



Management's Discussion and Analysis and
Financial Statements
June 30, 2012 and 2011

Perry Memorial Hospital Authority and Controlled Entity

Perry Memorial Hospital Authority

Table of Contents

June 30, 2012 and 2011

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	2
Financial Statements	
Balance Sheets	6
Revenues, Expenses and Changes in Net Assets	7
Cash Flows.....	8
Notes to Financial Statements.....	10
Independent Auditor's Report on Supplementary Information.....	23
Supplementary Information	
Schedules of Net Patient Service Revenue	24
Schedules of Other Operating Revenue	25
Schedules of Operating Expenses	26
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27
Schedule of Findings and Responses	29



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Stockholders and Board of Directors
Perry Memorial Hospital Authority
Perry, Oklahoma

We have audited the accompanying balance sheets of Perry Memorial Hospital Authority (Authority) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perry Memorial Hospital Authority as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012, on our consideration of Perry Memorial Hospital Authority and Controlled Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management's discussion and analysis on pages 2 through 5 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.

Oklahoma City, Oklahoma
October 29, 2012

Introduction

Our discussion and analysis for Perry Memorial Hospital Authority and Controlled Entity (the Authority) provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments increase in 2012 by \$327,766 or 5% and decreased by \$172,223 or 3% in 2011.
- The Authority's net assets increased in 2012 by \$1,051,074 or 8% and decreased \$256,811 or 2% in 2011.
- The Authority reported operating income in 2012 of \$818,394 and a loss of \$344,135 in 2011. During 2012, operating income increased by \$1,162,529 or 338% compared to 2011 and increased by \$294,563 or 46% in 2011 compared to 2010.
- Net nonoperating income increased by \$42,291 or 48% in 2012 compared to 2011 and decreased \$45,920 or 34% in 2011 compared to 2010.

Using This Annual Report

The Authority's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

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

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

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

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net assets increased in the past year by \$1,051,074 or 8% in 2012 and decreased \$256,811, or 2% in 2011 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2012	2011	2010
Assets			
Current assets	\$ 5,937,769	\$ 7,702,806	\$ 7,978,098
Capital assets, net	6,057,235	5,745,303	5,814,378
Noncurrent assets	2,599,375	69,961	61,706
Total assets	\$ 14,594,379	\$ 13,518,070	\$ 13,854,182
Liabilities			
Current	\$ 1,043,111	\$ 945,967	\$ 958,091
Long term debt	120,214	192,123	259,300
Total liabilities	1,163,325	1,138,090	1,217,391
Net assets			
Invested in capital assets, net of related debt	5,865,112	5,486,002	5,492,320
Unrestricted	7,515,936	6,842,552	7,094,198
Restricted			
Expendable	41	3,104	1,951
Nonexpendable	49,965	48,322	48,322
Total net assets	13,431,054	12,379,980	12,636,791
Total liabilities and net assets	\$ 14,594,379	\$ 13,518,070	\$ 13,854,182

The Authority's assets increased by \$1,076,309 or 8% in 2012 and decreased by \$336,112 or 2% in 2011. The increase in 2012 can be attributed to the Authority meeting the requirements of electronic health records and receiving approximately \$1,600,000 from government incentives. The Authority's liabilities increased by \$25,235 or 2% in 2012 and decreased by \$79,301 or 7% in 2011.

Table 2: Operating Results and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Net patient service revenue	\$ 8,141,674	\$ 7,693,718	\$ 7,164,583
Provision for bad debts	(901,573)	(876,162)	(708,738)
Net patient service revenue less provision for bad debts	7,240,101	6,817,556	6,455,845
Other revenues	1,784,000	142,327	192,441
Total operating revenues	<u>9,024,101</u>	<u>6,959,883</u>	<u>6,648,286</u>
Operating Expenses			
Nursing services	2,553,528	2,238,799	2,302,437
Other professional services	1,772,340	1,665,241	1,524,143
General services	900,541	841,516	774,310
Administrative services	2,325,306	2,019,910	2,188,147
Medical office building	22,025	23,486	24,924
Depreciation	631,967	515,066	473,023
Total operating expenses	<u>8,205,707</u>	<u>7,304,018</u>	<u>7,286,984</u>
Operating loss	<u>818,394</u>	<u>(344,135)</u>	<u>(638,698)</u>
Nonoperating Revenues (Expenses)			
Investment income	78,937	91,811	131,812
Interest expense	(15,816)	(20,042)	(10,698)
Noncapital grants and contributions	57,023	15,555	15,714
Gain (Loss) on sale of assets	9,461	-	(3,584)
Total nonoperating revenues	<u>129,605</u>	<u>87,324</u>	<u>133,244</u>
Revenues in Excess of (Less Than) Expenses before capital grants, contributions and restricted contributions	947,999	(256,811)	(505,454)
Capital grants and contributions	101,432	-	156,202
Restricted contributions	1,643	-	54
Change in Net Assets	<u>\$ 1,051,074</u>	<u>\$ (256,811)</u>	<u>\$ (349,198)</u>

Operating Income

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

The operating income for 2012 increased by \$1,162,529 or 338% as compared to 2011 and increased in 2011 by \$294,563 or 46% compared to 2010. The primary components of the increased operating income are:

- An increase in patient revenue, net of uncollectible accounts, of \$422,545, or 6% as compared to a decrease in 2011 of \$361,711 or 6% as compared to 2010.
- An increase in other revenue of \$1,641,673, or 1,153% as compared to a decrease in 2011 of \$50,114 or 26% as compared to 2010. This is caused by a decrease in investments and a decrease in interest rates. In 2012, the Authority met the requirements of electronic health records and received approximately \$1,600,000 from government incentives.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest expense, investment earnings, noncapital grants and contributions and intergovernmental transfers. The investment income decreased in 2012 by \$12,874 or 14% and decreased \$40,001 or 30% in 2011. The noncapital grants and contributions increased in 2012 by \$41,468 or 267% and decreased \$159 or 1% in 2011.

The Authority's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2012 and 2011, the Authority had \$6,057,235 and \$5,745,303, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012, the Authority purchased new capital assets costing \$949,588 and \$445,991 in 2011.

Debt

At June 30, 2012 and 2011, the Authority had \$192,123 and \$259,301, respectively, in capital lease obligations outstanding as detailed in note 6.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-336-3541.

(This page left blank intentionally.)

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,301,563	\$ 899,464
Short-term investments	3,091,047	5,683,803
Accounts receivables		
Patients, net of estimated uncollectibles of approximately \$919,000 in 2012 and \$695,000 in 2011	1,296,707	887,920
Other	2,873	50
Accrued interest receivable	2,952	3,348
Supplies	192,900	184,222
Prepays	49,727	43,999
	<u>5,937,769</u>	<u>7,702,806</u>
Total current assets		
Capital Assets		
Land	264,619	264,619
Construction in progress	239,429	153,385
Depreciable capital assets, net of accumulated depreciation	5,553,187	5,327,299
	<u>6,057,235</u>	<u>5,745,303</u>
Total capital assets		
Other Assets		
Deposits	19,000	19,000
Noncurrent investments	2,569,384	50,961
Notes receivables	10,991	-
	<u>2,599,375</u>	<u>69,961</u>
Total other assets		
	<u>\$ 14,594,379</u>	<u>\$ 13,518,070</u>
Total assets		

See Notes to Financial Statements

Perry Memorial Hospital Authority
Balance Sheets
Years Ended June 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 71,909	\$ 67,178
Accounts payable		
Trade	177,531	89,011
Construction	146,485	153,385
Accrued liabilities	297,186	236,393
Estimated third-party settlements	350,000	400,000
	1,043,111	945,967
Long-Term Debt, Net of Current Portion	120,214	192,123
Total liabilities	1,163,325	1,138,090
Net Assets		
Invested in capital assets net of related debt	5,865,112	5,486,002
Restricted		
Expendable for employee scholarships	41	3,104
Nonexpendable permanent endowments	49,965	48,322
Unrestricted	7,515,936	6,842,552
	13,431,054	12,379,980
Total liabilities and net assets	\$ 14,594,379	\$ 13,518,070

Perry Memorial Hospital Authority
 Statements of Revenues, Expenses and Changes in Net Assets
 Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue	\$ 8,141,674	\$ 7,693,718
Provision for bad debts	(901,573)	(876,162)
	7,240,101	6,817,556
Net patient service revenue less provision for bad debts		
Other revenues	1,784,000	142,327
	9,024,101	6,959,883
Total operating revenues		
Operating Expenses		
Nursing services	2,553,528	2,238,799
Other professional services	1,772,340	1,665,241
General services	900,541	841,516
Administrative services	2,325,306	2,019,910
Medical office building	22,025	23,486
Depreciation	631,967	515,066
	8,205,707	7,304,018
Total operating expenses		
Operating Income (Loss)	818,394	(344,135)
Nonoperating Revenues (Expenses)		
Investment income	78,937	91,811
Interest expense	(15,816)	(20,042)
Noncapital grants and contributions	57,023	15,555
Gain on sale of assets	9,461	-
	129,605	87,324
Total nonoperating revenues		
Revenues in Excess of (Less Than) Expenses before Capital Grants, Contributions, and Restricted Contributions	947,999	(256,811)
Capital Grants and Contributions	101,432	-
Restricted Contributions		
Additions to permanent endowments	1,643	-
	1,051,074	(256,811)
Change in Net Assets		
Net Assets, Beginning of the Year	12,379,980	12,636,791
Net Assets, End of Year	\$ 13,431,054	\$ 12,379,980

Perry Memorial Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 6,781,314	\$ 6,991,486
Other receipts and payments, net	1,781,177	165,860
Payments to suppliers and contractors	(3,928,500)	(3,637,383)
Payments to employees	(3,521,517)	(3,425,298)
	1,112,474	94,665
Net Cash Provided by Operating Activities		
Noncapital Financing Activities		
Noncapital grants and contributions	57,023	15,555
Permanently restricted contributions	1,643	-
	58,666	15,555
Net Cash Provided by Noncapital Financing Activities		
Capital and Capital Related Financing Activities		
Purchase of property and equipment	(942,238)	(292,606)
Principal paid on long-term debt	(67,178)	(62,757)
Interest paid	(15,623)	(20,042)
Net proceeds from contributions restricted for specific expenditures	101,432	-
	(922,707)	(375,405)
Net Cash Used for Capital and Capital Related Financing Activities		
Investing Activities		
Purchases of certificates of deposit	(5,704,618)	(5,787,182)
Sales of certificates of deposit	5,778,951	5,695,453
Investment income	79,333	92,962
	153,666	1,233
Net Cash Provided by Investing Activities		
Increase (Decrease) in Cash and Cash Equivalents	402,099	(263,952)
Cash and Cash Equivalents, Beginning of Year	899,464	1,163,416
Cash and Cash Equivalents, End of Year	\$ 1,301,563	\$ 899,464

Perry Memorial Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Net Income to Net Cash		
Provided by (used for) Operating Activities		
Operating income (loss)	\$ 818,394	\$ (344,135)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	631,967	515,066
Provision for bad debt	901,573	876,162
Changes in assets and liabilities		
Accounts receivable	(1,313,183)	(780,138)
Supplies	(8,678)	(5,201)
Prepays	(5,728)	21,840
Deposits	-	(19,000)
Other assets	(10,991)	-
Accounts payable	88,327	(194,555)
Accrued liabilities	60,793	(76,813)
Estimated third-party settlement	(50,000)	101,439
	<u>\$ 1,112,474</u>	<u>\$ 94,665</u>
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Accounts payable for construction	<u>\$ 146,485</u>	<u>\$ 153,385</u>

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

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

The accompanying financial statements include the accounts of Perry Memorial Hospital Authority and its controlled entity, Perry Memorial Hospital Foundation. All material inter-company accounts and transactions have been combined.

Accounting Standards

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Authority 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 intent of an enterprise fund is to finance or recover, primarily through user charges, the costs (expenses, including depreciation) of providing goods and services to its users. An enterprise fund prepares operating statements using as its measurement focus the flow of economic resources. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Balances classified as operating revenues and expenses are those that comprise the Authority's principal ongoing operations. Since the Authority's operations are similar to those of any health care provider, most revenues and expenses are considered operating.

Cash and Cash Equivalents

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

Short-term Investments

Short-term investments include certificates of deposit with an original maturity of three to twelve months.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

Notes Receivable

The Authority issued a note to a medical student as part of its recruitment process. The note is repayable over a four-year period and is issued at an interest rate of prime plus one percent (4.25%). The note is issued with forgiveness provisions over the life of the note to encourage retention. Based on historical analysis, it is anticipated that the balance of the note will be forgiven.

At June 30, 2012, the note receivable from a medical student totaled \$10,991.

Supplies

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

Capital Assets

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

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

Capital assets donated for the Authority's operations are recorded as additions to net assets at fair value at the date of receipt. Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire long-lived assets are reported as capital grants and contributions.

Investments and Investment Income

Investments consist of certificates of deposit and are measured at fair value in the balance sheet. Investment income is included in revenues in excess of (less than) expenses before capital grants, contributions, and restricted contributions unless the income or loss is restricted by donor or law.

Income Taxes

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

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

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. The Foundation's filings are no longer subject to Federal and state tax examinations by tax authorities for years before 2008.

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the 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.

Net Assets

Net assets in the Authority are classified in the following three components:

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

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

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

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

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates, 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.

Operating Revenues and Expenses

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

Revenues in Excess of (Less Than) Expenses

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

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were \$111,750 and \$76,792 for the years ended June 30, 2012 and 2011. Total direct and indirect costs related to these foregone charges were approximately \$36,000 and \$34,000 at June 30, 2012 and 2011, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred \$23,629 and \$9,149 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments will be paid out over four years on a transitional schedule. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicare share; and (3) a transition factor applicable to that payment year.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

Supplemental Hospital Offset Payment Program Act

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

The Authority records payments to other expenses and receipts as reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Grants and Contributions

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

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.

Reclassifications

Reclassifications have been made to the June 30, 2011 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 - Deposits

State statutes require public trusts to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following is a summary of deposits and investments at June 30, 2012 and 2011:

	2012	2011
Total Bank Balance		
Insured (FDIC)	\$ 772,303	\$ 784,710
Collateralized with securities held by the Authority's agent in the Authority's name	6,206,697	5,896,513
	\$ 6,979,000	\$ 6,681,223
 Total Carrying Value		
Cash and cash equivalents	\$ 1,301,563	\$ 899,464
Short-term investments	3,091,047	5,683,803
Noncurrent investments	2,569,384	50,961
	\$ 6,961,994	\$ 6,583,267

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

The Authority secures cash deposits in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2012 and 2011, the carrying amounts of the Authority's deposits were \$6,961,994 and \$6,583,267 and the bank balances were \$6,979,000 and \$6,681,223 respectively. The Authority's cash balances are maintained in various bank deposit accounts.

Note 3 - Net Patient Service Revenue

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

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedures. Home health services are paid based on a prospectively determined amount per 60 day episode. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2010.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 48% and 4% of the Authority's net patient service revenue for the year ended June 30, 2012 and 53% and 3% for the year ended June 30, 2011. 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 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 Authority may incur a liability for a claims overpayment at a future date. The Authority has accrued \$50,000 for RAC liability for the year ending June 30, 2012. The estimate is based on historical payments paid back for overpayments.

A summary of net patient service revenue for the years ended June 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Total patient service revenue	<u>\$ 17,117,941</u>	<u>\$ 14,100,427</u>
Contractual adjustments		
Medicare	6,715,949	4,716,889
Medicaid	752,277	581,077
Blue Cross and other adjustments	1,447,832	1,071,559
Employee and administrative discounts	<u>60,209</u>	<u>37,184</u>
Total reductions from revenue	<u>8,976,267</u>	<u>6,406,709</u>
Net patient service revenue	<u>\$ 8,141,674</u>	<u>\$ 7,693,718</u>

Note 4 - Investment and Investment Income

Short-term Investments

Short-term investments include investments with an original maturity date between three and twelve months. Short-term investments are stated at fair value and include the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Certificates of deposits	<u>\$ 3,091,047</u>	<u>\$ 5,683,803</u>

Long-term Investments

Long-term investments include the following at June 30, 2012 and 2011:

	2012	2011
Certificates of deposits	\$ 2,569,384	\$ 50,961

Investment Income

Investment income on cash and other investments consists of the following for the years ended June 30, 2012 and 2011:

	2012	2011
Interest income	\$ 78,937	\$ 91,811

Note 5 - Capital Assets

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

	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Non-depreciable capital assets					
Land	\$ 264,619	\$ -	\$ -	\$ -	\$ 264,619
Construction in progress	153,385	239,429	-	(153,385)	239,429
Total non-depreciable capital assets	\$ 418,004	\$ 239,429	\$ -	\$ (153,385)	\$ 504,048
Depreciable capital assets					
Land improvements	\$ 139,958	\$ 5,960	\$ -	\$ -	\$ 145,918
Building and fixed equipment	4,513,203	-	-	-	4,513,203
Building improvement	3,959,811	37,162	-	-	3,996,973
Major moveable equipment	3,036,864	667,037	141,413	153,385	3,715,873
Equipment under capital lease obligation	350,000	-	-	-	350,000
Total depreciable capital assets	11,999,836	710,159	141,413	153,385	12,721,967
Less accumulated depreciation					
Land improvements	96,188	7,716	-	-	103,904
Building and building improvements	4,066,744	248,282	-	-	4,315,026
Major moveable equipment	2,404,605	305,969	135,724	-	2,574,850
Capital leased equipment	105,000	70,000	-	-	175,000
Total accumulated depreciation	6,672,537	631,967	135,724	-	7,168,780
Depreciable capital assets, net	5,327,299	78,192	5,689	153,385	5,553,187
Capital assets, net	\$ 5,745,303	\$ 317,621	\$ 5,689	\$ -	\$ 6,057,235

Perry Memorial Hospital Authority
Notes to Financial Statements
Years Ended June 30, 2012 and 2011

Construction in progress at June 30, 2012, represents the remodel project. The estimated cost to complete this project is approximately \$1.6 million, with construction commitments of \$146,485 as of June 30, 2012, which will be financed with Authority funds.

	Balance June 30, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Non-depreciable capital assets					
Land	\$ 264,619	\$ -	\$ -	\$ -	\$ 264,619
Construction in progress	-	153,385	-	-	153,385
Total non-depreciable capital assets	\$ 264,619	\$ 153,385	\$ -	\$ -	\$ 418,004
Depreciable capital assets					
Land improvements	\$ 139,958	\$ -	\$ -	\$ -	\$ 139,958
Building and fixed equipment	4,513,203	-	-	-	4,513,203
Building improvement	3,925,011	34,800	-	-	3,959,811
Major moveable equipment	2,787,332	257,806	8,274	-	3,036,864
Equipment under capital lease obligation	350,000	-	-	-	350,000
Total depreciable capital assets	11,715,504	292,606	8,274	-	11,999,836
Less accumulated depreciation					
Land improvements	88,571	7,617	-	-	96,188
Building and building improvements	3,815,114	251,630	-	-	4,066,744
Major moveable equipment	2,227,060	185,819	8,274	-	2,404,605
Capital leased equipment	35,000	70,000	-	-	105,000
Total accumulated depreciation	6,165,745	515,066	8,274	-	6,672,537
Depreciable capital assets, net	5,549,759	(222,460)	-	-	5,327,299
Capital assets, net	\$ 5,814,378	\$ (69,075)	\$ -	\$ -	\$ 5,745,303

Note 6 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and other as operating leases. Total lease expense in June 30, 2012 and 2011 for all operating leases was approximately \$71,000 and \$61,000. The capitalized leases assets consist of:

	2012	2011
Major movable equipment	\$ 350,000	\$ 350,000
Less accumulated amortization	(175,000)	(105,000)
	\$ 175,000	\$ 245,000

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

Year Ending June 30,	Capital Leases	Operating Leases
2013	\$ 82,800	\$ 60,753
2014	82,800	60,297
2015	44,160	45,565
Total minimum lease payables	209,760	\$ 166,615
Less interest	(17,637)	
Present value of minimum lease payments - Note 6	\$ 192,123	

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the years ended June 30, 2012 and 2011 follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Capital lease obligations	\$ 259,301	\$ -	\$ 67,178	\$ 192,123	\$ 71,909
	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Capital lease obligations	\$ 322,058	\$ -	\$ 62,757	\$ 259,301	\$ 67,178

The terms and due dates of the Authority's long-term debt, capital leases obligations, at June 30, 2012 and 2011, follow:

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

Scheduled principal and interest repayments on capital lease obligations are as follows:

Year Ending June 30,	Capital Leases
2013	82,800
2014	82,800
2015	44,160
Total minimum lease payables	209,760
Less interest	(17,637)
	\$ 192,123

The Authority has a line of credit established with a bank of \$119,414 maturing March of 2014. The balance on the line of credit is \$0 for the years ended June 30, 2012 and 2011, respectively.

Note 8 - Endowments and Restricted Net Assets

Restricted expendable net assets are available for the following purposes at June 30, 2012 and 2011:

	2012	2011
Health Care Services		
Employee Scholarships	\$ 41	\$ 3,104

Restricted nonexpendable net assets at June 30, 2012 and 2011, represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investments earnings from the Authority's permanent endowments are expendable to support the following purposes, as established by the contributor:

	2012	2011
Health Care Services		
Employee Scholarships	\$ 49,965	\$ 48,322

Note 9 - Defined Contribution Pension Plan

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

Covered employees (those employees who have attained the age of 21 and have worked 1,248 hours) are required by the Plan to contribute 1 percent of their eligible compensation. After one year of employment, the employer will match employee contributions up to 2 percent of the employees' eligible compensation. The contributions for the period ended June 30, 2012, were \$122,780, which consisted of \$39,126 from the employer and \$83,654 from employees. The contributions for the period ended June 30, 2011, were \$115,827, which consisted of \$31,079 from the employer and \$84,748 from employees. Benefits begin to vest after three years of service, with full vesting after seven years of service.

Note 10 - Related Party Transactions

The Authority Board of Trustees has a management agreement with Quorum Health Resources, LLC. This agreement is a defined service agreement for managing the day-to-day operations of the Authority through June 30, 2018. During the years ended June 30, 2012 and 2011, the Authority incurred fees to Quorum Health Resources, LLC for management services of \$483,921 and \$476,082, respectively.

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

Note 11 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2012 and 2011, was as follows:

	2012	2011
Medicare and Medicaid	35%	45%
Self pay	35%	35%
Other	30%	20%
	100%	100%

Note 12 - Contingencies

Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 million per claim and an annual aggregate limit of \$3,000,000 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims cost, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual had been made. It is reasonably possible that this estimate could change materially in the near term.

Litigations, Claims, and Disputes

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 13 - Supplemental Hospital Offset Payment Program Act

The Authority made SHOPP payments totaling \$146,732, for the period between July 2011 and June 2012. In return, the Authority received \$102,102. During 2012, the Authority received funds from the Oklahoma Hospital Association totaling \$44,630, included as other revenue.

Note 14 - Electronic Health Record Incentive Payments

The Authority recognized revenue of \$1,600,400 for the years ended June 30, 2012 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

Note 15 - Subsequent Events

Management has evaluated subsequent events and transactions occurring subsequent to June 30, 2012 through October 29, 2012, the date which the financial statement were available to be issued. During this period, there were no subsequent events requiring recognition in the financial statements. Additionally there were no nonrecognized subsequent events requiring disclosure.



Supplementary Information
June 30, 2012 and 2011

Perry Memorial Hospital Authority and Controlled Entity



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Perry Memorial Hospital Authority
Perry, Oklahoma

We have audited the financial statements of Perry Memorial Hospital Authority (Authority) as of and for the years ended June 30, 2012 and 2011, and our report thereon dated October 29, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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
October 29, 2012

Perry Memorial Hospital Authority
Schedules of Net Patient Service Revenue
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Daily Patient Services		
Medical and surgical	\$ 1,171,547	\$ 1,149,144
Swing bed	799,846	605,845
	<u>1,971,393</u>	<u>1,754,989</u>
Other Nursing Services		
Central service supplies	447,086	621,046
Emergency services	2,633,719	1,998,801
Home health	590,857	562,351
Operating and recovery rooms	372,481	342,015
	<u>4,044,143</u>	<u>3,524,213</u>
Other Professional Services		
Industrial service	42,297	21,085
Inhalation therapy	813,733	721,683
Laboratory	3,632,909	3,048,505
Pharmacy	1,804,863	1,402,488
Physical therapy	890,813	707,781
Physician practice	122,852	54,093
Radiology	3,906,688	2,942,382
	<u>11,214,155</u>	<u>8,898,017</u>
Charity Care	<u>(111,750)</u>	<u>(76,792)</u>
Total patient service revenue	<u>17,117,941</u>	<u>14,100,427</u>
Reductions from Revenue		
Contractual adjustments		
Medicare	6,715,949	4,716,889
Medicaid	752,277	581,077
Blue Cross and other adjustments	1,447,832	1,071,559
Employee and administrative discounts	60,209	37,184
Total reductions from revenue	<u>8,976,267</u>	<u>6,406,709</u>
Net Patient Service Revenue	<u>\$ 8,141,674</u>	<u>\$ 7,693,718</u>

Perry Memorial Hospital Authority
Schedules of Other Operating Revenue
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Other Revenue		
Cafeteria	\$ 25,188	\$ 23,898
Medical records fee	1,280	893
Government incentive for electronic health records	1,600,400	-
Supplemental Hospital Offset Payment Program Act	44,630	-
Rental income - Hospital annex	20,400	20,000
Rental income - Medical office building	64,152	65,992
Rental income - Specialty clinic	11,460	10,610
Supplies sold	2,196	2,594
Miscellaneous	14,294	18,340
	<u>1,784,000</u>	<u>142,327</u>
Total Other Revenue	<u>\$ 1,784,000</u>	<u>\$ 142,327</u>

(This page left blank intentionally.)

	2012		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 938,615	\$ 89,997	\$ 1,028,612
Central services and supply	52,274	71,970	124,244
Emergency services	304,013	762,045	1,066,058
Home health	168,210	23,606	191,816
Operating and recovery rooms	69,162	73,636	142,798
	<u>\$ 1,532,274</u>	<u>\$ 1,021,254</u>	<u>\$ 2,553,528</u>
Other Professional Services			
Industrial services	\$ 363	\$ 5,117	\$ 5,480
Inhalation therapy	34,077	21,766	55,843
Laboratory	296,252	330,778	627,030
Pharmacy	36,202	220,507	256,709
Physical therapy	171,609	26,804	198,413
Physician practice	102,860	37,886	140,746
Radiology	216,757	245,786	462,543
Specialty clinic	22,961	2,615	25,576
	<u>\$ 881,081</u>	<u>\$ 891,259</u>	<u>\$ 1,772,340</u>
General Services			
Dietary	\$ 91,731	\$ 78,042	\$ 169,773
Housekeeping	101,956	22,187	124,143
Laundry and linen	-	45,846	45,846
Medical records	195,539	75,917	271,456
Plant operations	56,691	232,632	289,323
	<u>\$ 445,917</u>	<u>\$ 454,624</u>	<u>\$ 900,541</u>
Administrative Services			
Administrative and office	\$ 715,621	\$ 709,329	\$ 1,424,950
Employee benefits	-	750,330	750,330
Insurance	-	150,026	150,026
	<u>\$ 715,621</u>	<u>\$ 1,609,685</u>	<u>\$ 2,325,306</u>
Medical Office Building	<u>\$ 7,417</u>	<u>\$ 14,608</u>	<u>\$ 22,025</u>
Depreciation	<u>\$ -</u>	<u>\$ 631,967</u>	<u>\$ 631,967</u>

Perry Memorial Hospital Authority
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

2011		
Salaries	Other	Total
\$ 868,958	\$ 35,071	\$ 904,029
48,483	79,796	128,279
309,187	590,392	899,579
145,169	18,987	164,156
77,331	65,425	142,756
<u>\$ 1,449,128</u>	<u>\$ 789,671</u>	<u>\$ 2,238,799</u>
\$ 152	\$ 4,051	\$ 4,203
32,184	22,416	54,600
285,519	329,382	614,901
30,011	204,794	234,805
174,100	5,863	179,963
113,747	36,638	150,385
175,271	227,828	403,099
21,007	2,278	23,285
<u>\$ 831,991</u>	<u>\$ 833,250</u>	<u>\$ 1,665,241</u>
\$ 77,326	\$ 73,642	\$ 150,968
98,371	20,925	119,296
-	43,599	43,599
186,356	73,481	259,837
51,185	216,631	267,816
<u>\$ 413,238</u>	<u>\$ 428,278</u>	<u>\$ 841,516</u>
\$ 647,544	\$ 482,018	\$ 1,129,562
-	730,691	730,691
-	159,657	159,657
<u>\$ 647,544</u>	<u>\$ 1,372,366</u>	<u>\$ 2,019,910</u>
<u>\$ 6,584</u>	<u>\$ 16,902</u>	<u>\$ 23,486</u>
<u>\$ -</u>	<u>\$ 515,066</u>	<u>\$ 515,066</u>



CPAs & BUSINESS ADVISORS

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
Perry Memorial Hospital Authority
Perry, Oklahoma

We have audited the accompanying balance sheet of Perry Memorial Hospital Authority, as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Perry Memorial Hospital Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Perry Memorial Hospital Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Perry Memorial Hospital Authority's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control 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 did not identify any deficiencies in internal control that we consider 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 consider the deficiency described in the accompanying schedule of findings, as item 2012-01, in Perry Memorial Hospital Authority's internal control to be a significant deficiency:

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Perry Memorial Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Perry Memorial Hospital Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. While we have expressed our conclusion on the Authority's response, we did not audit the 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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 29, 2012

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2012-01 Preparation of Financial Statements

Condition: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnote 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: 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 Authority'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.

Auditor's Recommendation: It is recommended the Authority implement a system that allows the preparation of financial statements in accordance with GAAP.

Management Response: Given the size of the Authority, 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.