Management's Discussion and Analysis and
Financial Statements
June 30, 2011 and 2010

Perry Memorial Hospital Authority and Controlled Entity

EideBailly

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 as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our 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, 2011 and 2010, 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 31, 2011, 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.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 31, 2011

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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, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and investments decrease in 2011 by $172,945 or 3% and $11546 or less than 1% in 2010.
- The Authority's net assets decreased in 2011 by $256,811 or 2% and decreased $349,198 or 3% in 2010.
- The Authority reported operating loss in 2011 of $344,135 and a loss of $638,698 in 2010. During 2011, operating loss decreased by $294,563 or 46% compared to 2010 and decreased by $105,372 or 14% in 2010 compared to 2009.
- Net nonoperating income decreased by $45,920 or 34% in 2011 compared to 2010 and decreased $118,138 in 2010 compared to 2009.

Using This Annual Report

The Authority's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These 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 decreased in the past year by $256,811 or 2% in 2011 and decreased $349,198, or 3% in 2010 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	2011	2010	2009
Assets			
Current assets	$ 7,702,806	$ 7,989,598	$ 7,913,147
Capital assets, net	5,745,303	5,814,378	5,697,031
Noncurrent assets	69,961	50,206	51,660
Total assets	$ 13,518,070	$ 13,854,182	$ 13,661,838
Liabilities			
Current	$ 945,967	$ 958,091	$ 675,849
Long term debt	192,123	259,300	-
Total liabilities	1,138,090	1,217,391	675,849
Net assets			
Invested in capital assets, net of related debt	5,486,002	5,492,320	5,697,031
Unrestricted	6,842,552	7,094,198	7,229,131
Temporarily restricted	3,104	1,951	11,559
Permanently restricted	48,322	48,322	48,268
Total net assets	12,379,980	12,636,791	12,985,989
Total liabilities and net assets	$ 13,518,070	$ 13,854,182	$ 13,661,838

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 6,817,556	$ 6,455,845	$ 6,185,718
Other operating revenues	142,327	192,441	228,938
Total operating revenues	6,959,883	6,648,286	6,414,656
Operating Expenses			
Nursing services	2,238,799	2,302,437	2,379,584
Other professional services	1,665,241	1,524,143	1,510,054
General services	841,516	774,310	819,327
Administrative services	2,019,910	2,188,147	1,978,393
Medical office building	23,486	24,924	25,940
Depreciation	515,066	473,023	445,428
Total operating expenses	7,304,018	7,286,984	7,158,726
Operating loss	(344,135)	(638,698)	(744,070)
Nonoperating Revenues (Expenses)			
Investment income	91,811	131,812	212,037
Interest expense	(20,042)	(10,698)	-
Noncapital grants and contributions	15,555	15,714	39,345
Loss on sale of assets	-	(3,584)	-
Total nonoperating revenues	87,324	133,244	251,382
Excess of expenses before capital grants and contributions and restricted contributions	(256,811)	(505,454)	(492,688)
Capital grants and contributions	-	156,202	46,014
Restricted contributions	-	54	4,223
Decrease in Net Assets	$ (256,811)	$ (349,198)	$ (442,451)

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 loss for 2011 decreased by $294,563 or 46% as compared to 2010 and decreased in 2010 by $105,372 or 14% compared to 2009. The primary components of the decreased operating loss are:

- An increase in patient revenue, net of uncollectible accounts, of $361,711, or 6% as compared to a decrease in 2010 of $270,127 or 6% as compared to 2009.

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 2011 by $40,001 or 30% and decreased $80,225 or 38% in 2010.

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 2011 and 2010, the Authority had $5,745,303 and $5,814,378, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Authority purchased new capital assets costing $445,991 and $593,954 in 2010.

Debt

At June 30, 2011 and 2010, the Authority had $259,301 and $322,058, 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.

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	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current portion of long term debt	$ 67,178	$ 62,758
Accounts payable	242,396	283,566
Accrued liabilities	236,393	313,206
Estimated third-party settlements	400,000	298,561
Total current liabilities	945,967	958,091
Long-Term Debt, Net of Current Portion	192,123	259,300
Total liabilities	1,138,090	1,217,391
Net Assets		
Invested in capital assets net of related debt	5,486,002	5,492,320
Restricted		
Expendable for employee scholarships	3,104	1,951
Nonexpendable permanent endowments	48,322	48,322
Unrestricted	6,842,552	7,094,198
Total net assets	12,379,980	12,636,791
Total liabilities and net assets	$ 13,518,070	$ 13,854,182

	2011	2010
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $876,162 in 2011 and $708,738 in 2010)	$ 6,817,556	$ 6,455,845
Other revenue	142,327	192,441
Total operating revenues	6,959,883	6,648,286
Operating Expenses		
Nursing services	2,238,799	2,302,437
Other professional services	1,665,241	1,524,143
General services	841,516	774,310
Administrative services	2,019,910	2,188,147
Medical office building	23,486	24,924
Depreciation	515,066	473,023
Total operating expenses	7,304,018	7,286,984
Operating Loss	(344,135)	(638,698)
Nonoperating Revenues (Expenses)		
Investment income	91,811	131,812
Interest expense	(20,042)	(10,698)
Noncapital grants and contributions	15,555	15,714
Loss on sale of assets	-	(3,584)
Total nonoperating revenues	87,324	133,244
Excess of Expenses before Capital Grants, Contributions, and Restricted Contributions	(256,811)	(505,454)
Capital Grants and Contributions	-	156,202
Restricted Contributions		
Additions to permanent endowments	-	54
Decrease in Net Assets	(256,811)	(349,198)
Net Assets, Beginning of the Year	12,636,791	12,985,989
Net Assets, End of Year	$ 12,379,980	$ 12,636,791

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 6,992,637	$ 6,426,965
Other receipts and payments, net	165,860	169,875
Payments to suppliers and contractors	(3,637,383)	(3,384,755)
Payments to employees	(3,425,298)	(3,247,213)
Net Cash Provided by (Used for) Operating Activities	95,816	(35,128)
Noncapital Financing Activities		
Noncapital grants and contributions	15,555	15,714
Permanently restricted contributions	-	54
Net Cash Provided by Noncapital Financing Activities	15,555	15,768
Capital and Capital Related Financing Activities		
Purchase of property and equipment	(292,606)	(243,954)
Principal paid on long-term debt	(62,757)	(27,942)
Interest paid	(20,042)	(10,698)
Net proceeds from contributions restricted for specific expenditures	-	156,202
Net Cash Used for Capital and Capital Related Financing Activities	(375,405)	(126,392)
Investing Activities		
Purchases of certificates of deposit	(5,787,182)	(5,379,613)
Sales of certificates of deposit	5,695,453	5,702,040
Investment income	91,811	132,752
Net Cash Provided by Investing Activities	82	455,179
(Decrease) Increase in Cash and Cash Equivalents	(263,952)	309,427
Cash and Cash Equivalents, Beginning of Year	1,163,416	853,989
Cash and Cash Equivalents, End of Year	$ 899,464	$ 1,163,416

See Notes to Financial Statements

	2011	2010
Reconciliation of Net Income to Net Cash Provided by (used for) Operating Activities		
Operating loss	$ (344,135)	$ (638,698)
Adjustments to reconcile change in net assets to net cash from operating activities		
Provision for depreciation	515,066	473,023
Provision for bad debt	876,162	708,738
Changes in assets and liabilities		
Accounts receivable	(777,836)	(833,107)
Accrued interest receivable	(1,151)	(940)
Supplies	(5,201)	(6,421)
Prepaids	21,840	42,793
Deposits	(19,000)	-
Accounts payable	(194,555)	155,051
Accrued liabilities	(76,813)	(9,430)
Estimated third-party settlement	101,439	73,863
Net Cash (Used for) Provided by Operating Activities	$ 95,816	$ (35,128)
Noncash Investing, Capital, and Financing Activities		
Capital lease obligation for new equipment	$ -	$ 350,000
Payable for construction in progress	$ 153,385	$ -
Loss on asset retirements	$ -	$ 3,584

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Perry Memorial Hospital is leased from the City of Perry, Oklahoma, to the Perry Memorial Hospital 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.

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.

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.

Allowance for Uncollectible Accounts

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

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

The carrying amount of patient receivables is reduced by a valuation 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 an aged analysis of outstanding patient accounts in determining the estimated bad debt provision.

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. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated using the straight-line method of depreciation using these asset lives:

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Authority has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Authority in perpetuity.

Net Assets

Net assets in the Hospital 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.

Temporarily and permanently restricted net assets -Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Net Patient Service Revenue

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

Charity Care

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

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between 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.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illness; natural disasters; and employee health, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The provision for estimated medical malpractice claims, if any, include estimate for the ultimate cost for both reported claims an claims incurred but not reported.

Grants and Contributions

From time to time, the Authority receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific 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.

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.

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 a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain items in the prior year financial statements have been reclassified for comparability purposes with the current year financial statements. These reclassification did not affect the financial position or change in net assets as previously reported.

Note 2 - Deposits and Investments

State statutes require public trusts to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. 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, 2011 and 2010:

	2011	2010
Total Bank Balance		
Insured (FDIC)	$ 784,710	$ 1,002,000
Collateralized with securities held by the Authority's agent in the Authority's name	5,896,513	6,986,824
	$ 6,681,223	$ 7,988,824
Total Carrying Value		
Cash and cash equivalents	$ 899,464	$ 1,163,416
Short-term investments	5,683,803	5,592,829
	$ 6,583,267	$ 6,756,245

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, 2011 and 2010, the carrying amounts of the Authority's deposits were $6,634,228 and $6,806,451 and the bank balances were $6,681,223 and $6,975,505 respectively. The Hospital's cash balances are maintained in various bank deposit accounts.

Note 3 - Accounts Receivable – Patients – Net

Patient accounts receivable reported as current assets by the Authority at June 30, 2011 and 2010, consisted of these amounts:

	2011	2010
Patient Accounts Receivable		
Receivable from Medicare and Medicaid	$ 481,923	$ 284,009
Receivable from patients	760,945	852,439
Receivable from other third-party payors	339,949	446,333
Total patient accounts receivable	1,582,817	1,582,781
Less allowance for uncollectible amounts	694,897	622,370
Patient accounts receivable, net	$ 887,920	$ 960,411

Note 4 - Concentration of Credit Risk

The Authority serves patients in Central Oklahoma. The mix of patient accounts receivable at June 30, 2011 and 2010, was as follows:

	2011	2010
Medicare and Medicaid	45%	34%
Self pay	35%	41%
Other	20%	25%
	100%	100%

Note 5 - Capital Assets

Capital asset activity for the years ended June 30, 2011 and 2010 was as follows:

	2011			
	Beginning Balance	Additions	Retirements	Ending Balance
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

	2010			
	Beginning Balance	Additions	Retirements	Ending Balance
Non-depreciable capital assets				
Land	$ 264,619	$ -	$ -	$ 264,619
Construction in progress	-	-	-	-
Total non-depreciable capital assets	$ 264,619	$ -	$ -	$ 264,619
Depreciable capital assets				
Land improvements	$ 139,958	$ -	$ -	$ 139,958
Building and fixed equipment	4,513,203	-	-	4,513,203
Building improvement	3,925,011	-	-	3,925,011
Major moveable equipment	2,749,284	243,954	205,906	2,787,332
Equipment under capital lease obligation	-	350,000	-	350,000
Total depreciable capital assets	11,327,456	593,954	205,906	11,715,504
Less accumulated depreciation				
Land improvements	80,954	7,617	-	88,571
Building and building improvements	3,561,859	253,255	-	3,815,114
Major moveable equipment	2,252,231	177,151	202,322	2,227,060
Capital leased equipment	-	35,000	-	35,000
Total accumulated depreciation	5,895,044	473,023	202,322	6,165,745
Depreciable capital assets, net	5,432,412	120,931	3,584	5,549,759
Capital assets, net	$ 5,697,031	$ 120,931	$ 3,584	$ 5,814,378

Note 6 - Long Term Debt

A schedule of changes in the authority's noncurrent liabilities for the years ended June 30, 2011 and 2010 follows:

	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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Capital lease obligations	$ -	$ 350,000	$ 27,942	$ 322,058	$ 62,758

The terms and due dates of the Authority's long term debt, capital leases obligations, at June 30, 2011 and 2010, follow:

- Capital lease obligation, at an imputed interest rate of 6.82 percent, collateralized by leased equipment with cost of $350,000 at June 30, 2010

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

Year Ending	Capital Leases
2012	$ 82,800
2013	82,800
2014	82,800
2015	45,012
	293,412
Less interest	34,111
	$ 259,301

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 and $0 for the years ended June 30, 2011 and 2010, respectively.

Note 7 - Commitments

Operating Leases

The Authority leases various equipment and facilities under lease agreements that are classified as operating leases. Total rent expense under operating leases was approximately $61,000 and $53,000, respectively, for the years ended June 30, 2011 and 2010.

Note 8 - 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 Hospital through June 30, 2012. During the years ended June 30, 2011 and 2010, the Hospital incurred fees to Quorum Health Resources, LLC for management services of $132,764 and $127,929, 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 intention and belief that all transactions are arms length transactions.

Note 9 - Charity Care

Charges excluded from revenue under the Authority's charity care policy were approximately $77,000 and $51,000 for 2011 and 2010, respectively.

Note 10 - 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 services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which includes capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. Home health services are paid based on a prospectively determined amount per 60 day episode. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per-discharge, per-diem or other established rate with no retrospective adjustment.

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

Supplementary Information
June 30, 2011 and 2010

Perry Memorial Hospital Authority and Controlled Entity

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Perry Memorial Hospital Authority
Perry, Oklahoma

We have audited the basic financial statements of Perry Memorial Hospital Authority as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 31, 2011, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is 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.

Eide Bailly LLP

Oklahoma City, Oklahoma

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	2011	2010
Daily Patient Services		
Medical and surgical	$ 1,072,352	$ 1,074,443
Swing bed	605,845	679,520
	1,678,197	1,753,963
Other Nursing Services		
Central service supplies	621,046	787,469
Emergency services	1,998,801	2,043,085
Home health	562,351	482,326
Operating and recovery rooms	342,015	522,157
	3,524,213	3,835,037
Other Professional Services		
Industrial service	21,085	13,338
Inhalation therapy	721,683	1,140,769
Laboratory	3,048,505	2,796,305
Pharmacy	1,402,488	1,595,872
Physical therapy	707,781	647,481
Physician practice	54,093	-
Radiology	2,942,382	2,530,647
	8,898,017	8,724,412
Total patient service revenue	14,100,427	14,313,412
Reductions from Revenue		
Contractual adjustments		
Medicare	4,705,932	5,576,378
Medicaid	581,077	649,476
Blue Cross and other adjustments	1,082,516	878,648
Employee and administrative discounts	37,184	44,327
Provision for bad debts	876,162	708,738
Total reductions from revenue	7,282,871	7,857,567
Net Patient Service Revenue	$ 6,817,556	$ 6,455,845

EideBailly
CPAs & BUSINESS ADVISORS

October 31, 2011

To the Board of Trustees
Perry Memorial Hospital Authority

We have audited the financial statements of Perry Memorial Hospital Authority ("Authority") for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 15, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Perry Memorial Hospital Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Estimated Third Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

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Allowance for Contractuals and Doubtful Accounts – Management's estimate of the allowance for contractuals and doubtful accounts is based on historical loss levels and an analysis of the collectibility of individual accounts.

Depreciation Expense – Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. A list of correcting adjustments is attached. See attachment A. The following uncorrected errors were noted in the course of the audit and are believed to be qualitatively and quantitatively immaterial:

- Captive Insurance Investments – ($17,740)
- Contractual Adjustments - $26,518

The affect of these unrecorded misstatements would be to decrease the Authority's net assets $8,778.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

We would like to bring the following matters to your attention:

Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM applies to all "Covered Entities," which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance and Portability and Accountability Act) transaction standards. ICD-10-PCS applies to all hospital inpatients.

The adoption of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving our understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payor contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation.

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

Update on Proposed Accounting Standards for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued Proposed Accounting Standards Update 1850-100, *Leases*. The joint committee received many comments regarding this proposal, and has made several revisions. Due to the changes made, the joint committee has made the decision to re-expose the proposal. The re-exposure draft was announced July 21, 2011, with an estimated release date within the first half of 2012. While changes have been made, the underlying fundamentals of the change to lease accounting remain unchanged. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be brought onto the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

The joint committee was expected to issue a final standard to be voted on by the FASB and IASB boards in 2011. If approved it was anticipated that the effective date would have been for financial statements issued in calendar year 2013. After the announcement of the new exposure draft, the timeline for an effective date of the final standard is unknown.

New Accounting Pronouncements

ASU 2011-07

In July 2011, the FASB issued ASU No. 2011-07, Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts in Certain Health Care Entities. The provisions in ASU 2011-07 require certain health care entities to change the presentation in their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). In addition ASU 2011-07 requires that the provision for bad debts is presented as a separate line on the face of the financial statements and requires enhanced disclosures about organization's policies for recognizing revenue and assessing bad debts. ASU 2011-07 requires disclosures of patient service revenue, net of contractual allowances and discounts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This standard was effective beginning July 1, 2011.

ASU 2010-23

In August 2010, the FASB issued ASU No 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*. The guidance in ASU 2010-23 require that cost be used as the measurement basis for charity care disclosure purposes. The guidance is intended to reduce diversity in practice regarding the measurement basis used in the disclosure of charity care as some entities use cost while others use charges foregone. The guidance states that direct and indirect costs for providing charity care be disclosed and it further requires that the methods used to identify or determine costs should also be disclosed. This standard was effective beginning July 1, 2011.

ASU 2010-24

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. The guidance in ASU 2010-24 requires that liabilities and receivables related to medical malpractice claims be reported at gross amounts on the balance sheet. The guidance is intended to reverse diversity in practice regarding for accounting for insurance claims and recoveries as some entities have netted the liabilities and receivables while others have reported them at gross. This standard was effective July 1, 2011.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Trustees and management of Perry Memorial Hospital Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Eide Bailly LLP

Attachment A

Perry Memorial Hospital Authority

Adjusting Journal Entries JE # 3			Debit	Credit
To record unrecorded liabilities				
10599999	EB Created: CIP		153,385.00	
40099001	OTHER EXPENSES		83.00	
20000000	TRADES PAYABLE	-A/P		153,468.00
Total			**153,468.00**	**153,468.00**

EideBailly
CPAs & BUSINESS ADVISORS

To the Board of Trustees
and Management of Perry Memorial Hospital Authority

In planning and performing our audit of the financial statements of Perry Memorial Hospital Authority ("Authority") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered Perry Memorial Hospital Authority's internal control over financial reporting (internal control) 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been 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 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 following deficiency in Perry Memorial Hospital Authority's internal control to be a significant deficiency:

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 footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Criteria: 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.

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

Eide Bailly LLP

Oklahoma City, Oklahoma
October 31, 2011