



Management's Discussion and Analysis
and Financial Statements
August 31, 2011 and 2010

**Logan Hospital and Medical Center
Authority**
d/b/a Logan Medical Center

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Table of Contents
August 31, 2011 and 2010

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	7
Revenues, Expenses and Changes in Net Assets.....	8
Cash Flows.....	9
Notes to Financial Statements.....	11
Independent Auditor’s Report on Supplementary Information.....	25
Supplementary Information	
Schedules	
Net Patient Service Revenue	26
Other Revenue.....	27
Expenses	28
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> Standards.....	29
Schedules of Findings and Responses	31



Independent Auditor's Report

The Board of Trustees
Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Guthrie, Oklahoma

We have audited the accompanying balance sheets of Logan Hospital and Medical Center Authority d/b/a Logan Medical Center as of August 31, 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 Logan Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to obtain written representation from management of Logan Hospital and Medical Center Authority as of and for the year ended August 31, 2011, as required by generally accepted auditing standards.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements as of and for the year ended August 31, 2011. We issued an unqualified opinion on the financial statements as of and for the year ended August 31, 2010, in our report dated January 25, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012, on our consideration of **Logan Hospital and Medical Center Authority d/b/a Logan Medical Center**, internal control structure over financial reporting and our test 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 or on compliance and other matters. 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.

www.eidebailly.com

Management's discussion and analysis on pages 3 through 6, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Eide Bailly LLP

Oklahoma City, Oklahoma
April 30, 2012

Introduction

Our discussion and analysis of Logan Hospital and Medical Center Authority d/b/a Logan Medical Center's (the Medical Center) financial performance provides an overview of the Medical Center's financial activities for the years ended August 31, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Medical Center.

Financial Highlights

- Total assets of the Medical Center decreased by \$2,512,350 or 13 percent in 2011 and increased \$2,553,106 or 15 percent in 2010
- Total liabilities of the Medical Center decreased by \$2,297,337 or 28 percent in 2011 and increased by \$2,709,516 or 49 percent in 2010
- The Medical Centers net assets decreased by \$215,013 or 2 percent in 2011 compared with a \$156,410 or 1 percent decrease in 2010
- Operating revenue decreased in 2011 by \$733,585 or 3 percent and increased by \$3,378,179 or 18 percent in 2010
- Operating expenses decreased in 2011 by \$836,384 or 3 percent and increased by \$3,200,907 or 15 percent in 2010
- The Medical Center reported an operating loss in 2011 of \$1,817,591 compared to an operating loss in 2010 of \$1,920,390
- Nonoperating revenue and expenses have decreased in each of the two past years with a \$127,545 or 8 percent decrease in 2011 and a \$232,454 or 12 percent decrease in 2010

Using This Annual Report

The Medical Center's financial statements consist of three statements – balance sheets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These financial statements and related notes provide information about activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation. The Medical Center 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 Sheets and Statements of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Medical Center's finances is "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net assets report information about the Medical Center's resources and its activities in a way that helps answer this question.

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Management's Discussion and Analysis
August 31, 2011 and 2010

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 of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in them. You can think of the Medical Center's net assets and the difference between assets and liabilities as one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center'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 Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Medical Center.

The Statements of Cash Flows

The final required statements are the statements of cash flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, 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 the cash balance during the reporting period.

The Medical Center's Net Assets

The Medical Center's net assets are the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net assets decreased by \$215,013 in 2011, over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Current assets	\$ 5,916,074	\$ 7,477,849	\$ 5,471,950
Assets limited to use	2,815,416	2,793,527	2,705,631
Capital assets, net	8,128,808	9,101,272	8,641,961
Total assets	<u>\$ 16,860,298</u>	<u>\$ 19,372,648</u>	<u>\$ 16,819,542</u>
Liabilities			
Total current and noncurrent liabilities	<u>\$ 5,991,644</u>	<u>\$ 8,288,981</u>	<u>\$ 5,579,465</u>
Net Assets			
Invested in capital assets, net of related debt	4,003,550	4,335,200	4,633,732
Restricted, expendable for capital acquisitions	21,340	16,050	23,043
Unrestricted	6,843,764	6,732,417	6,583,302
Total net assets	<u>10,868,654</u>	<u>11,083,667</u>	<u>11,240,077</u>
Total liabilities and net assets	<u>\$ 16,860,298</u>	<u>\$ 19,372,648</u>	<u>\$ 16,819,542</u>

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Management's Discussion and Analysis
August 31, 2011 and 2010

A significant component of the change in the Medical Center's assets is the decrease in patient accounts receivable. Operating revenue decreased in 2011 by \$733,585 or 3 percent, compared to an increase of \$3,378,179 or 18 percent in 2010. Patient accounts receivable, net of estimated uncollectible amounts decreased, by \$388,281 or 11 percent compared to an increase of \$1,003,570 or 38 in 2010. The decrease in accounts receivable in 2011 is primarily the result of decreased volume.

Operating Results and Changes in Net Assets

In 2011, the Medical Center's net assets decreased by \$215,013 or 2% and decreased \$156,410 or 1% in 2010, as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 21,555,332	\$ 22,297,518	\$ 18,905,996
Other operating revenue	134,313	125,712	139,055
Total operating revenues	<u>21,689,645</u>	<u>22,423,230</u>	<u>19,045,051</u>
Operating Expenses			
Nursing services	6,635,515	7,055,444	5,835,510
Other professional services	9,730,896	9,382,789	8,308,583
General services	1,374,593	1,371,972	1,344,639
Administrative services	4,611,681	5,500,070	4,747,805
Provision for depreciation	1,154,551	1,033,345	906,176
Total operating expenses	<u>23,507,236</u>	<u>24,343,620</u>	<u>21,142,713</u>
Operating loss	<u>(1,817,591)</u>	<u>(1,920,390)</u>	<u>(2,097,662)</u>
Nonoperating Revenues (Expenses)			
Sales taxes	1,849,028	1,805,395	1,945,804
Investment income	26,678	88,241	132,281
Noncapital grants and gifts	33,001	15,620	17,448
Loss on asset disposal	-	(6,427)	(38)
Contribution expense	(40,500)	(50,804)	(49,327)
Interest expense	(308,492)	(164,765)	(126,454)
Total nonoperating revenues	<u>1,559,715</u>	<u>1,687,260</u>	<u>1,919,714</u>
Excess of revenues over expenses before capital grants	(257,876)	(233,130)	(177,948)
Capital Grants	<u>42,863</u>	<u>76,720</u>	<u>27,853</u>
(Decrease) Increase in net assets	<u>\$ (215,013)</u>	<u>\$ (156,410)</u>	<u>\$ (150,095)</u>

Operating Income

The first component of the overall change in the Medical Center's net assets is its operating income (loss) – generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Medical Center had an operating loss of \$1,817,591 in 2011, compared to an operating loss of \$1,920,390 in 2010.

The primary components of the operating loss are:

- A decrease in patient revenue, net of uncollectible accounts, in 2011 of \$742,186 or 3 percent compared to an increase of \$3,391,522 or 18 percent in 2010.
- A decrease in nursing services of \$419,929 or 6 percent in 2011 compared to an increase of \$1,219,934 or 21 percent in 2010.
- An increase in other professional services cost of \$348,107 or 4 percent compared to an increase of \$1,074,206 or 13 percent in 2010.
- A decrease in administrative services of \$888,389 or 16 percent in 2011 compared to an increase of \$752,265 or 16 percent in 2010.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax revenue and contributions. The sales tax revenue increased \$43,633 or 2 percent in 2011 as compared to a decrease of \$140,409 or 7 percent in 2010.

The Medical Center's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2011 and 2010, the Medical Center had \$8,128,808 and \$9,101,272, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2011 and 2010, the Medical Center purchased new capital assets costing \$182,087 and \$1,502,477, respectively.

Debt

At August 31, 2011 and 2010, the Medical Center had \$4,125,258 and \$4,766,072, respectively, in notes outstanding.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center's administration by calling (405) 282-6700.

(This page left blank intentionally.)

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,736,043	\$ 2,909,160
Receivables		
Patients, net of provision for bad debts of approximately \$1,983,000 in 2011 and \$1,924,000 in 2010	3,236,997	3,625,278
Sales tax	363,683	325,008
Other	12,832	93,149
Supplies	398,203	379,879
Prepaid and other assets	168,316	145,375
Total current assets	<u>5,916,074</u>	<u>7,477,849</u>
Assets Limited as to Use		
Board designated for capital acquisition	<u>2,815,416</u>	<u>2,793,527</u>
Capital Assets		
Land and construction in progress	480,459	480,459
Depreciable assets, net of accumulated depreciation	<u>7,648,349</u>	<u>8,620,813</u>
Capital Assets, Net	<u>8,128,808</u>	<u>9,101,272</u>
Total assets	<u>\$ 16,860,298</u>	<u>\$ 19,372,648</u>

See Notes to Financial Statements

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Balance Sheets
August 31, 2011 and 2010

	2011	2010
Current Liabilities		
Current maturities of long-term debt	\$ 491,358	\$ 599,189
Accounts payable	732,605	2,006,745
Accrued liabilities	847,122	856,419
Estimated third-party payor settlement	286,659	659,745
	2,357,744	4,122,098
Long-Term Debt, Net of Current Maturities	3,633,900	4,166,883
	5,991,644	8,288,981
Net Assets		
Invested in capital assets, net of related debt	4,003,550	4,335,200
Restricted for capital acquisitions	21,340	16,050
Unrestricted	6,843,764	6,732,417
	10,868,654	11,083,667
	\$ 16,860,298	\$ 19,372,648

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Patient service revenue, net of provision for bad debts of approximately \$3,158,000 in 2011 and \$3,180,000 in 2010	\$ 21,555,332	\$ 22,297,518
Other	134,313	125,712
Total operating revenues	<u>21,689,645</u>	<u>22,423,230</u>
Operating Expenses		
Nursing services	6,635,515	7,055,444
Other professional services	9,730,896	9,382,789
General services	1,374,593	1,371,972
Administrative services	4,611,681	5,500,070
Provision for depreciation	1,154,551	1,033,345
Total operating expenses	<u>23,507,236</u>	<u>24,343,620</u>
Operating Loss	<u>(1,817,591)</u>	<u>(1,920,390)</u>
Nonoperating Revenues (Expenses)		
Sales tax	1,849,028	1,805,395
Investment income	26,678	88,241
Noncapital grants and contributions	33,001	15,620
Interest expense	(308,492)	(164,765)
Loss on sale of assets	-	(6,427)
Contribution expense	(40,500)	(50,804)
Total nonoperating revenues	<u>1,559,715</u>	<u>1,687,260</u>
Other Income, Net before Capital Grants and Contributions	(257,876)	(233,130)
Capital Grants and Contributions	<u>42,863</u>	<u>76,720</u>
Decrease in net assets	(215,013)	(156,410)
Net Assets, Beginning of Year	<u>11,083,667</u>	<u>11,240,077</u>
Net Assets, End of Year	<u>\$ 10,868,654</u>	<u>\$ 11,083,667</u>

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Statements of Cash Flows
Years Ended August 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 21,570,527	\$ 21,953,693
Other receipts and payments, net	214,630	(31,344)
Payments to suppliers and contractors	(11,824,834)	(10,292,595)
Payments to employees	(11,852,553)	(11,682,988)
Net Cash used for Operating Activity	(1,892,230)	(53,234)
Non Capital Related Financing Activities		
Contributions	(40,500)	(50,804)
Noncapital grants and contributions	33,001	15,620
Sales taxes supporting operations	1,810,353	1,801,328
Net Cash Provided by Non Capital Financing Activities	1,802,854	1,766,144
Capital and Capital Related Financing		
Proceeds from issuance of long term debt	-	1,143,376
Capital grants and contributions	42,863	76,720
Principal paid on long-term debt	(640,814)	(449,083)
Interest paid on long-term debt	(308,492)	(164,765)
Capitalized interest	-	(51,249)
Purchase of capital assets	(182,087)	(1,387,678)
Proceeds from the sale of assets	-	3,394
Net Cash used for Capital and Capital Related Financing Activities	(1,088,530)	(829,285)
Investing Activities		
Income on investments	4,789	3,811
Net (Decrease) Increase in Cash and Cash Equivalents	(1,173,117)	887,436
Cash and Cash Equivalents, Beginning of Year	2,909,160	2,021,724
Cash and Cash Equivalents, End of Year	\$ 1,736,043	\$ 2,909,160

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Statements of Cash Flows
Years Ended August 31, 2011 and 2010

	2011	2010
Reconciliation of Operating Loss to Net Cash		
Provided by Operating Activities		
Operating loss	\$ (1,817,591)	\$ (1,920,390)
Adjustments to reconcile change in net assets to net cash		
Provision for depreciation	1,154,551	1,033,345
Provision for bad debt	3,158,299	3,180,231
Changes in assets and liabilities		
Patient receivables	(2,770,018)	(4,183,801)
Other receivables	80,317	(80,011)
Supplies	(18,324)	(42,675)
Prepays	(22,941)	8,394
Accounts payable	(1,274,140)	1,296,937
Accrued liabilities	(9,297)	84,582
Estimated third-party payor settlement	(373,086)	570,154
Net Cash used for Operating Activities	\$ (1,892,230)	\$ (53,234)
Supplemental Disclosures of Cash Flow Information		
Purchases of equipment by capital lease	\$ -	\$ 63,550
Refinance of current liability to long term debt	\$ -	\$ 1,719,346
Interest income reinvested	\$ 21,889	\$ 87,896

Note 1 - Organization and Significant Accounting Policies

Organization

Logan Hospital and Medical Center Authority (the Authority) was created under a trust indenture dated July 1, 1976, as a public trust under the provisions of Title 60 of the Oklahoma Statutes for the benefit of Logan County, Oklahoma. The Authority operates Logan Medical Center (the Medical Center). The County Commissioners appoint members of the Board of Trustees of the Authority.

The Medical Center is a 25-bed licensed acute care critical access hospital located in Guthrie, Oklahoma. The Medical Center primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in Guthrie, Oklahoma and the surrounding area. It also operates a home health agency and outpatient clinics in the same geographic area.

Accounting Standards

The financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Sales tax, investment income, non-capital grants and contributions, interest expense, gain (loss) on sale of assets and casualty gains (losses) are included in nonoperating revenues and expenses. The Medical Center first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, establishes the accounting principles generally accepted in the United States of America hierarchy for proprietary funds. The statement requires that proprietary activities apply all applicable GASB pronouncements. The entity must also apply Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that they do not conflict with GASB pronouncements. The entity may elect, at its option, to apply all FASB statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Medical Center has elected to adopt this option.

Income Taxes

The Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use.

Patient Receivables

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

Supplies

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

Investments and Investment Income

Short-term investments include certificates of deposit carried at cost. Noncurrent cash and investments include assets consisting of a money market fund internally designated for renovation and expansion. Investment income includes interest income and realized and unrealized gains and losses on investments.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements (and debt redemption), over which the Board retains control and may at its discretion subsequently use for other purposes; and assets held by trustees under indenture agreements. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

Capital Assets

Capital assets in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Maintenance and repairs are charged to expense as incurred. Gains and losses from sales or retirements are included in the period of disposition. The estimated useful lives of property and equipment are as follows:

Land improvements	2 - 40 years
Building, improvements and fixed equipment	5 - 40 years
Major moveable equipment	3 - 20 years

Self Insurance Reserves

The Hospital provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan and workers' compensation insurance program. These reserves, which are included in current liabilities on the balance sheets, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Operating Revenues and Expenses

The Medical Center's statements of revenues, expenses and changes in net assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Non-exchange revenues, including taxes, and contributions are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing cost.

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Medical Center 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 Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

Sales Tax Revenue

The Medical Center received approximately 8 percent and 7 percent of its financial support from a .75% county sales tax in 2011 and 2010, respectively. These funds were used to support operations. Revenue from sales tax is recognized in the year the tax is earned.

Compensated Absences

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

Advertising Costs

The Hospital expenses advertising costs as incurred.

Reclassification

Reclassifications have been made to the August 31, 2010 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - Charity Care and Other Community Benefits

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Medical Center's charity care policy were approximately \$661,000 and \$898,000 for the years ended August 31, 2011 and 2010. Total direct and indirect costs related to these foregone charges were \$327,000 and 457,000 at August 31, 2011 and 2010, based on an average ratio of cost to gross charges.

In addition, the Medical Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay 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.

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

Note 3 - Net Patient Accounts Receivable

Patient accounts receivable at August 31, 2011 and 2010, consist of the following:

	2011	2010
Patient Accounts Receivable		
Receivable from patients and their insurance carriers	\$ 3,722,509	\$ 4,035,102
Receivable from Medicare	1,200,783	1,192,011
Receivable from Medicaid	296,446	321,965
Total patient accounts receivable	5,219,738	5,549,078
Less allowance for uncollectible amounts	1,982,741	1,923,800
Patient accounts receivable, net	\$ 3,236,997	\$ 3,625,278

Note 4 - Net Patient Service Revenue

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

Medicare: The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most acute care services at cost plus one percent with final settlement determined after submission of annual cost reports by the Medical Center and is subject to audits thereof by the Medicare intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended August 31, 2009. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge or rates established by the Medicaid program. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Notes to Financial Statements
August 31, 2011 and 2010

Revenue from the Medicare and Medicaid programs accounted for approximately 61% and 2% of the Medical Center's net patient service revenue for the year ended August 31, 2011 and 56% and 8% for the year August 31, 2010. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended August 31, 2011 and 2010 decreased approximately \$742,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

A summary of patient service revenue and contractual adjustments for years ended August 31, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Total patient service revenue	<u>\$ 47,178,681</u>	<u>\$ 47,611,623</u>
Contractual adjustments		
Medicare	11,476,035	11,789,831
Medicaid	5,228,572	4,569,298
Other	5,760,443	5,774,745
Provision for bad debts	<u>3,158,299</u>	<u>3,180,231</u>
Total contractual adjustments	<u>25,623,349</u>	<u>25,314,105</u>
Net patient service revenue	<u><u>\$ 21,555,332</u></u>	<u><u>\$ 22,297,518</u></u>

Note 5 - Deposits and Investments

State statutes require public trusts to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. The following summarizes the cash deposits at August 31, 2011 and 2010:

	2011	2010
Total Bank Balance		
Insured (FDIC)	\$ 1,052,300	\$ 3,560,632
Collateralized with securities held by the Authority's agent in the Authority's name	3,692,927	2,348,872
Uninsured	55,826	-
	\$ 4,801,053	\$ 5,909,504
 Total Carrying Value		
Cash	\$ 1,736,043	\$ 2,909,160
Board designated certificates of deposit	2,815,416	2,793,527
	\$ 4,551,459	\$ 5,702,687

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

The Medical Center does not have a policy relating to custodial credit risk. State law requires all deposits of public funds to be collateralized although the Medical Center does not have a formal policy for collateralizing cash deposits. At August 31, 2011 and 2010, the carrying amount of the Medical Centers deposits including certificates of deposit was \$4,551,459 and \$5,702,687 and the bank balance was \$4,801,053 and \$5,909,504, respectively. As of August 31, 2011, \$55,826 of the Medical Center’s bank balances were exposed to custodial credit risk.

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Notes to Financial Statements
August 31, 2011 and 2010

Note 6 - Capital Assets

Capital asset additions, retirements, and balances for the years ended August 31, 2011 and 2010, are as follows:

	2010	Additions	Deductions	Transfers	2011
Non-depreciable capital assets					
Land	\$ 464,619	\$ -	\$ -	\$ -	\$ 464,619
Construction in progress	15,840	-	-	-	15,840
Total non-depreciable capital assets	<u>\$ 480,459</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 480,459</u>
Depreciable capital assets					
Land improvements	\$ 1,006,258	\$ -	\$ -	\$ -	\$ 1,006,258
Buildings and fixed equipment	11,125,060	15,400	-	-	11,140,460
Major moveable equipment	5,615,693	166,687	(16,149)	-	5,766,231
Total depreciable capital assets	<u>17,747,011</u>	<u>182,087</u>	<u>(16,149)</u>	<u>-</u>	<u>17,912,949</u>
Less accumulated depreciation for:					
Land improvements	356,830	69,853	-	-	426,683
Building and fixed equipment	5,124,139	521,975	-	-	5,646,114
Major moveable equipment	3,645,229	562,723	(16,149)	-	4,191,803
Total accumulated depreciation	<u>9,126,198</u>	<u>1,154,551</u>	<u>(16,149)</u>	<u>-</u>	<u>10,264,600</u>
Total depreciable capital assets	<u>\$ 8,620,813</u>	<u>\$ (972,464)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,648,349</u>
Capital assets, net	<u>\$ 9,101,272</u>	<u>\$ (972,464)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,128,808</u>

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Notes to Financial Statements
August 31, 2011 and 2010

	<u>2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>2010</u>
Non-depreciable capital assets					
Land	\$ 468,013	\$ -	\$ (3,394)	\$ -	\$ 464,619
Construction in progress	1,846,588	826,182	-	(2,656,930)	15,840
Total non-depreciable capital assets	<u>\$ 2,314,601</u>	<u>\$ 826,182</u>	<u>\$ (3,394)</u>	<u>\$ (2,656,930)</u>	<u>\$ 480,459</u>
Depreciable capital assets					
Land improvements	\$ 595,044	\$ -	\$ -	\$ 411,214	\$ 1,006,258
Buildings and fixed equipment	9,072,699	20,558	-	2,031,803	11,125,060
Major moveable equipment	4,790,867	655,737	(44,824)	213,913	5,615,693
Total depreciable capital assets	<u>14,458,610</u>	<u>676,295</u>	<u>(44,824)</u>	<u>2,656,930</u>	<u>17,747,011</u>
Less accumulated depreciation for:					
Land improvements	308,977	47,853	-	-	356,830
Building and fixed equipment	4,664,269	459,870	-	-	5,124,139
Major moveable equipment	3,158,004	525,622	(38,397)	-	3,645,229
Total accumulated depreciation	<u>8,131,250</u>	<u>1,033,345</u>	<u>(38,397)</u>	<u>-</u>	<u>9,126,198</u>
Total depreciable capital assets	<u>\$ 6,327,360</u>	<u>\$ (357,050)</u>	<u>\$ (6,427)</u>	<u>\$ 2,656,930</u>	<u>\$ 8,620,813</u>
Capital assets, net	<u>\$ 8,641,961</u>	<u>\$ 469,132</u>	<u>\$ (9,821)</u>	<u>\$ -</u>	<u>\$ 9,101,272</u>

Note 7 - Debt

A summary of long-term debt as of August 31, 2011 and 2010, follows:

	August 31, 2011				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Notes payable					
Notes payable	\$ 4,350,191	\$ -	\$ 364,135	\$ 3,986,056	\$ 412,302
Capital lease obligation	415,881	-	276,679	139,202	79,056
Total notes	<u>\$ 4,766,072</u>	<u>\$ -</u>	<u>\$ 640,814</u>	<u>\$ 4,125,258</u>	<u>\$ 491,358</u>
	August 31, 2010				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Notes payable					
Notes payable	\$ 1,757,124	\$ 2,862,722	\$ 269,655	\$ 4,350,191	\$ 396,447
Capital lease obligation	531,759	63,550	179,428	415,881	202,742
Total notes	<u>\$ 2,288,883</u>	<u>\$ 2,926,272</u>	<u>\$ 449,083</u>	<u>\$ 4,766,072</u>	<u>\$ 599,189</u>

The Medical Center is obligated under leases for equipment that are accounted for as capital leases, at rates of 4.48 to 8.49 percent. Assets under capital leases at August 31, 2011 and 2010, totaled \$429,005 and \$957,994, respectively, net of accumulated depreciation of approximately \$307,190 and \$612,413, respectively.

The Medical Center has a note payable with a bank for the construction of the Waterloo clinic. At August 31, 2011 and 2010, the note had a balance of \$458,973 and \$530,922, respectively. The Medical Center is required to repay the note by November 14, 2017. The note bears interest at 3.25 percent and is collateralized by certificates of deposit.

The Medical Center has a 3.25 percent note payable with a bank for a construction remodeling project. The original amount of the note was \$998,263 with a maturity date of August 28, 2017. The balance of the note at August 31, 2011 and 2010 was \$638,882 and \$743,349, respectively. The note is secured by certificate of deposit.

The Medical Center has a 3.25 percent note payable with a bank for the Crescent clinic. The original amount of the note was \$390,928 with a maturity date of August 25, 2017. The balance of the note at August 31, 2011 and 2010 was \$250,209 and \$291,086. The note is secured by certificate of deposit.

The Medical Center has a 6.00 percent note payable with a bank for the Division clinic. This loan is a refinance of the construction line of credit which had an outstanding balance of \$1,719,346 at August 31, 2009. The original amount of the note was \$2,263,300 with a maturity date of June 29, 2015. The balance of the note at August 31, 2011 and 2010 was \$2,192,359 and \$2,253,467, respectively. The note is secured by the building.

The Medical Center has a note payable with a bank for the purchase of equipment. The original amount of the note was \$57,370 with a maturity date of April 15, 2012. The balance of the note at August 31, 2011 and 2010 was \$14,343 and \$33,466. The note is secured by equipment.

The Medical Center has a 6.00 percent note payable with a bank for the purchase of equipment dated June 2010. The original amount of the note was \$408,751 with a maturity date of June 29, 2015. The balance of the note at August 31, 2011 and 2010 was \$323,996 and \$397,003, respectively. The note is secured by equipment.

The Medical Center has a 4.50 percent note payable with a bank for the purchase of equipment dated November 2009. The original amount of the note was \$190,670 with a maturity date of November 4, 2013. The balance of the note at August 31, 2011 and 2010 was \$107,294 and \$153,481. The note is secured by equipment.

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Notes to Financial Statements
August 31, 2011 and 2010

The maturity schedule as of August 31, 2011, is as follows:

Year Ending August 31:	Notes Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2012	\$ 412,302	\$ 215,856	\$ 79,056	\$ 5,800
2013	412,085	194,614	33,076	2,357
2014	390,284	172,805	13,662	1,494
2015	2,294,932	132,356	13,408	484
2016	244,493	20,487	-	-
Thereafter	231,960	10,461	-	-
Total	<u>\$ 3,986,056</u>	<u>\$ 746,579</u>	<u>\$ 139,202</u>	<u>\$ 10,135</u>

Note 8 - Concentration of Credit Risk

The Medical Center is located in Guthrie, Oklahoma. The Medical Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of net patient accounts receivable at August 31, 2011 and 2010, is as follows:

	2011	2010
Medicare and Medicaid	40%	39%
Other third-party payors	35%	35%
Patients	25%	26%
	<u>100%</u>	<u>100%</u>

Note 9 - Restricted and Designated Net Assets

At August 31, 2011 and 2010, restricted expendable net assets were as follows:

	2011	2010
Beginning balance	\$ 16,050	\$ -
Donations	29,436	16,050
Capital acquisitions	(24,146)	-
Ending balance	<u>\$ 21,340</u>	<u>\$ 16,050</u>

Note 10 - Retirement Plan

The Medical Center participates in a defined contribution retirement 403b plan. All eligible employees, as defined by the plan, with one year of service are eligible to participate in the plan. The Medical Center has a discretionary match up to 3 percent and 5 percent of each participant's contributions based on that participant's entry date in the plan, limited to a maximum participant's contribution. Participant's contributions vest immediately and participant's rights in employer contributions vest over a period of five years.

Contributions made by the Medical Center aggregated \$235,000 and \$220,000 during 2011 and 2010, respectively.

The Medical Center established a deferred compensation plan (457 plan) covering substantially all employees. The plan allows for eligible employees to contribute a percentage of their base pay to the plan up to a limit provided by the Internal Revenue Code.

Note 11 - Employee Health Benefit Plan

The Medical Center adopted a self funded health plan on January 1, 2005. The Medical Center is self insured for the purposes of providing medical benefits to eligible employees of the Medical Center. Claims made under this plan are paid from cash provided from operations of the Medical Center as well as employee contributions. The Medical Center expensed approximately \$1,364,000 and \$1,418,000 for 2011 and 2010, respectively. The Medical Center maintains a reinsurance agreement that is limited to a per person aggregate of \$55,000 and an overall aggregate limit of \$1,000,000.

At August 31, 2011, Logan Hospital and Medical Center Authority had an accrued liability for health insurance claims incurred, but not paid as of year-end, in the amount of \$283,647. This liability will not be assumed by Mercy Hospital in the sale of Logan Hospital and Medical Center Authority and will remain the liability of the Authority.

Note 12 - Related Party Transactions

The Medical Center was managed by Quorum Health Resources, Inc. (Quorum) under a management contract. The Medical Center terminated the contract effective January 15, 2011. Fees to Quorum for management services were approximately \$163,000 and \$592,000 for 2011 and 2010, respectively.

Note 13 - Contingencies

Medical Malpractice Insurance

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

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; 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 for estimated malpractice claims, if any, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Note 14 - Subsequent Events

On September 30, 2011, Mercy Health Center, Inc. purchased certain assets and assumed certain liabilities of Logan Hospital and Medical Center Authority for the purchase price of \$6,880,000. Mercy assumed PTO liability of \$442,958 of Logan Medical Center Authority and withheld this amount from the original purchase price, which reduced the purchase prices to \$6,437,042.

Assets assigned to Mercy at the time of the sale were cash sweep accounts, petty cash, net capital assets, inventory, deposits, and prepaids. The balance in these accounts at September 30, 2011 was \$8,246,428.

Mercy assumed certain current liabilities relating to the business including trade accounts payable, accrued expenses, and accrued paid time off. Excluded from assumed liabilities were long-term debt and third party payer settlements, which were recorded in the Authority's financial statements on the closing date. Trade payables, accrued expenses, and accrued PTO had a balance of \$882,116 at September 30, 2011.

Logan Medical Center Authority had a net loss of \$927,270 from the sale as noted below.

Purchase Price	\$ 6,880,000
PTO accrual withheld	<u>442,958</u>
Net purchase price	6,437,042
Assets assigned to Mercy	(8,246,428)
Liabilities assumed by Mercy	<u>882,116</u>
Loss on sale	<u><u>\$ (927,270)</u></u>

Subsequent to year end, the Authority paid off all capital leases except one, which had a remaining balance of \$17,672 at September 30, 2011. This lease was paid off subsequent to the sale.

As of September 30, 2011 the Authority had \$1,343,977 in outstanding notes payable. The remaining balance on notes payable included \$452,871 on the construction of the Waterloo clinic, \$630,022 on the construction for a remodeling project, \$246,741 on the Crescent clinic, and \$14,434 for the purchase of equipment. These notes were paid off immediately subsequent to the sale.

On the date of closing, September 30, 2011, Logan Hospital and Medical Center Authority paid off two loans to a bank in the amount of \$2,187,669 and \$317,727 for debt pertaining to a note on the Division Clinic and equipment, respectively.

Beginning September 30, 2011, the date of the sale, Logan Hospital and Medical Center Authority will no longer receive sales tax revenue from the county. Any sales tax received after the date of the sale that relate to the period prior to the sale, will be property of the Authority to pay for incurred expenses.

Subsequent to the sale of Logan Hospital and Medical Center Authority, the Authority's pension plan was terminated. Employees were given the option to either receive payment or roll their investments into the plan of Mercy Health Center, Inc. As the plan was terminated by the Authority, all employees were 100 percent vested at the time of termination.



Supplementary Information
August 31, 2011 and 2010

**Logan Hospital and Medical Center
Authority
d/b/a Logan Medical Center**



Independent Auditor's Report on Supplementary Information

The Board of Trustees
Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Guthrie, Oklahoma

We have audited the financial statements of Logan Hospital and Medical Center Authority d/b/a Logan Medical Center as of and for the years then ended August 31, 2011 and 2010. Our report thereon dated April 30, 2012, which expressed a disclaimer of opinion as of and for the year ended August 31, 2011, appears on page 1. We issued an unqualified opinion on the financial statements as of and for the year ended August 31, 2010, in our report dated January 25, 2011. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient revenue, other revenue, and expenses are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Except as discussed above, the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
April 30, 2012

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Schedules of Net Patient Service Revenue
Years Ended August 31, 2011 and 2010

	2011	2010
Daily Patient Services		
Medical and surgical	\$ 1,799,050	\$ 2,066,352
Swing bed	1,306,879	1,232,767
	3,105,929	3,299,119
Other Nursing Services		
Central services and supply	2,538,008	2,857,237
Emergency services	5,269,441	4,914,827
Home health	846,984	823,137
Operating and recovery rooms	4,456,163	5,404,153
	13,110,596	13,999,354
Other Professional Services		
Anesthesiology	372,448	392,105
Clinic	7,605,353	6,983,150
CT scan	3,081,731	3,438,238
Electrocardiology	379,569	371,292
Laboratory	6,546,119	5,935,354
Pharmacy	4,866,965	5,104,652
Physical therapy	2,183,627	2,201,349
Radiology	4,515,520	4,269,441
Sleep lab	362,000	394,800
Respiratory therapy	1,048,824	1,222,769
	30,962,156	30,313,150
Total patient service revenue	47,178,681	47,611,623
Reductions from Revenue		
Contractual adjustments		
Medicare	11,476,035	11,789,831
Medicaid	5,228,572	4,569,298
Other-discounts and allowances	5,760,443	5,774,745
Provision for bad debts	3,158,299	3,180,231
Total reductions from revenue	25,623,349	25,314,105
Net Patient Service Revenue	\$ 21,555,332	\$ 22,297,518

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Schedules of Other Revenues
Years Ended August 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Other Revenues		
Cafeteria	\$ 32,997	\$ 34,393
Medical records	20,368	10,509
Miscellaneous	7,772	9,343
Purchase discounts and rebates	34,606	36,373
Rent	20,600	20,655
Supplies	<u>17,970</u>	<u>14,439</u>
Total Other Revenues	<u>\$ 134,313</u>	<u>\$ 125,712</u>

(This page left blank intentionally.)

Year Ended August 31, 2011

	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 1,948,230	\$ 500,912	\$ 2,449,142
Central services and supply	63,930	(24,172)	39,758
Emergency services	793,399	1,349,505	2,142,904
Home health	338,214	96,991	435,205
Operating and recovery rooms	429,313	1,139,193	1,568,506
	<u>\$ 3,573,086</u>	<u>\$ 3,062,429</u>	<u>\$ 6,635,515</u>
Other Professional Services			
Anesthesiology	\$ -	\$ 153,779	\$ 153,779
Clinic	4,489,020	1,064,970	5,553,990
CT Scan	-	153,480	153,480
Electrocardiology	-	2,259	2,259
Laboratory	549,055	577,308	1,126,363
Pharmacy	188,029	524,055	712,084
Physical therapy	665,057	154,770	819,827
Radiology	377,604	425,229	802,833
Sleep Lab	-	101,870	101,870
Respiratory therapy	197,059	107,352	304,411
	<u>\$ 6,465,824</u>	<u>\$ 3,265,072</u>	<u>\$ 9,730,896</u>
General Services			
Dietary	\$ 195,700	\$ 171,634	\$ 367,334
Housekeeping	127,341	40,230	167,571
Laundry and linen	20,272	17,329	37,601
Medical records	147,011	93,318	240,329
Plant	146,067	415,691	561,758
	<u>\$ 636,391</u>	<u>\$ 738,202</u>	<u>\$ 1,374,593</u>
Administrative Services			
Administrative and general	\$ 1,167,955	\$ 1,257,408	\$ 2,425,363
Employee benefits	-	1,669,323	1,669,323
Insurance	-	516,995	516,995
	<u>\$ 1,167,955</u>	<u>\$ 3,443,726</u>	<u>\$ 4,611,681</u>
Depreciation and Amortization			
	<u>\$ -</u>	<u>\$ 1,154,551</u>	<u>\$ 1,154,551</u>
	<u>\$ 11,843,256</u>	<u>\$ 11,663,980</u>	<u>\$ 23,507,236</u>

Logan Hospital and Medical Center Authority
d/b/a Logan Medical Center
Schedules of Expenses
Years Ended August 31, 2011 and 2010

Year Ended August 31, 2010		
Salaries	Other	Total
\$ 2,128,707	623,453	\$ 2,752,160
64,199	11,246	75,445
808,111	1,140,654	1,948,765
379,833	117,069	496,902
514,403	1,267,769	1,782,172
<u>\$ 3,895,253</u>	<u>\$ 3,160,191</u>	<u>\$ 7,055,444</u>
\$ -	\$ 154,491	\$ 154,491
4,067,455	1,051,382	5,118,837
-	149,843	149,843
-	3,057	3,057
546,981	545,284	1,092,265
189,390	566,808	756,198
708,404	107,701	816,105
343,257	549,582	892,839
-	115,262	115,262
181,424	102,468	283,892
<u>\$ 6,036,911</u>	<u>\$ 3,345,878</u>	<u>\$ 9,382,789</u>
\$ 198,293	\$ 160,961	\$ 359,254
145,182	49,343	194,525
18,741	16,279	35,020
147,598	89,792	237,390
154,825	390,958	545,783
<u>\$ 664,639</u>	<u>\$ 707,333</u>	<u>\$ 1,371,972</u>
\$ 1,170,767	\$ 2,081,982	\$ 3,252,749
-	1,694,168	1,694,168
-	553,153	553,153
<u>\$ 1,170,767</u>	<u>\$ 4,329,303</u>	<u>\$ 5,500,070</u>
<u>\$ -</u>	<u>\$ 1,033,345</u>	<u>\$ 1,033,345</u>
<u>\$ 11,767,570</u>	<u>\$ 12,576,050</u>	<u>\$ 24,343,620</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
Logan Hospital and Medical Center Authority
Guthrie, Oklahoma

We have audited the financial statements of Logan Hospital and Medical Center Authority d/b/a Logan Medical Center (the Medical Center), as of and for the year ended August 31, 2011, and have issued our report thereon dated April 30, 2012. We did not express an opinion on the financial statements because we were unable to obtain written representation from management. Except as discussed in the preceding sentence, 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 Logan Hospital and Medical Center Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider item 2011-01 and 2011-02 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

Compliance and Other Matters

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

Logan Hospital and Medical Center Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Logan Hospital and Medical Center Authority's response and, accordingly, we express no opinion on it.

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



Oklahoma City, Oklahoma
April 30, 2012

2011-01 Material Journal Entry

Condition: The method used to estimate the contractual allowance amount and amount due to or from Medicare resulted in material journal entries.

Criteria or Specific Requirement: Management is responsible for establishing and maintaining effective controls over financial reporting.

Effect: Potentially material misstatements in the financial statements could occur and not be prevented or detected by management.

Cause: The Medical Center's method of estimating the contractual allowance and amount payable to Medicare resulted in a material journal entry.

Recommendation: It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: – Management accepts the risk associated with this condition.

Conclusion: Response accepted

2011-02 Preparation of Financial Statements

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

Criteria or Specific Requirement: Statement on Auditing Standards (SAS) 115 requires the auditor to assess the Authority accounting staff's ability to apply Generally Accepted Accounting Principles (GAAP) on an ongoing basis.

Effect: We noted a significant deficiency in the Medical Center's internal controls over financial reporting and procedures related to the preparation of the financial statements.

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

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

Management's Response: Given the size of the Medical Center, we do not think it would be cost-effective to fully cure this technical deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

Conclusion: Response accepted