

LEFLORE COUNTY HOSPITAL AUTHORITY

FINANCIAL STATEMENTS

June 30, 2011 and 2010

With Independent Auditors' Report Thereon

LEFLORE COUNTY HOSPITAL AUTHORITY

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Management's Discussion and Analysis LeFlore County Hospital Authority

Introduction

Our discussion and analysis of LeFlore County Hospital Authority's (the Authority) provides an overview of the Authority's financial activities for the year ended June 30, 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments increased in 2011 by \$2,027,264 or 70.8%.
- Capital assets increased in 2011 by \$640,831 or 1.65%.
- Long-term debt decreased in 2011 by \$33,613 or 1.2%.
- The Authority's net assets increased in 2011 by \$1,473,652 or 9.96%.
- The Authority reported an operating loss in 2011 of \$(580,538).

Using this Annual Report

The Authority's financial statements consist of three statements a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about the Authority's finances "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's resources and its activities in a way that help answers this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets-the difference between assets and liabilities-as one way to measure the Authority's financial health, or financial position.

Management's Discussion and Analysis
LeFlore County Hospital Authority

Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net assets increased by \$1,473,652 or 9.96% for the year ended June 30, 2011 as shown in Table 1

Table 1: Assets, Liabilities and Net Assets

	2011	2010
Assets		
Current Assets	\$ 8,448,321	\$ 6,528,709
Capital Assets, Net	11,709,195	12,223,954
Other Assets	167,062	168,062
Total Assets	\$ 20,324,578	\$ 18,920,725
Liabilities		
Long-term debt outstanding	\$ 2,831,119	\$ 2,866,249
Other current and noncurrent liabilities	1,227,807	1,262,476
Total Liabilities	\$ 4,058,926	\$ 4,128,725
Net Assets		
Invested in capital assets, net of related debt	\$ 8,842,572	\$ 9,323,718
Unrestricted	7,423,080	5,468,282
Total Net Assets	\$ 16,265,652	\$ 14,792,000
Total Liabilities and Net Assets	\$ 20,324,578	\$ 18,920,725

Management's Discussion and Analysis
LeFlore County Hospital Authority

Operating Results and Changes in Net Assets

For the year ended June 30, 2011, the Authority's net assets increased by \$1,473,652 or 9.96% as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue	\$ 20,312,134	\$ 21,960,250
Other operating revenues	384,119	441,756
Total Operating Revenues	<u>20,696,253</u>	<u>22,402,006</u>
Operating Expenses		
Nursing services	5,656,528	5,809,490
Other professional services	8,434,375	8,821,307
General services	2,319,889	2,427,421
Administrative services	3,578,034	3,869,126
Interest Expense	132,375	133,853
Depreciation	1,155,590	1,205,686
Total Operating Expenses	<u>21,276,791</u>	<u>22,266,883</u>
Operating Income	<u>(580,538)</u>	<u>135,123</u>
Nonoperating Revenues (Expenses)		
Investment income	16,647	51,047
Electronic Medical Records Incentive Payments	2,037,543	-
Total Nonoperating revenues (expenses)	<u>2,054,190</u>	<u>51,047</u>
Change in Net Assets	<u>\$ 1,473,652</u>	<u>\$ 186,170</u>

Management's Discussion and Analysis LeFlore County Hospital Authority

Operating Income

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

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with the changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows used by operating activities increased during the year ended June 30, 2011 due to income from operations.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Authority had \$11,709,195 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At June 30, 2011, the Authority had \$2,866,623 in notes and capital lease obligations outstanding.

Contacting the Authority's Financial Management

This financial report is designed to prove 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 (918) 635-3300.

JOHNSTON & BRYANT

Certified Public Accountants

Pete Johnston, C.P.A.
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MEMBER
American Institute of Certified Public Accountants
Oklahoma Society of Certified Public Accountants

Independent Auditors' Report

Board of Trustees
LeFlore County Hospital Authority
Poteau, Oklahoma

We have audited the accompanying balance sheets of LeFlore County Hospital Authority as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LeFlore County Hospital Authority as of June 30, 2011 and 2010, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

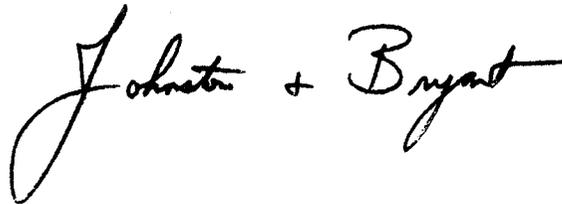
LeFlore County Hospital Authority
Board of Trustees
Page Two

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2011 on our consideration of LeFlore County Hospital Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on page 1 through 4, is not a required part of the basic financial statements, but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule of net patient service revenue, other operating revenue and operating expenses on pages 20 through 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 28, 2011

A handwritten signature in black ink, reading "Johnston + Bryant". The signature is written in a cursive style with a large, looping initial "J" and a plus sign between the two names.

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LEFLORE COUNTY HOSPITAL AUTHORITY

Balance Sheet
 June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents	\$ 4,171,189	\$ 2,154,287
Certificate of Deposit	719,187	708,825
Accounts Receivable		
Patients Net	2,723,536	2,879,667
Other	2,789	7,241
Amounts Due Under Cost Contracts	30,000	30,000
Inventories	598,058	450,391
Prepaid Expenses	203,562	298,298
Total Current Assets	<u>8,448,321</u>	<u>6,528,709</u>
Assets Whose Use Is Limited by Board for Capital Improvements		
Under Indenture Agreement - Held By Trustee	167,062	168,062
Total Assets Whose Use Is Limited	<u>167,062</u>	<u>168,062</u>
Capital Assets		
Property, Plant and Equipment	39,597,941	38,957,110
Less Accumulated Depreciation	<u>(27,888,746)</u>	<u>(26,733,156)</u>
Total Capital Assets-Net	<u>11,709,195</u>	<u>12,223,954</u>
 Total Assets	 <u>\$ 20,324,578</u>	 <u>\$ 18,920,725</u>

See accompanying notes to the financial statements

	<u>2011</u>	<u>2010</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 35,504	\$ 33,987
Accounts Payable	250,376	506,075
Amount Payable Under Cost Contracts	-	-
Accrued Expenses	941,927	722,414
Total Current Liabilities	<u>1,227,807</u>	<u>1,262,476</u>
Long-Term Debt, Net	<u>2,831,119</u>	<u>2,866,249</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	8,842,572	9,323,718
Unrestricted	7,423,080	5,468,282
Total Net Assets	<u>16,265,652</u>	<u>14,792,000</u>
Total Liabilities and Net Assets	<u>\$ 20,324,578</u>	<u>\$ 18,920,725</u>

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

	<u>2011</u>	<u>2010</u>
Revenues		
Net Patient Service Revenues	\$ 20,312,134	\$ 21,960,250
Other Operating Revenue	384,119	441,756
Total Operating Revenue	<u>20,696,253</u>	<u>22,402,006</u>
Expenses		
Nursing Services	5,656,528	5,809,490
Other Professional Services	8,434,375	8,821,307
General Services	2,319,889	2,427,421
Administrative Services	3,578,034	3,869,126
Interest	132,375	133,853
Provision for Depreciation	1,155,590	1,205,686
Total Expenses	<u>21,276,791</u>	<u>22,266,883</u>
Net Income (Loss) from Operations	(580,538)	135,123
Non-Operating Revenue		
Interest Income	16,647	51,047
Electronic Medical Records Incentive Payments	2,037,543	-
	<u>2,054,190</u>	<u>51,047</u>
Change in Net Assets	1,473,652	186,170
Net Assets - Beginning	<u>14,792,000</u>	<u>14,605,830</u>
Net Assets - Ending	<u>\$ 16,265,652</u>	<u>\$ 14,792,000</u>

See accompanying notes to the financial statements.

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

	2011	2010
Cash Flows from Operating Activity		
Patient Service Revenue	\$ 20,472,717	\$ 21,398,509
Other Revenue	384,119	441,756
Income from Investments	16,647	51,047
Payments to Employees	(10,107,481)	(10,662,296)
Payments to Vendors and Suppliers	(9,970,462)	(10,227,590)
Net Cash Used in Operating Activity	795,540	1,001,426
 Cash Flows from Capital and Related Financing Activities		
Purchase of Capital Assets	(640,831)	(1,839,327)
Electronic Medical Records Incentive Payments	2,037,543	-
Transfers (to) From assets whose use is limited	1,000	1,000
Advances on Loans	-	-
Principal Payments	(33,613)	(32,885)
Interest Payments	(132,375)	(133,853)
Net Cash Flows from Capital and Related Financing Activities	1,231,724	(2,005,065)
 Increase (Decrease) in Cash	2,027,264	(1,003,639)
 Cash - Beginning	2,863,112	3,866,751
 Cash - Ending	\$ 4,890,376	\$ 2,863,112

See accompanying notes to the financial statements.

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

	2011	2010
Cash Flows from Operating Activities		
Net (Loss) Income from Operations	\$ (580,538)	\$ 135,123
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,155,590	1,205,686
Interest Expense	132,375	133,853
Interest Income	16,647	51,047
Changes in Operating Assets and Liabilities		
Accounts Receivable	160,583	(546,046)
Other Assets	-	-
Prepays	94,736	(32,787)
Inventory	(147,667)	25,359
Accounts Payable	(36,186)	29,191
Net Cash Provided by Operations	\$ 795,540	\$ 1,001,426

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 1. **Organization**

The LeFlore County Hospital Authority (the Authority) is a public trust created June 30, 1976 pursuant to Title 60 Oklahoma Statutes, Sections 176 to 180 as amended. The purpose of the trust is to provide the citizens of LeFlore County and surrounding area with high quality public healthcare.

The Eastern Oklahoma Medical Center is owned by LeFlore County, Oklahoma, however, under terms of a lease agreement dated June 30, 1976 operations of the facility were leased to the LeFlore County Hospital Authority for an initial term of fifty years. There is no consideration required under terms of this lease.

Note 2. **Significant Accounting Policies**

Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Report for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Authority's financial statements are presented in accordance with the requirements of GASB Statement No. 34 and 37, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and GASB Statement No. 38 Certain Financial Statement Note Disclosures. Under GASB Statement No. 34, the Authority is required to present a balance sheet classified between current and Noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows using the direct methods.

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

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 2. **Significant Accounting Policies (continued)**

Cash equivalents – Investments that have an original maturity of three months or less are considered to be cash equivalents

Allowance for uncollectible accounts

Patient receivables are uncollateralized customer and third-party payor obligations.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowances that reflects management’s best estimate of amounts that will not be collected from patient and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third-parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Inventories

Inventories are valued at a lower cost (first-in, first-out method) or market.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or retirements are included in income in the period of disposition.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The ranges of such useful lives are as follows:

Land improvements	10 years
Building	20-40 years
Equipment	3-20 years

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 2. **Significant Accounting Policies (continued)**

Net Assets

Net assets in the Authority are classified in two components.

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

Unrestricted Net Assets – Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Net Patient Service revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operation and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Authority's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 2. **Significant Accounting Policies (continued)**

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. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The provision, if any, for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Grants and Contributions

From time to time, the Authority receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operation purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operation purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Compensated absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using regular pay in effect at the balance sheet date plus an additional amount for compensation related payments such as social security and Medicare taxes computed using rates in effect at that date.

Income Taxes

The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 3. **Cash and Deposits**

State statutes require public trusts to invest only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following summarizes the cash deposits as of June 30, 2011:

At June 30, 2011 and 2010, bank balances were as follows:

	2011	2010
Insured (FDIC)	\$ 751,434	\$ 682,783
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	4,463,787	2,417,934
Uninsured, uncollateralized or collateralized by securities held its trust department or agent or in other than the Authority's name	-	-
Total	\$ 5,215,221	\$ 3,100,717
Carrying Value	\$ 5,057,438	\$ 3,031,174

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and un collateralized; uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exist when the authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

The Authority secures cash deposits in excess of \$250,000 with U.S. Government or federal agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2011 and 2010 the carrying amount of the Authority's deposits was \$5,057,438 and \$3,031,174 and the bank balance was \$5,057,438 and \$3,100,717 respectively. As of June 30, 2011 and 2010 the Authority was exposed to custodial credit risk, in the amount of \$0 and \$0 respectively.

Note 4. **Accounts Receivable – Patients**

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

	2011	2010
Patient Accounts	\$ 8,976,961	\$ 9,894,295
Less: Contractual Adjustments	2,800,243	4,085,197
Less: Allowance For Uncollectible Accounts	3,453,182	2,899,431
	\$ 2,723,536	\$ 2,909,667

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 6. Long-Term Debt

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

		2011					
Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	
Notes Payable USDA	4.375%	06/01/46	\$ 2,900,236	\$ -	\$ 33,613	\$ 2,866,623	\$ 35,504
			<u>\$ 2,900,236</u>	<u>\$ -</u>	<u>\$ 33,613</u>	<u>\$ 2,866,623</u>	<u>\$ 35,504</u>
		2010					
Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	
Notes Payable USDA	4.375%	06/01/46	\$ 2,933,121	\$ -	\$ 32,885	\$ 2,900,236	\$ 33,987
			<u>\$ 2,933,121</u>	<u>\$ -</u>	<u>\$ 32,885</u>	<u>\$ 2,900,236</u>	<u>\$ 33,987</u>

Scheduled principal and interest payment on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30:	Bonds and Notes Payable	
	Principal	Interest
2012	\$ 35,504	\$ 125,056
2013	37,089	123,471
2014	38,744	121,816
2015	40,474	120,086
2016	42,281	118,279
2016 and thereafter	<u>2,672,531</u>	<u>2,138,720</u>
Total	<u>\$ 2,866,623</u>	<u>\$ 2,747,428</u>

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 7. **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:

Under Prospective Payment System services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority is reimbursed for these services as a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary.

The Authority's classification of patents under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined per-diem rate or established fee.

Other carriers: The 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 8. **Tax Sheltered Annuity**

The Authority has established a tax sheltered annuity for all employees who wish to participate. Employees may set aside a portion of their salary exempt from taxes, until time of withdrawal. The Authority will match the employee's contributions to the TSA according to benefit schedules as listed in the Authority's Human Resource Manual.

Note 9. **Future Lease Commitments**

The Authority leases various equipment and facilities under operating leases expiring at various dates. Total rental expenses for the years ended June 30, 2011 and 2010, for all operating leases were approximately \$594,748 and \$641,744 respectively.

LEFLORE COUNTY HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2011 and 2010

Note 10. Net Patient Service Revenue

Net Patient Service Revenue for the years ended June 30, 2011 and 2010 is computed as follows:

	<u>2011</u>	<u>2010</u>
Gross Patient Service Revenue	\$ 57,773,160	\$ 57,021,563
Less:		
Contractual Adjustment - Medicare	14,551,985	14,197,320
Contractual Adjustment - Medicaid	7,689,842	6,791,526
Provision for bad Debts	10,364,055	9,123,816
Other Discounts and Allowances	4,855,144	4,948,651
	<u>37,461,026</u>	<u>35,061,313</u>
Net Patient Service Revenue	<u>\$ 20,312,134</u>	<u>\$ 21,960,250</u>

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

	<u>2011</u>	<u>2010</u>
Daily Patient Service		
Medical and Surgical	\$ 2,357,678	\$ 2,296,673
Intensive Care	1,210,356	1,319,220
Newborn Nursery	205,342	231,088
Total Daily Patient Service	<u>3,773,376</u>	<u>3,846,981</u>
Other Nursing Services		
Operating and Recovery Room	3,079,468	2,935,724
Delivery Room	404,728	461,957
Central Services and Supply	2,848,591	2,689,249
Emergency Services	5,626,287	5,559,667
Total Other Nursing Units	<u>11,959,074</u>	<u>11,646,597</u>
Other Professional Services		
Laboratory	12,526,549	12,540,722
Electrocardiology	500,310	508,532
Radiology	11,453,144	11,125,688
Pharmacy	6,168,830	5,900,550
Anesthesiology	1,256,732	1,253,980
Respiratory Therapy	2,472,936	2,475,759
Physical Therapy	581,676	612,661
Speech Therapy	10,428	13,139
Clinics	6,639,970	6,396,587
Home Health Agency	430,135	700,367
Total Other Professional Services	<u>42,040,710</u>	<u>41,527,985</u>
Total Patient Service Revenue	<u>57,773,160</u>	<u>57,021,563</u>
Less Contractual Adjustments		
Medicare	14,551,985	14,197,320
Medicaid	7,689,842	6,791,526
Provision for Bad Debt	10,364,055	9,123,816
Discounts and Other Allowances	4,855,144	4,948,651
Total Reductions from Revenue	<u>37,461,026</u>	<u>35,061,313</u>
Net Patient Service Revenue	<u>\$ 20,312,134</u>	<u>\$ 21,960,250</u>

LEFLORE COUNTY HOSPITAL AUTHORITY
Other Operating Revenue
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cafeteria	\$ 155,057	\$ 153,537
Purchase Discounts	6,637	8,039
Medical Records Fees	8,335	6,435
Clinic Rental	110,825	96,110
Miscellaneous	<u>103,265</u>	<u>177,635</u>
 Total Other Operating Revenue	 <u>\$ 384,119</u>	 <u>\$ 441,756</u>

LEFLORE COUNTY HOSPITAL AUTHORITY
Patient Service Expense
Years Ended June 30, 2011 and 2010

	2011		
	Salaries	Other	Total
Nursing Services			
Medical and Surgical	\$ 1,774,711	\$ 194,663	\$ 1,969,374
Intensive Care	564,909	83,017	647,926
Newborn Nursery	91,067	32,364	123,431
Operating and Recovery Room	302,135	527,378	829,513
Labor and Delivery Room	384,941	56,699	441,640
Central Services and Supply	16,420	53,848	70,268
Emergency Services	638,329	563,992	1,202,321
Home Health	289,405	82,650	372,055
Total Nursing Services	\$ 4,061,917	\$ 1,594,611	\$ 5,656,528
Other Professional Services			
Laboratory	\$ 456,036	\$ 649,112	\$ 1,105,148
Radiology	494,394	678,188	1,172,582
Pharmacy	-	1,272,281	1,272,281
Anesthesiology	-	127,327	127,327
Respiratory Therapy	248,283	59,663	307,946
Physical Therapy	155,642	22,144	177,786
Clinics	2,667,216	1,604,089	4,271,305
Total Other Professional Services	\$ 4,021,571	\$ 4,412,804	\$ 8,434,375
General Services			
Dietary	205,922	330,580	536,502
Medical Records	265,348	71,967	337,315
Plant Engineering	357,760	703,088	1,060,848
Housekeeping	239,530	53,863	293,393
Laundry and Linen	57,816	34,015	91,831
Total General Services	\$ 1,126,376	\$ 1,193,513	\$ 2,319,889
Administrative Services			
Administration and Business Offices	1,117,130	670,415	1,787,545
Employee Benefits	-	1,790,489	1,790,489
Total Administrative Services	\$ 1,117,130	\$ 2,460,904	\$ 3,578,034

2010

<u>Salaries</u>	<u>Other</u>	<u>Total</u>
\$ 1,801,777	\$ 194,229	\$ 1,996,006
634,885	70,549	705,434
108,276	40,994	149,270
316,464	489,869	806,333
403,604	58,155	461,759
16,964	39,456	56,420
661,268	569,099	1,230,367
321,465	82,436	403,901
<u>\$ 4,264,703</u>	<u>\$ 1,544,787</u>	<u>\$ 5,809,490</u>
\$ 504,715	\$ 769,154	\$ 1,273,869
504,055	610,471	1,114,526
-	1,348,516	1,348,516
-	121,211	121,211
251,966	62,790	314,756
155,745	20,901	176,646
2,751,690	1,720,093	4,471,783
<u>\$ 4,168,171</u>	<u>\$ 4,653,136</u>	<u>\$ 8,821,307</u>
202,972	313,697	516,669
278,243	66,149	344,392
377,103	756,503	1,133,606
246,491	58,017	304,508
89,445	38,801	128,246
<u>\$ 1,194,254</u>	<u>\$ 1,233,167</u>	<u>\$ 2,427,421</u>
1,110,617	773,812	1,884,429
-	1,984,697	1,984,697
<u>\$ 1,110,617</u>	<u>\$ 2,758,509</u>	<u>\$ 3,869,126</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
LeFlore County Hospital Authority
Poteau, Oklahoma

We have audited the financial statements of LeFlore County Hospital Authority as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated September 28, 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 LeFlore County Hospital Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LeFlore County Hospital Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

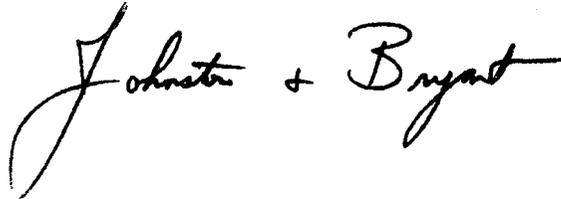
The Board of Trustees
LeFlore County Hospital Authority
Poteau, Oklahoma
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether LeFlore County Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliances with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, board of trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

September 28, 2011

A handwritten signature in black ink that reads "Johnston + Bryant". The signature is written in a cursive style with a large, looping initial 'J' and a plus sign between the two names.