

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Financial Statements  
June 30, 2012 and 2011

With Independent Auditors' Report Thereon

**LOVE COUNTY HEALTH CENTER dba MERCY HEALTH LOVE COUNTY**

**JUNE 30, 2012 AND 2011**

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# **JOHNSTON & BRYANT**

**Certified Public Accountants**

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**MEMBER**  
American Institute of Certified Public Accountants  
Oklahoma Society of Certified Public Accountants

## Independent Auditors' Report

The Board of Trustees  
Love County Health Center dba  
Mercy Health Love County  
Marietta, Oklahoma

We have audited the accompanying balance sheets of Love County Health Center dba Mercy Health Love County, as of June 30, 2012 and 2011, and the related statements of revenue and expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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

The organization has chosen not to prepare management Discussion and Analysis which is required under accounting principles generally accepted in the United States of America. The effect of this omission is not reasonably determinable.

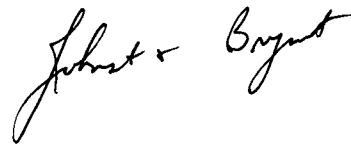
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Love County Health Center dba Mercy Health Love County, as of June 30, 2012 and 2011 and the results of its operation and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Board of Control  
Love County Health Center dba  
Mercy Health Love County  
Page Two

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2012, on our consideration of Love County Health Center dba Mercy Health Love County'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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules of net patient service revenue, other revenue, and operating expenses on pages 14-16 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 26, 2012

A handwritten signature in cursive script, appearing to read "Robert Bryant".

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**

Balance Sheet  
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current Assets		
Cash on Hand and in Banks, including Time Deposits	\$ 1,801,485	\$ 1,653,883
Accounts Receivable - Patients, Less Allowances	2,030,826	2,047,821
Other Receivables	86,294	136,754
Inventories	152,241	154,698
Prepaid Expenses	178,993	94,695
Due Under Cost Contracts	<u>2,114,559</u>	<u>-</u>
Total Current Assets	<u>6,364,398</u>	<u>4,087,851</u>
Property, Plant and Equipment		
Less Accumulated Depreciation	<u>(4,144,329)</u>	<u>(3,536,692)</u>
Net Property, Plant and Equipment	<u>2,767,246</u>	<u>2,786,923</u>
Total Assets	<u>\$ 9,131,644</u>	<u>\$ 6,874,774</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts Payable	\$ 582,306	\$ 285,875
Due Under Cost Contracts	-	350,000
Accrued Payroll	145,080	344,572
Accrued PTO	562,070	499,884
Current Portion of Long-Term Debt	18,709	68,256
Due to Other Corporations (Note 14 and 15)	<u>3,949,805</u>	<u>3,360,215</u>
Total Current Liabilities	<u>5,257,970</u>	<u>4,908,802</u>
Long-Term Debt		
	<u>5,403</u>	<u>24,110</u>
Net Assets		
Unrestricted	1,125,136	(820,950)
Invested in Capital Assets, Net of Related Debt	<u>2,743,135</u>	<u>2,762,812</u>
Total Net Assets	<u>3,868,271</u>	<u>1,941,862</u>
Total Liabilities and Net Assets	<u>\$ 9,131,644</u>	<u>\$ 6,874,774</u>

(3)

The accompanying notes are an integral part of these financial statements.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Statement of Revenues and Expenses  
and Changes in Net Assets  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Net Patient Service Revenue	\$ 12,856,126	\$ 10,937,848
Other Operating Revenue	<u>48,608</u>	<u>9,242</u>
Total Operating Revenue	<u>12,904,734</u>	<u>10,947,090</u>
Expenses		
Nursing Services	2,277,012	2,298,749
Other Professional Services	5,708,369	5,452,406
General Services	579,842	555,847
Administrative Services	3,461,871	2,990,835
Depreciation	<u>612,185</u>	<u>472,797</u>
Total Expenses	<u>12,639,279</u>	<u>11,770,634</u>
Net Income (Loss) from Operations	<u>265,455</u>	<u>(823,544)</u>
Non-Operating Income (Expenses)		
County Sales Tax	862,040	750,885
Donations and Grants	-	64,707
Interest Expense	(5,402)	-
Interest Income	2,352	-
E.M.S. Transfers	<u>168,834</u>	<u>156,249</u>
Total Non-Operating	<u>1,027,824</u>	<u>971,841</u>
Change in Net Assets Before Extraordinary Item	1,293,279	148,297
Adjustment of Amount Due Intercompany	<u>633,130</u>	<u>-</u>
Change in Net Assets	1,926,409	148,297
Net Assets, Beginning of Year	<u>1,941,862</u>	<u>1,793,565</u>
Net Assets, End of Year	<u>\$ 3,868,271</u>	<u>\$ 1,941,862</u>

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Statement of Cash Flows  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of Patients	\$ 10,758,562	\$ 10,323,241
Other Receipts and Payments	48,608	9,242
Payment to Suppliers and Contractors	(4,490,554)	(3,107,970)
Payments to Employees	(7,219,666)	(6,553,417)
Net Cash Provided By/(Used in) Operating Activities	<u>(903,050)</u>	<u>671,096</u>
Cash Flows from Non-Capital Financing Activities		
County Sales Tax Receipts	912,500	664,631
E.M.S. Transfers	168,834	156,249
Adjustment of Amount Due Intercompany	633,130	-
Net Cash Provided By Non-Capital Financing Activities	<u>1,714,464</u>	<u>820,880</u>
Capital and Related Financing Activities		
Purchase of Capital Assets	(592,507)	(1,542,246)
Donations for Capital Expenditures	-	64,707
Interest Expense	(5,402)	
Increase (decrease) in long term debt	(68,255)	(62,544)
Net Cash Provided (Used) in Investing Activities	<u>(666,164)</u>	<u>(1,540,083)</u>
INVESTING ACTIVITIES		
Interest Income	<u>2,352</u>	<u>-</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,352</u>	<u>-</u>
Net Increase(Decrease) in Cash and Equivalents	147,602	(48,107)
Cash – Beginning of Year	<u>1,653,883</u>	<u>1,701,990</u>
Cash – End of Year	<u>\$ 1,801,485</u>	<u>\$ 1,653,883</u>

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Statement of Cash Flows  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Operating Income/(Loss)	\$ 265,455	\$ (823,544)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided By Operating Activities:		
Depreciation	612,185	472,797
Changes in:		
Patient and Other Accounts Receivable	16,995	(614,607)
Estimated Third Party Payor Settlements	(2,114,559)	-
Supplies, Prepaid Expenses and Other Assets	(81,841)	(35,973)
Accounts Payable and Accrued Expenses	<u>398,715</u>	<u>1,672,423</u>
Net Cash Provided By/(Used in) Operating Activities	<u>\$ (903,050)</u>	<u>\$ 671,096</u>



**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2012 and 2011

**Note 1. Ownership**

Mercy Health/Love County Hospital is a twenty-five bed, short-term, acute care, critical access Hospital owned by Love County, Oklahoma, located in Marietta, Oklahoma. Management of the hospital is composed of a five member board of control appointed by the County Commissioners. The Hospital has entered into a Management Services Agreement with Mercy Memorial Health Center, Inc. Duration of the agreement is renewable annually.

**Note 2. Summary of Significant Accounting Policies**

**General Accounting Consideration** - Mercy Health/Love County Hospital provides short-term inpatient and outpatient healthcare. A large part of the Hospital services are for patients whose bills are paid in whole or in part by third-party payors, e.g., Medicare, Medicaid, and private insurance carriers. Record keeping, influenced by these third-party payors, requires a higher level of accountability including more financial and statistical information.

**Patient Accounts Receivable** - Patient service revenue is accounted for at established rates on the accrual basis. The Hospital provides allowances for doubtful receivables equal to the estimated collection losses that will be included in collection of all receivables. The estimated losses are based on historical collection experience coupled with review of the current status of the existing receivables. Preliminary calculations of revenue adjustments relative to third-party contractual agreements are included in the accompanying financial statements. Normal variances between these estimates and final settlements upon audit by third-party payors are included in the statement of revenues and expenses in the year in which the settlement occurs.

**Inventory** - Inventory is generally stated at cost on the first-in, first-out method.

**Property, Plant and Equipment** - Property, plant and equipment 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 related assets. The ranges of such useful lives are as follows:

Land Improvements	8-30 Years
Building	10-40 Years
Building Improvements	10-20 Years
Fixed Equipment	5-25 Years
Major Moveable Equipment	5-20 Years

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2012 and 2011

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

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting 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 Hospital's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. Under GASB Statement No. 34, the Hospital is required to present a statement of net assets classified between current and non-current assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and non-operating revenue and expenses and statement of cash flows using the direct methods.

Risk Management - The Hospital is exposed to various risk of loss from torts; theft of, damage to, 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 except certain natural disasters.

Income Taxes – The Hospital is exempt under Section 501 (A) of the Internal Revenue Code as an organization described under Section 501 (c) (3) of the code.

Cash Equivalents – The Hospital considers all liquid investments which have original maturities of six months or less to be cash equivalents.

Medical Malpractice Coverage and Claims - The Hospital pays fixed premiums for annual medical malpractice coverage under occurrence-basis policies. In general, the Hospital bears risks for any individual claims with costs exceeding \$1,000,000 and the excess, if any, over aggregate cost of \$3,000,000 for claims occurring during the policy year. The Hospital accrues the expense of its share of malpractice claim costs, if any, of 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 Hospital's own claims experience. No accrual for medical malpractice claims has been made in the accompanying financial statements.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2012 and 2011

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

Proprietary Fund Accounting – The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Charity Care – The hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates.

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.

Note 3. **Amounts Payable on Cost Reimbursement Programs**

The Hospital renders services to patients under contractual arrangements with the Medicare program. The program's administrative procedures preclude final determination of amounts due the Hospital for services to program patients until after the Hospital's cost reports are audited or otherwise reviewed and settled upon by the respective administrative agencies.

Note 4. **Compensated Absences**

The Hospital'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

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2012 and 2011

Note 5. **Capital Assets**

Capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

	2012				
	Beginning Balance	Additions	Transfers	Adjustments/ Retirements	Ending Balance
Land and Improvements	\$ 50,443	\$ 22,683	\$ -	\$ -	\$ 73,126
Building	2,211,730	38,190	-	-	2,249,920
Equipment (Fixed and Moveable)	4,061,442	527,087	-	-	4,588,529
Total Capital Assets	<u>6,323,615</u>	<u>587,960</u>	<u>-</u>	<u>-</u>	<u>6,911,575</u>
Less Accumulated Depreciation	<u>3,536,693</u>	<u>612,185</u>	<u>-</u>	<u>4,549</u>	<u>4,144,329</u>
Capital Assets - Net	<u>\$ 2,786,923</u>	<u>\$ (24,225)</u>	<u>\$ -</u>	<u>\$ 4,549</u>	<u>\$ 2,767,246</u>
	2011				
	Beginning Balance	Additions	Transfers	Adjustments/ Retirements	Ending Balance
Land	\$ 50,443	\$ -	\$ -	\$ -	\$ 50,443
Building	1,365,220	846,510	-	-	2,211,730
Equipment (Fixed and Moveable)	3,365,605	695,735	-	102	4,061,442
Total Capital Assets	<u>4,781,268</u>	<u>1,542,245</u>	<u>-</u>	<u>102</u>	<u>6,323,615</u>
Less Accumulated Depreciation	<u>3,063,793</u>	<u>472,797</u>	<u>-</u>	<u>(102)</u>	<u>3,536,692</u>
Capital Assets - Net	<u>\$ 1,717,475</u>	<u>\$ 1,069,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,786,923</u>

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**

Notes to the Financial Statements  
June 30, 2012 and 2011

**Note 6. Accounts Receivable - Patients**

	2012	2011
Gross Accounts Receivable	\$ 4,064,483	\$ 3,273,797
Less Allowances for Bad Debts	2,033,657	1,225,976
Net Accounts Receivable	\$ 2,030,826	\$ 2,047,821

The allowance for uncollectible accounts is based upon managements estimate.

**Note 7. Long-Term Debt**

A summary of long-term debt, including capital lease obligations as of June 30, 2012 and 2011 is as follows:

		2012					
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Leases Payable							
TLC Healthcare Finance	8.77%	2012	\$ 68,256	\$ -	\$ 44,144	\$ 24,112	\$ 24,112
			\$ 68,256	\$ -	\$ 44,144	\$ 24,112	\$ 24,112
		2011					
	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Leases Payable							
TLC Healthcare Finance	8.77%	2012	\$ 154,911	\$ -	\$ 62,544	\$ 92,367	\$ 68,256
			\$ 154,911	\$ -	\$ 62,544	\$ 92,367	\$ 68,256

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

	Principal	Interest	Total Payments
2013	24,112	442	24,554
	\$ 24,112	\$ 442	\$ 24,554

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**

Notes to the Financial Statements

June 30, 2012 and 2011

**Note 8. Cash and Deposits**

At June 30, 2012 and 2011, bank balances were as follows:

	2011
Insured (FDIC)	
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	500,000
Uninsured, uncollateralized or collateralized by securities held its trust department or agent in other than the Hospital's name	1,301,485
	-
Total	\$ 1,801,485
Carrying Value	\$ 1,801,485

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

The Hospital 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.

**Note 9. 403(b) Thrift Plan**

The Hospital adopted a Thrift Plan under Internal Revenue Code Section 403(b) for the benefit of its employees. The plan year end is June 30. The minimum employee contribution accepted in one percent of salary and the maximum is twenty-five percent of the employee's compensation for the limitation year. Employer contributions are made on behalf of each participant who has attained age 21 and completed one year of eligible service. The employer maximum contribution to the plan is five percent of total participants' compensation, with a cap on eligible compensation of \$120,000. Participants become fully vested in the plan after five years of service.

**Note 10. Contingencies**

During the normal course of business, the Hospital is involved in various claims and lawsuits. In the opinion of management, the potential loss on any claim and lawsuit, net of insurance proceeds, will not be significant to the Hospital's financial position or results of operations.

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2012 and 2011

**Note 11. Concentration of Credit Risk**

The Hospital operates in South Central Oklahoma, and grants credit without collateral to their patients, most of whom are local residents and are uninsured or under insured.

**Note 12. Fair Value of Financial Instruments**

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments at June 30, 2012 and 2011.

The carrying amounts reported in the balance sheet for cash, assets limited as to use, accounts payable and accrued expenses, and estimated amount due to/from Medicare approximate their fair value.

**Note 13. Net Patient Service Revenues**

Net Patient Service Revenues for the year ended June 30, 2011 is computed as follows:

	2012	2011
Gross Patient Service Revenues	\$ 17,007,749	\$ 18,463,319
Less:		
Bad Debt	1,200,706	1,961,412
Charity	264,889	147,801
Administration and Other	1,949,399	1,214,382
Medicaid Adjustment	1,121,605	864,672
Medicare Adjustment	(384,976)	3,337,204
Net Patient Service Revenue	\$ 12,856,126	\$ 10,937,848

**LOVE COUNTY HEALTH CENTER dba**  
**MERCY HEALTH LOVE COUNTY**  
Notes to the Financial Statements  
June 30, 2012 and 2011

Note 14. **Management Agreement**

The Hospital is currently managed by Mercy Memorial Health Center, Inc., an Oklahoma not-for profit corporation. The management agreement is renewed annually on July 1 for the succeeding 12 month period. The management agreement was renewed July 1, 2012 through June 30, 2013. See Note 16.

Note 15. **Due to Other Corporations**

This full amount (\$3,949,805) is payable to Mercy Memorial Health Center, Inc., the same corporation that currently manages the hospital. See also Note 14.



**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Net Patient Service Revenue  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Medical and Surgical	\$ 2,398,699	\$ 4,473,047
Observation Room	27,032	47,838
Central Service and Supply	585,436	418,511
Emergency Room	1,391,651	1,667,670
Laboratory	3,052,972	2,387,551
Radiology and E.K.G.	2,209,745	1,954,770
Pharmacy and I.V.'s	1,754,875	1,886,101
Inhalation Therapy	552,222	657,116
Physical Therapy	291,681	258,467
Speech Therapy	6,321	10,359
Occupational Therapy	145,101	143,984
Rural Health Clinic	1,945,738	2,177,440
Brigade Service	1,147,953	1,076,556
Emergency Medical Service	<u>1,498,323</u>	<u>1,303,909</u>
 Total Patient Service Revenue	 17,007,749	 18,463,319
 Less Contractual Adjustments and Bad Debts		
Charity	264,889	147,801
Welfare	1,121,605	864,672
Medicare (Includes DRG Excess)	(384,976)	3,337,204
Bad Debts	1,200,706	1,961,412
Other Adjustments	<u>1,949,399</u>	<u>1,214,382</u>
 Net Patient Service Revenue	 <u>\$ 12,856,126</u>	 <u>\$ 10,937,848</u>

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Other Revenue  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Miscellaneous	\$ <u>48,608</u>	\$ <u>9,242</u>
Total Other Operating Revenue	\$ <u>48,608</u>	\$ <u>9,242</u>

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**

## Expenses

Years Ended June 30, 2012 and 2011

	2012		Total
	Salaries and Wages	Supplies and Other Expenses	
<b>Nursing Services</b>			
Medical and Surgical	\$ 1,441,636	\$ 229,230	\$ 1,670,866
Emergency Room	506,964	99,182	606,146
<b>Total Nursing Services</b>	<b>\$ 1,948,600</b>	<b>\$ 328,412</b>	<b>\$ 2,277,012</b>
<b>Other Professional Services</b>			
Laboratory	\$ 329,183	\$ 299,365	\$ 628,548
Radiology and EKG	205,732	107,635	313,367
Pharmacy and I.V.'s	25,966	224,313	250,279
Medical Supplies	29,576	37,280	66,856
Respiratory Therapy	214,881	25,167	240,048
Therapy Services	-	280,975	280,975
Rural Health Clinic	1,550,361	205,023	1,755,384
Emergency Medical Service	1,421,342	130,646	1,551,988
Brigade Service	533,276	87,648	620,924
<b>Total Professional Care Expense</b>	<b>\$ 4,310,317</b>	<b>\$ 1,398,052</b>	<b>\$ 5,708,369</b>
<b>General Services</b>			
Operation and Maintenance	\$ -	\$ 212,734	\$ 212,734
Medical Records	102,858	14,302	117,160
Dietary	63,164	56,840	120,004
Housekeeping and Laundry	85,995	43,949	129,944
<b>Total General Services</b>	<b>\$ 252,017</b>	<b>\$ 327,825</b>	<b>\$ 579,842</b>
<b>Administrative Services</b>			
Administration and Office	\$ 571,426	\$ 1,224,439	\$ 1,795,865
Employees Benefits	-	1,666,006	1,666,006
<b>Total Administrative Services</b>	<b>\$ 571,426</b>	<b>\$ 2,890,445</b>	<b>\$ 3,461,871</b>

2011		
Salaries and Wages	Supplies and Other Expenses	Total
\$ 1,307,320	\$ 356,291	\$ 1,663,611
519,916	115,222	635,138
<u>\$ 1,827,236</u>	<u>\$ 471,513</u>	<u>\$ 2,298,749</u>
\$ 346,775	\$ 291,655	638,430
201,888	121,262	323,150
886	266,549	267,435
29,212	33,639	62,851
199,289	23,174	222,463
-	235,623	235,623
1,492,715	184,172	1,676,887
1,247,168	126,689	1,373,857
555,611	96,099	\$ 651,710
<u>\$ 4,073,544</u>	<u>\$ 1,378,862</u>	<u>\$ 5,452,406</u>
144	200,419	200,563
113,089	8,026	121,115
\$ 47,190	\$ 53,526	\$ 100,716
83,671	49,782	133,453
<u>\$ 244,094</u>	<u>\$ 311,753</u>	<u>\$ 555,847</u>
\$ 494,112	\$ 997,650	\$ 1,491,762
-	1,499,073	1,499,073
<u>\$ 494,112</u>	<u>\$ 2,496,723</u>	<u>\$ 2,990,835</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  
Love County Health Center dba  
Mercy Health Love County  
Marietta, Oklahoma

We have audited the financial statements of Mercy Health Love County as of and for the year ended June 30, 2012, and have issued our report thereon dated September 26, 2012. The Independent Auditors' Report contains an explanatory paragraph as to the omission of the management discussion and analysis section of the financial statements. 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 Mercy Health Love County'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 Mercy Health Love County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of organization'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. We consider the deficiencies described in the accompanying schedule of findings to be a material weakness.

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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness 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 a material weakness.

The Board of Trustees  
Love County Health Center dba  
Mercy Health Love County  
Marietta, Oklahoma  
Page 2

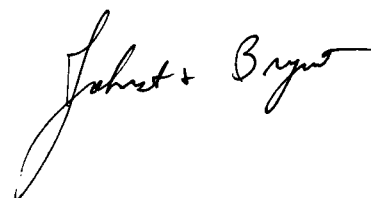
**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether Mercy Health Love County'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.

Mercy Health Love County's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Mercy Health Love County's response and, accordingly, we express no opinion on it.

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

September 26, 2012

A handwritten signature in black ink, appearing to read "Robert + Bryan". The signature is written in a cursive style with a large, looping initial "R" and "B".

**LOVE COUNTY HEALTH CENTER dba  
MERCY HEALTH LOVE COUNTY**  
Schedule of Findings  
Year Ended June 30, 2012

2012-1

**Criteria:** In order to present materially correct financial statements for use by management for decision making, the general ledger accounts should be properly reconciled on a monthly basis.

**Condition:** The cash accounts on the general were not reconciled to the supporting bank statements on a monthly basis.

**Cause:** Management was unaware the bank accounts were not being properly reconciled by the responsible management company personnel on a monthly basis.

**Effect or Potential Effect:** One cash account was understated by \$760,543 and another cash account was overstated \$330,502. Net effect resulted in an understatement of cash by \$430,431.

**Recommendation:** The management company should provide monthly reconciliations of all bank accounts to the hospital and hospital personnel should review and agree the reconciliations to their records.

**Responsible Official's Response:** Management of the hospital has identified the problem and taken proper steps to insure all bank accounts to be reconciled monthly to the general ledger and hospital personnel are to agree to the reconciliations.