)	-
Interest paid on notes payable to JCMH HCC	-	-	(261,350)	-
Purchase of capital assets	(2,394,980)	(629,445)	(1,320,964)	(6,118,890)
Proceeds from sale of capital assets	200,099	-	4,491,878	-
Capital gifts	7,097	-	22,324	-
Net cash used in capital and related financing activities	(16,210,480)	(2,244,043)	(5,383,286)	(7,887,044)
Investing Activities				
Net change in short- and long-term investments	4,619,811	1,651,499	(1,437,093)	2,154,354
Investment income received	48,431	114,834	110,119	125,764
Proceeds from receipt of advances to related party	-	-	1,970,000	-
Distributions from (capital contributions to) joint ventures, net	(918,340)	-	(573,334)	-
Notes receivable payments (advances) to the Authority, net	-	-	-	6,437,221
Net cash provided by investing activities	3,749,902	1,766,333	69,692	8,717,339
Increase (Decrease) in Cash and Cash Equivalents	(2,694,409)	1,393,438	(174,921)	4,138,251
Cash and Cash Equivalents, Beginning of Year	6,675,366	5,838,832	6,850,287	1,700,581
Cash and Cash Equivalents, End of Year	$ 3,980,957	$ 7,232,270	$ 6,675,366	$ 5,838,832

	2011		2010	
	Primary Government	Component Unit – JCMH HCC	Primary Government	Component Unit – JCMH HCC
Reconciliation of Cash and Cash Equivalents to the Balance Sheets				
Cash and cash equivalents	$ 3,980,957	$ 7,232,270	$ 4,675,814	$ 5,838,832
Cash and cash equivalents in noncurrent cash and investments	-	-	1,999,552	-
Total cash and cash equivalents	$ 3,980,957	$ 7,232,270	$ 6,675,366	$ 5,838,832
Operating income	$ 829,130	$ 2,333,224	$ 537,156	$ 2,392,324
Items not requiring cash				
Depreciation and amortization	2,455,145	823,680	2,512,433	831,656
(Gain) loss on sale of capital assets	146,153	27,036	(76,308)	14,658
Changes in				
Patient, trade and other accounts receivable, net	63,875	(105,303)	2,335,193	82,263
Supplies, prepaid expenses and other assets	71,824	17,961	32,752	5,814
Estimated amounts due from third-party payer	1,075,000	-	(650,000)	-
Due to/from the Authority	-	(12,363)	-	70,168
Accounts payable and accrued expenses	86,899	(336,287)	(336,475)	44,123
Net cash provided by operating activities	$ 4,728,026	$ 2,747,948	$ 4,354,751	$ 3,441,006
		-		-
Supplemental Cash Flows Information				
Capital asset acquisitions included in accounts payable	$ -	$ 20,089	$ 300,834	$ 241,101
Capital lease obligation incurred for equipment	$ -	$ -	$ 508,261	$ -

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Jackson County Memorial Hospital Authority (the Authority) was created under a trust indenture dated July 1, 1981, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of Jackson County, Oklahoma. The Jackson County, Oklahoma, Board of County Commissioners appoints the members of the Authority's Board of Trustees.

The Authority operates Jackson County Memorial Hospital (the Hospital) under a bargain lease agreement with Jackson County, Oklahoma. The lease term is from July 1, 1981 to June 30, 2031, or until such date as all indebtedness incurred by the Authority has been paid.

The Hospital, located in Altus, Oklahoma, primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Jackson County and the surrounding area. It also operates a home health agency, a skilled nursing facility and various outpatient clinics in the same geographic area.

Reporting Entity

The Jackson County Memorial Hospital Foundation (the Foundation) is a nonprofit corporation organized and operated for the exclusive benefit and support of the Jackson County Memorial Hospital Authority and, accordingly, is included as a component unit in the Authority's financial statements for the years ended June 30, 2011 and 2010, using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the financial statements.

JCMH Health Care Corporation (the Corporation) is a legally separate not-for-profit corporation formed in 1986 under the provisions of the Oklahoma Nonprofit Corporations Act. The Corporation's purpose is to carry out the objectives of the Authority and to enhance the health care services to the community of Altus, Oklahoma, and surrounding areas. Upon dissolution of the Corporation, its assets remaining after payment or adequate provision for the payment of all liabilities and obligations of the Corporation shall be distributed to the Authority. The Board of Trustees of the Authority appoints the members of the Corporation's Board of Trustees. The Corporation is considered a component unit of the Authority and is discretely presented in the Authority's financial statements. See *Note 15* for condensed disclosures specific to the Corporation. Complete financial statements of the Corporation may be obtained by contacting its management by telephoning 580.379.5510.

The Authority and the Foundation have a fiscal year-end of June 30. The Corporation has a fiscal year-end of December 31. All information in the accompanying financial statements and footnotes related to the Corporation is as of and for the years ended December 31, 2010 and 2009, respectively.

Basis of Accounting and Presentation

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, while those from voluntary nonexchange transactions (principally, noncapital gifts) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Investment income, voluntary nonexchange transactions and interest on capital assets-related debt 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

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; employee disability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and employee health claims. Settled claims have not exceeded any commercial insurance coverage in any of the three preceding years.

The Authority is self-insured for a portion of its exposure to risk of loss from workers' compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of workers' compensation and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in debt and equity securities are carried at fair value. Fair value is determined using quoted market prices. Investments in nonnegotiable certificates of deposit are carried at amortized cost. Investment income includes dividend and interest income, realized gains and losses on investments sold and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts, based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient.

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Buildings and improvements	10–40 years
Equipment	3–10 years

Investments in Joint Ventures

The Authority has ownership (equity) interests in two joint ventures – Heartland Healthcare Reciprocal Risk Retention Group (Heartland) and Cancer Centers of Southwest Oklahoma, LLC (CCSO). The investments in the joint ventures are recorded using the equity method of accounting (cost plus equity in the joint venture's undistributed net income or loss since acquisition).

See *Note 14* for additional information regarding the Heartland and CCSO joint ventures.

Bond Discount and Issuance Costs

Bond discount and issuance costs are being amortized over the term of the related bonds using the interest method. The unamortized amount of bond discount and issuance costs are included with other assets on the accompanying balance sheets. During the year ended June 30, 2011, the unamortized bond discount and issuance costs were written off in connection with the payoff of the Series 1994 Hospital Revenue Refunding Bonds.

Compensated Absences

Authority policies permit most employees to accumulate paid time off 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 benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as payroll taxes computed using rates in effect at that date.

Net Assets

Net assets of the Authority are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with a trustee as required by a revenue bond indenture, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

The Authority is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law as a political subdivision of the state of Oklahoma. However, the Authority is subject to federal income tax on any unrelated business taxable income.

The Internal Revenue Service has recognized both the Foundation and the Corporation as exempt from income taxes under Section 501(a) of the Internal Revenue Code as organizations are described in Code Section 501(c)(3). Both the Foundation and the Corporation are subject to federal and state income taxes on any unrelated business income resulting from their respective operations. At December 31, 2010, the Corporation had approximately $667,000 of unused unrelated business income operating loss carryforwards, which expire between 2019 and 2029.

Subsequent Events

Subsequent events have been evaluated through October 19, 2011, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's Medicare cost reports have been audited by the Medicare administrative contractor through the year ended June 30, 2007.

- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 46% and 51% of the Authority's net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider 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.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance (FDIC) and other acceptable collateral in specific amounts.

At June 30, 2011 and 2010, approximately $0 and $82,000 of the Authority's bank balances of approximately $6,181,000 and $11,698,000, respectively, were uninsured and uncollateralized.

These amounts exclude deposits held by the Authority's blended component unit with bank balances of $221,279 and $188,368 and carrying values of $221,457 and $189,072 at June 30, 2011 and 2010, respectively. As a nongovernmental entity, the blended component unit is not subject to collateralization requirements. At June 30, 2011 and 2010, none of the blended component unit's bank balances exceed FDIC limits.

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds and equity securities.

At June 30, 2011 and 2010, the Authority had the following investments and maturities:

	June 30, 2011			
		Maturities in Years		
Type	**Fair Value**	**Less than 1**	**1–5**	**6–10**
U.S. securities mutual funds	$ 99,985	$ 99,985	$ -	$ -
Accrued investment income	5,859			
	$ 105,844			

	June 30, 2010			
		Maturities in Years		
Type	Fair Value	Less than 1	1–5	6–10
Money market and U.S. securities mutual funds	$ 2,105,180	$ 2,105,180	$ -	$ -
Accrued investment income	11,844			
	$ 2,117,024			

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy generally limits investment maturities to no more than 24 months. Investments held by the bond trustee in accordance with the bond indenture agreement may have maturities greater than 24 months. The money market and U.S. securities mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy does not address credit risk. At June 30, 2011 and 2010, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

	2011		2010	
Investment	Moody's	S & P	Moody's	S & P
Money market mutual funds	-	-	Not rated	AAAm
U.S. securities mutual funds	Aaa	AAA	Aaa	AAA

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2011 and 2010, none of the U.S. Treasury obligations are held by counterparties in other than the Authority's name. The Authority's investment policy does not address how securities are to be held.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2011 and 2010, no investments exceeded 5% of the total fair value of all investments.

Summary of Carrying Values

The carrying values of deposits and investments are included in the accompanying balance sheets as follows:

	2011	2010
Carrying value		
Deposits	$ 5,835,402	$ 11,153,588
Investments	105,844	2,117,024
Cash on hand	2,000	1,384
	$ 5,943,246	$ 13,271,996
Included in the following balance sheet captions		
Cash and cash equivalents	$ 3,980,957	$ 4,675,814
Short-term investments	1,962,289	3,559,991
Restricted cash and investments – current	-	1,999,552
Noncurrent cash and investments	-	3,036,639
	$ 5,943,246	$ 13,271,996

Investment Income

Investment income for the years ended June 30, 2011 and 2010, consisted of:

	2011	2010
Interest and dividends	$ 48,431	$ 110,119
Net decrease in fair value of investments	(14,530)	(7,560)
	$ 33,901	$ 102,559

Investment Risks and Uncertainties

The Authority invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the accompanying financial statements.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2011 and 2010, consisted of:

	2011	2010
Patients and their insurance carriers	$ 14,159,531	$ 14,377,705
Medicare	2,703,686	2,533,949
Medicaid	677,220	496,267
	17,540,437	17,407,921
Less allowance for uncollectible amounts	7,347,000	7,100,000
	$ 10,193,437	$ 10,307,921

Note 5: Capital Assets

Capital assets activity of the Authority for the years ended June 30, 2011 and 2010, was:

	2011				
	Beginning Balance	Additions	CIP Transfers	Retirements	Ending Balance
Land	$ 3,629,343	$ 171	$ -	$ -	$ 3,629,514
Building, improvements and fixed equipment	25,539,979	6,703	1,024,425	-	26,571,107
Major moveable equipment	27,711,190	1,311,826	135,071	(2,276,389)	26,881,698
Construction in progress	975,739	775,446	(1,159,496)	-	591,689
	57,856,251	2,094,146	-	(2,276,389)	57,674,008
Less accumulated depreciation					
Building, improvements and fixed equipment	18,610,617	959,071	-	-	19,569,688
Major moveable equipment	21,982,148	1,472,854	-	(1,926,740)	21,528,262
	40,592,765	2,431,925	-	(1,926,740)	41,097,950
Capital assets, net	$ 17,263,486	$ (337,779)	$ -	$ (349,649)	$ 16,576,058

	2010				
	Beginning Balance	Additions	CIP Transfers	Retirements	Ending Balance
Land	$ 3,568,866	$ 60,477	$ -	$ -	$ 3,629,343
Building, improvements and fixed equipment	29,881,563	64,048	20,670	(4,426,302)	25,539,979
Major moveable equipment	26,604,305	1,432,246	-	(325,361)	27,711,190
Construction in progress	461,383	535,026	(20,670)	-	975,739
	60,516,117	2,091,797	-	(4,751,663)	57,856,251
Less accumulated depreciation					
Building, improvements and fixed equipment	17,734,956	1,042,864	-	(167,203)	18,610,617
Major moveable equipment	20,704,364	1,443,147	-	(165,363)	21,982,148
	38,439,320	2,486,011	-	(332,566)	40,592,765
Capital assets, net	$ 22,076,797	$ (394,214)	$ -	$ (4,419,097)	$ 17,263,486

Note 6: Medical Malpractice Coverage and Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Authority is a member of Heartland Healthcare Reciprocal Risk Retention Group (Heartland), an entity approved by the state of Vermont to provide hospital professional liability and general liability coverage to its subscribers. Heartland was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Heartland members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. See *Note 14* for additional information about Heartland.

Note 7: Self-Insured Claims

The Authority sponsors workers' compensation and health care plans for its employees. These plans are self-insured to the extent of the deductible amounts under the excess risk insurance policies the Authority has obtained. Coverage limits under the plans are currently as follows:

- Workers' Compensation – First $300,000 per occurrence with an employer's annual liability limit of $1,000,000 per occurrence

- Health Care – First $250,000 per person per year and $1,000,000 total lifetime benefit per person

Losses from asserted and unasserted claims identified under the Authority's incident reporting system are accrued based on estimates that incorporate the Authority's past claims experience as well as other considerations, including the nature of each claim or incident, relevant trend factors and other economic and social factors. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

Activity in the Authority's self-insured plans' accrued liabilities during the years ended June 30, 2011 and 2010, is summarized as follows:

	2011	
	Workers' Compensation	**Employee Health Care Benefits**
Balance, beginning of year	$ 200,000	$ 429,000
Current year claims incurred and changes in estimates for claims incurred in prior years	437,516	5,112,257
Claims and expenses paid	(412,516)	(4,891,257)
Balance, end of year	$ 225,000	$ 650,000

	2010	
	Workers' Compensation	**Employee Health Care Benefits**
Balance, beginning of year	$ 310,000	$ 800,000
Current year claims incurred and changes in estimates for claims incurred in prior years	211,324	3,459,559
Claims and expenses paid	(321,324)	(3,830,559)
Balance, end of year	$ 200,000	$ 429,000

The above self-insured plans' accrued liability amounts are included in accrued payroll and other expenses on the accompanying balance sheets.

Note 8: Long-Term Debt

The following is a summary of long-term debt transactions for the Authority for the years ended June 30, 2011 and 2010:

	2011				
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**	**Current Portion**
Series 1994 Hospital Revenue Refunding Bonds	$ 12,615,000	$ -	$ (12,615,000)	$ -	$ -
Capital lease obligations	914,105	-	(171,105)	743,000	171,823
Total long-term debt	$ 13,529,105	$ -	$ (12,786,105)	$ 743,000	$ 171,823

	2010				
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**	**Current Portion**
Series 1994 Hospital Revenue Refunding Bonds	$ 14,245,000	$ -	$ (1,630,000)	$ 12,615,000	$ 1,750,000
Capital lease obligations	516,398	508,261	(110,554)	914,105	162,269
Total long-term debt	$ 14,761,398	$ 508,261	$ (1,740,554)	$ 13,529,105	$ 1,912,269

Series 1994 Hospital Revenue Refunding Bonds

Originally due August 1, 2015, principal payable annually, semiannual interest payments at 7.3% are due February 1 and August 1, secured by pledge of Hospital gross revenues and trustee-held assets. The bonds were paid off in full on June 27, 2011.

Under the terms of the Bond Indenture Agreement (the Indenture), the Authority was required to maintain certain deposits with a trustee. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The Indenture also placed limits on the incurrence of additional borrowings and required the Authority to meet certain financial performance covenants as long as the bonds were outstanding.

Capital Lease Obligations

The Authority entered into leases for equipment that are accounted for as capital leases. Assets under capital lease at June 30, 2011 and 2010, totaled $1,033,982, net of accumulated depreciation of $340,236 and $163,480, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at varying rates from 4.04% to 8.25% together with the present value of the future minimum lease payments as of June 30, 2011:

Fiscal Year Ending June 30,	
2012	$ 212,070
2013	212,070
2014	212,070
2015	138,496
2016	82,596
Total minimum lease payments	857,302
Less amount representing interest	114,302
Present value of future minimum lease payments	$ 743,000

Note 9: Restricted and Designated Net Assets

At June 30, 2011 and 2010, $0 and $1,615,846, respectively, of restricted expendable net assets were available for debt service.

At June 30, 2011 and 2010, $103,444 and $96,347, respectively, of restricted expendable net assets were available for capital acquisitions.

At June 30, 2011 and 2010, $3,297,369 and $4,743,448, respectively, of unrestricted net assets have been designated by the Authority's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may, at its discretion, later use these assets for other purposes.

Note 10: Charity Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under the state Medicaid welfare program. The state Medicaid welfare program pays providers amounts which are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	2011	2010
Charity allowances	$ 4,180,000	$ 3,875,000
State Medicaid and other public aid programs	16,779,000	16,605,000
	$ 20,959,000	$ 20,480,000

In addition to uncompensated charges, the Authority provides services to other individuals, various community agencies and the broader community. These services are provided at no charge to the public and include such items as health education and promotion, blood pressure and cholesterol screening and health assessments. Costs related to these services are not separately identifiable and are included in expenses.

Note 11: Retirement Plan

The Authority contributes to a defined contribution retirement plan (the Plan) covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the Plan. The Plan is administered by the Authority's Board of Trustees and provides retirement benefits to participating employees and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Authority's Board of Trustees. The required contribution rate for participating employees and the Authority for 2011 and 2010 was 4% of a participating employee's compensation (as defined in the plan document).

The approximate contributions actually made by employees and the Authority for the years ended June 30, 2011 and 2010, were as follows:

	2011	2010
Employees' contributions	$ 3,034,000	$ 2,890,000
Authority contributions	2,035,000	1,960,000
	$ 5,069,000	$ 4,850,000

Note 12: Contingencies

Litigation

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

Employment Tax Assessment

During 2005, the Internal Revenue Service (IRS) assessed the Authority approximately $180,000 in employment taxes related to calendar year 2002 payroll tax issues for employees of the Authority's discretely presented component unit, JCMH Health Care Corporation and its wholly owned subsidiary. No penalties were included in the assessment. The Authority contested the assessment and filed a protest with the appellate division of the IRS. On March 31, 2009, the IRS notified the Authority that it had denied the appeal and issued a revised assessment for the payroll tax and interest. The revised assessment amount, including interest, totaled approximately $215,000. The Authority plans to vigorously contest this revised assessment and, if necessary, file a lawsuit against the IRS. In addition to the assessment for the 2002 calendar year, the IRS may assess the same employment taxes on other calendar years. No accrual has been made for losses, if any, that may result, pending the outcome of this matter.

Note 13: Related-Party Transactions

The primary services the Corporation (including its wholly owned subsidiary) provides to the Authority are CT scan services, rental of building space and the sale of durable medical equipment and supplies to patients of the Authority.

The following are the significant related-party transactions between the Authority and the Corporation:

The Corporation provided CT scan services to the Authority of approximately $2,158,000 and $2,396,000 for the years ended June 30, 2011 and 2010, respectively. Included in accounts payable of the Authority at June 30, 2011 and 2010, are $181,479 and $254,965, respectively, for unpaid CT scan services provided by the Corporation.

The Authority provides various management and administrative services to the Corporation for which the Authority is reimbursed. At June 30, 2011 and 2010, the Authority had $457,063 and $323,201, respectively, receivable from the Corporation for providing the various management and administrative services.

The Authority leases building space from the Corporation under a one-year operating lease agreement. Rent expense under this lease was approximately $529,000 and $465,000 for the years ended June 30, 2011 and 2010, respectively.

During 2008, the Authority entered into a $4,500,000 construction loan agreement with the Corporation. Under the terms of the agreement, the Authority may draw up to $4,500,000 to use for a construction project and related fixture and equipment acquisitions associated with the construction of a cancer treatment facility for CCSO adjacent to the Hospital's campus in Altus, Oklahoma (see *Note 14*). The loan was originally due March 24, 2009, with interest at 5% and was unsecured. On March 24, 2009, the Authority renewed the loan with the Corporation. The renewed note had a due date of March 24, 2010, with interest at the short-term applicable federal rate (AFR) as defined by the Internal Revenue Code and was unsecured.

In September 2008, the cancer treatment facility construction project was completed at a total cost of approximately $4,100,000, and cancer patient service operations began. The Authority leased the facility to CCSO under a long-term lease agreement (50-year term) with a monthly lease payment of approximately $18,000. The lease contained a provision allowing CCSO to purchase the facility upon 30 days' advance written notice to the Authority and the payment of a purchase price of approximately $4,300,000. During November 2009, CCSO exercised its option to purchase the facility and, as of that date, the lease agreement is only for the land. The proceeds from CCSO related to the purchase of the facility were used to retire the debt associated with the renewed construction loan agreement between the Authority and the Corporation. Rental income related to this lease with CCSO was approximately $92,000 for the year ended June 30, 2010.

During 2008, the Authority entered into a $1,559,473 loan agreement with the Corporation for the purchase of a linear accelerator for CCSO. The loan was originally due April 14, 2009, and was renewed for an additional year to April 14, 2010. The renewed loan bears interest at the short-term AFR as defined by the Internal Revenue Code and is unsecured.

During 2009, the Authority entered into a $216,459 loan agreement with the Corporation for the additional costs associated with the purchase of the linear accelerator for CCSO. The loan is due on August 28, 2009, bears interest at the short-term AFR as defined by the Internal Revenue Code and is unsecured. On August 28, 2009, this loan was renewed for an additional one-year term at the same interest rate.

Interest incurred on the above-described loans with the Corporation was approximately $32,000 for the year ended June 30, 2010.

The Authority has entered into various loan agreements with CCSO related to the Authority's purchase and installation of a linear accelerator for CCSO. These notes receivable bear interest at the short-term AFR as defined by the Internal Revenue Code and are unsecured. These notes receivable are due upon CCSO receiving the proceeds from a bank loan. Interest income earned on these notes was approximately $16,500 for the year ended June 30, 2010. See *Note 14* for additional information related to CCSO.

During fiscal year 2010, all of the above loan amounts between the Corporation and the Authority and CCSO and the Authority were paid in full, including all accrued interest.

During 2011 and 2010, the Corporation gave a gift of $5,000,000 and $750,000, respectively, to the Authority.

Note 14: Investments in Joint Ventures

The Authority has an ownership (equity) interest in two joint ventures which are described below:

Cancer Centers of Southwest Oklahoma, LLC (CCSO)

The Authority is an approximate 29% ownership member of CCSO. The Authority's investment in CCSO amounted to approximately $1,759,000 and $1,185,000 at June 30, 2011 and 2010, respectively. CCSO was formed to develop and operate three facilities specializing in providing cancer treatment services for the residents of southwest Oklahoma.

At June 30, 2010, all of the three cancer treatment facilities were complete. On November 12, 2009, CCSO completed its loan with a commercial bank for $30 million. From the loan proceeds, the Authority was repaid for the funding it has provided to CCSO for the purchase and installation of a linear accelerator in the Altus, Oklahoma, cancer treatment facility (see *Note 13*). In addition, CCSO management exercised the purchase option on the Altus facility in November 2009 and paid the Authority the approximate $4,300,000 purchase price (see *Note 13*).

Financial position and results of operations summarized from CCSO's audited financial statements for the fiscal years ended June 30, 2011 and 2010, are shown below:

	2011	2010
Current assets	$ 9,885,104	$ 6,872,503
Capital assets and other long-term assets, net	30,597,425	32,968,730
Total assets	40,482,529	39,841,233
Total liabilities	34,347,428	34,221,521
Net assets	$ 6,135,101	$ 5,619,712
Revenues	$ 21,159,535	$ 17,290,233
Excess of expenses over revenues	$ (2,084,611)	$ (2,749,488)

Complete financial statements of CCSO may be obtained by contacting the Authority's management at 580.379.5510.

Heartland Healthcare Reciprocal Risk Retention Group (Heartland)

The Authority is a subscriber (member) of Heartland and has an approximate 18% ownership (equity) interest in Heartland. Heartland was formed as an unincorporated association approved by the state of Vermont to provide hospital professional liability and general liability coverage to its subscribers. The Authority's investment in Heartland amounted to approximately $1,139,000 at June 30, 2011 and 2010.

The Authority purchases its professional liability (medical malpractice) and general liability insurance coverages from Heartland (see *Note 6*). For the years ended June 30, 2011 and 2010, the Authority paid approximately $491,000 and $569,000, respectively, to Heartland for the coverage.

Financial position and results of operations summarized from Heartland's audited financial statements for the fiscal years ended December 31, 2010 and 2009, are shown below:

	2010	2009
Cash and cash equivalents	$ 1,498,473	$ 1,964,558
Investments, at fair value	12,842,373	10,676,944
Other assets	389,226	192,276
Total assets	14,730,072	12,833,778
Unpaid losses and loss adjustment expenses	5,392,522	5,702,679
Other liabilities	382,042	176,340
Total liabilities	5,774,564	5,879,019
Subscribers' surplus	$ 8,955,508	$ 6,954,759
Revenues	$ 3,681,912	$ 3,682,022
Net income	$ 1,835,714	$ 1,208,987

Complete financial statements of Heartland may be obtained by contacting the Authority's management at 580.379.5510.

Note 15: JCMH Health Care Corporation

The following information relates to the Authority's discretely presented component unit, JCMH Health Care Corporation (the Corporation), and is as of and for the years ended December 31, 2010 and 2009.

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Corporation's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance (FDIC) and other acceptable collateral in specific amounts.

One or more of the financial institutions holding the Corporation's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

For interest-bearing cash accounts, the FDIC's insurance limits were permanently increased to $250,000. At December 31, 2010, the Corporation had no interest-bearing cash accounts exceeding federally insured limits.

Summary of Carrying Values

The carrying values of deposits and investments are included in the December 31, 2010 and 2009, balance sheets as follows:

	2010	2009
Carrying value		
Deposits	$ 8,324,031	$ 8,582,092
Cash on hand	825	825
	$ 8,324,856	$ 8,582,917
Included in the following balance sheet captions		
Cash and cash equivalents	$ 7,232,270	$ 5,838,832
Short-term investments	1,092,586	2,744,085
	$ 8,324,856	$ 8,582,917

Investment Income

Investment income for the years ended December 31, 2010 and 2009, consisted of:

	2010	2009
Interest and dividend income	$ 102,356	$ 164,501
Net increase in fair value of investments	-	1,201
	$ 102,356	$ 165,702

Long-Term Debt

The following is a summary of long-term debt transactions for the Corporation for the years ended December 31, 2010 and 2009:

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank (A)	$ 281,291	$ -	$ (281,291)	$ -	$ -
Note payable to bank (C)	1,245,733	-	(1,245,733)	-	-
Total long-term debt	$ 1,527,024	$ -	$ (1,527,024)	$ -	$ -

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable to bank (A)	$ 519,668	$ -	$ (238,377)	$ 281,291	$ 258,705
Note payable to bank (B)	1,285,021	-	(1,285,021)	-	-
Note payable to bank (C)	1,300,000	-	(54,267)	1,245,733	58,270
Total long-term debt	$ 3,104,689	$ -	$ (1,577,665)	$ 1,527,024	$ 316,975

(A) Due March 15, 2011, payable in monthly installments of $22,650, including interest at 8%. The note is secured by a medical office building and assignment of related leases and rental revenue. This note was paid in full on December 21, 2010.

(B) Due January 9, 2012; payable $17,500 monthly, including interest at 6.25%; secured by a first mortgage on the Corporation's assisted-living retirement center property. The note was paid in full on November 30, 2009.

(C) Due December 15, 2011; payable $11,197 monthly, including interest at 6.25%; secured by a physicians' clinic building, assignment of related leases and rental revenue and guarantee of the Corporation. The note has a balloon payment of approximately $1,135,000 due on the above-noted due date. This note was paid in full on November 22, 2010.

Capital Assets

Capital assets activity for the years ended December 31, 2010 and 2009, was:

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,464,770	$ -	$ -	$ -	$ 1,464,770
Buildings and improvements	18,183,126	288,492	-	317,622	18,789,240
Furniture, fixtures and equipment	4,691,486	463,763	(81,820)	16,852	5,090,281
Construction in progress	291,628	98,202	-	(334,474)	55,356
	24,631,010	850,457	(81,820)	-	25,399,647
Less accumulated depreciation					
Buildings and improvements	4,433,240	525,952	-	-	4,959,192
Furniture, fixtures and equipment	2,384,158	282,852	(54,784)	-	2,612,226
	6,817,398	808,804	(54,784)	-	7,571,418
Capital assets, net	$ 17,813,612	$ 41,653	$ (27,036)	$ -	$ 17,828,229

	2009				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 1,464,770	$ -	$ -	$ -	$ 1,464,770
Buildings and improvements	11,233,568	126,369	-	6,823,189	18,183,126
Furniture, fixtures and equipment	4,508,706	205,773	(62,620)	39,627	4,691,486
Construction in progress	1,631,238	5,523,206	-	(6,862,816)	291,628
	18,838,282	5,855,348	(62,620)	-	24,631,010
Less accumulated depreciation					
Buildings and improvements	3,905,812	527,428	-	-	4,433,240
Furniture, fixtures and equipment	2,142,768	289,352	(47,962)	-	2,384,158
	6,048,580	816,780	(47,962)	-	6,817,398
Capital assets, net	$ 12,789,702	$ 5,038,568	$ (14,658)	$ -	$ 17,813,612

Note 16: Risks and Uncertainties

Current Economic Conditions

The current protracted economic decline continues to present the health care industry with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Authority's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Authority's ability to meet debt covenants or maintain sufficient liquidity.

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Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Jackson County Memorial Hospital Authority
Altus, Oklahoma

We have audited the financial statements of Jackson County Memorial Hospital Authority (the Authority) and its discretely presented component unit, JCMH Health Care Corporation (the Corporation), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 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 and the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's and the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's and the Corporation'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 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 Authority's or the Corporation'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 would not necessarily identify all deficiencies in internal control 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 and responses as items 2011-1 and 2011-2 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.

Board of Trustees
Jackson County Memorial Hospital Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's and the Corporation'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.*

We also noted certain additional matters that we reported to the Authority's management in a separate letter dated October 19, 2011, and the Corporation's management in a separate letter dated May 13, 2011.

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

This report is intended solely for the information and use of the governing body, management and others within the Authority and the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

October 19, 2011

Jackson County Memorial Hospital Authority

Schedule of Findings and Responses

Year Ended June 30, 2011

Reference Number	Finding
2011-1	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – One individual has incompatible duties in the revenue, cash receipts and accounts receivable transactions cycle of the Authority.

Context – The customer service supervisor has the ability to receive cash or checks when payment on accounts is made and is custodian of cash or checks; records discounts or adjustments to charges and credits patient accounts for payments received; has the ability to prepare the cash receipts list; and is responsible for reconciling the cash receipts listing to bank deposit records.

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

Cause – Duties in the revenue, cash receipts and accounts receivable transactions cycle are not adequately segregated, and monitoring or other compensating controls are insufficient.

Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.

Jackson County Memorial Hospital Authority
Schedule of Findings and Responses, continued
Year Ended June 30, 2011

Reference Number	Finding
2011-2	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – One group of individuals has incompatible duties in the revenue, cash receipts and accounts receivable transactions cycle of the Authority. Context – The customer service representatives have the ability to receive cash or checks when payments on accounts are made and are custodians of cash or checks; record discounts or adjustments of charges and credit patient accounts for payments received; prepare the cash receipts journal or list of receipts; and reconcile recorded contractual adjustments to supporting remittance advices. Effect – Potential material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – Duties in the revenue, cash receipts and accounts receivable transactions cycle are not adequately segregated, and monitoring or other compensating controls are insufficient. Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.