



Management's Discussion and Analysis and
Financial Statements
June 30, 2016 and 2015

Okeene Municipal Hospital and Schallmo Authority

d/b/a Okeene Municipal Hospital

A component unit of the Town of Okeene, Oklahoma

Okeene Municipal Hospital and Schallmo Authority

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June 30, 2016 and 2015

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Independent Auditor's Report

The Board of Trustees
Okeene Municipal Hospital and Schallmo Authority,
d/b/a Okeene Municipal Hospital
Okeene, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Okeene Municipal Hospital and Schallmo Authority ("Hospital"), a component unit of the Town of Okeene, Oklahoma, as of June 30, 2016, and the related statement of revenues, expenses, and changes in net position and statement of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Okeene Municipal Hospital and Schallmo Authority, a component unit of The Town of Okeene, Oklahoma as of June 30, 2016, and the change in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Hospital as of June 30, 2015, were audited by other auditors, whose report, dated October 23, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 7, 2016 on our consideration of the Hospital'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 reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
October 7, 2016

This discussion and analysis of the financial performance of Okeene Municipal Hospital and Schallmo Authority, a component unit of The Town of Okeene, Oklahoma (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2016 and 2015. The intent of this discussion and analysis is to provide further information on the Hospital's performance as a whole. Readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Hospital's financial status.

Financial Highlights

- Cash and cash equivalents increased in 2016 by \$458,769 or 21.8% and decreased in 2015 by \$258,319 or 13.2%.
- Current liabilities decreased in 2016 by \$625,631 or 59.1% and decreased in 2015 by \$575,728 or 39.9%.
- The Hospital's net position decreased by \$576,208 or 24.0% in 2016 and a \$161,852 or 6.3% decrease in 2015.
- The Hospital reported operating loss of \$34,006 in 2016 and operating income of \$196,396 in 2015. The operating income in 2016 is a decrease compared to 2015 of \$230,402. The operating income in 2015 is a decrease compared to 2014 of \$305,450.

Using This Annual Report

The Hospital's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

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

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

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 Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Hospital's net position decreased by \$ 576,208 or 24.0% in 2016, and decreased \$161,852 or 6.3% in 2015, as shown in Table 1.

Condensed Financial Statements

Table 1: Assets, Liabilities and Net Position

	2016	2015	2014
Assets			
Current assets	\$ 3,573,734	\$ 3,731,533	\$ 4,153,543
Capital assets, net of accumulated depreciation	5,074,215	5,521,069	6,028,483
Other noncurrent assets	138,180	699,000	701,091
Total assets	8,786,129	9,951,602	10,883,117
Deferred Outflows of Resources	271,255	-	-
Total assets and deferred outflows of resources	\$ 9,057,384	\$ 9,951,602	\$ 10,883,117
Liabilities			
Current liabilities	\$ 432,385	\$ 1,058,016	\$ 1,633,158
Long-term debt, less current maturities	6,803,208	6,495,587	6,690,108
Total liabilities	7,235,593	7,553,603	8,323,266
Net Position			
Net investment in capital assets	(1,870,877)	(464,759)	(732,292)
Restricted			
Expendable for debt service	-	158,062	103,212
Unrestricted	3,692,668	2,704,696	3,188,931
Total net position	1,821,791	2,397,999	2,559,851
Total liabilities and net position	\$ 9,057,384	\$ 9,951,602	\$ 10,883,117

Significant changes took place in 2016 related to cash and cash equivalents and other current liabilities. Cash and cash equivalents increased by \$458,769 or 21.8% in 2016 and decreased \$258,319 or 13.2% in 2015. Current liabilities decreased by \$625,631 or 59.1% in 2016 and \$575,728 or 39.9% in 2015. The changes to cash and cash equivalents and other current liabilities during 2016 are primarily due to refunding and refinancing of the bond debt.

Operating Results and Changes in Net Position

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	\$ 5,511,159	\$ 5,457,066	\$ 5,837,746
Other revenue	498,519	638,514	267,351
Total operating revenues	6,009,678	6,095,580	6,105,097
Operating Expenses			
Salaries and wages and employee benefits	3,204,435	3,091,932	2,780,198
Purchased services and professional fees	790,291	706,419	602,162
Depreciation	526,867	536,746	455,141
Other operating expenses	1,522,091	1,564,087	1,765,750
Total operating expenses	6,043,684	5,899,184	5,603,251
Operating (Loss) Income	(34,006)	196,396	501,846
Nonoperating Revenues (Expenses)			
Noncapital appropriations - Town of Okeene	108,509	111,534	99,143
Investment income	10,685	11,326	105,682
Interest expense	(445,036)	(496,064)	(512,244)
Noncapital grants and gifts	15,900	14,956	15,315
Gain on disposal of capital assets	7,905	-	-
Debt issuance costs	(264,165)	-	-
Total nonoperating revenues, net	(566,202)	(358,248)	(292,104)
Revenues Less Than Expenses Before Capital Contributions	(600,208)	(161,852)	209,742
Capital contributions	24,000	-	-
Change in Net Position	(576,208)	(161,852)	209,742
Net Position, Beginning of the Year	2,397,999	2,559,851	\$ 2,350,109
Net Position, End of Year	\$ 1,821,791	\$ 2,397,999	\$ 2,559,851

Operating Income

The first component of the overall change in the Hospital's net position is its operating income - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital had operating loss of \$34,006 in 2016 compared to an operating income of \$196,537 in 2015. The Town of Okeene levies sales taxes and appropriates them to the Hospital to provide additional resources to enable the Hospital to serve lower income and other residents.

The primary components of the operating income are:

- Salaries, wages and employee benefits expense increased \$112,503 or 4% in 2016 and \$311,734 or 11% in 2015 due primarily to a new physician employed in 2015.
- Depreciation expense decreased \$9,879 or 2% in 2016 and increased \$81,605 or 18% in 2015 due to the additional depreciation related to the EHR assets added in prior years.
- Other operating revenue decreased \$139,995 or 22% in 2016 and increased \$194,502 or 73% in 2015 which is attributable to additional reimbursement for Electronic Health Records in 2015.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of appropriations from the Town of Okeene, investment income and interest expense, all of which remained relatively constant in 2016 as compared to 2015 and 2014, except for the debt issuance cost related to the refinanced 2006 revenue bonds.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2016 and 2015, discussed earlier.

Capital Assets

At June 30, 2016, the Hospital had \$5,074,215 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements compared with \$5,521,069 at June 30, 2015. In 2016, the Hospital purchased new equipment costing \$80,608.

Debt

At June 30, 2016, the Hospital had \$6,945,092 in debt as they refinanced the 2006 revenue bonds which had a balance of \$6,684,828, at June 30, 2015 as detailed in Note 6 to the financial statements. The Hospital incurred debt issuance cost of \$264,165 to refund the bonds and obtain refinancing. In addition the Hospital recognized a deferred outflow resources refunding cost of \$271,255.

Requests for Information

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Okeene Municipal Hospital and Schallmo Authority, 207 E F Street, Okeene, Oklahoma 73763.

Okeene Municipal Hospital and Schallmo Authority

	<u>2016</u>	<u>2015</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 2,559,808	\$ 1,701,977
Restricted cash and investments - current	-	399,062
Receivables		
Patient, net of estimated uncollectibles; of \$198,000 in 2016 and \$386,000 in 2015	708,978	882,011
Estimated third-party payor settlements	84,658	510,000
Supplies	189,637	165,844
Prepaid expenses and other	30,653	72,639
Total current assets	<u>3,573,734</u>	<u>3,731,533</u>
Noncurrent Cash and Investments		
Restricted by trustee for debt service	-	699,000
Capital Assets		
Capital assets not being depreciated	181,328	184,126
Capital assets being depreciated, net	4,892,887	5,336,943
Total capital assets	<u>5,074,215</u>	<u>5,521,069</u>
Other Assets		
USDA mortgage insurance	138,180	-
Total assets	<u>8,786,129</u>	<u>9,951,602</u>
Deferred Outflows of Resources		
Refunding costs	271,255	-
Total assets and deferred outflows of resources	<u>\$ 9,057,384</u>	<u>\$ 9,951,602</u>

See Notes to Financial Statements

Okeene Municipal Hospital and Schallmo Authority
 Statements of Net Position
 June 30, 2016 and 2015

	2016	2015
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 141,884	\$ 189,241
Accounts payable	102,991	345,756
Accrued expenses		
Salaries, wages and benefits	171,976	282,019
Interest	15,534	241,000
Total current liabilities	432,385	1,058,016
Long-Term Debt, Less Current Maturities	6,803,208	6,495,587
Total liabilities	7,235,593	7,553,603
 Net Position		
Net investment in capital assets	(1,870,877)	(464,759)
Restricted		
Expendable for debt service	-	158,062
Unrestricted	3,692,668	2,704,696
Total net position	1,821,791	2,397,999
Total liabilities and net position	\$ 9,057,384	\$ 9,951,602

Okeene Municipal Hospital and Schallmo Authority
 Statements of Revenue, Expenses and Changes in Net Position
 Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$360,260 in 2016 and \$402,344 in 2015	\$ 5,511,159	\$ 5,457,066
Other	498,519	638,514
Total operating revenues	6,009,678	6,095,580
Operating Expenses		
Salaries and wages	2,766,570	2,673,253
Employee benefits	437,865	418,679
Purchased services and professional fees	790,291	706,419
Supplies	639,175	671,236
Depreciation	526,867	536,746
Other expenses	882,916	892,851
Total operating expenses	6,043,684	5,899,184
Operating (Loss) Income	(34,006)	196,396
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Town of Okeene	108,509	111,534
Investment income	10,685	11,326
Interest expense	(445,036)	(496,064)
Noncapital grants and gifts	15,900	14,956
Gain on disposal of capital assets	7,905	-
Debt issuance costs	(264,165)	-
Net nonoperating expenses	(566,202)	(358,248)
Revenues Less Than Expenses Before Capital Contributions	(600,208)	(161,852)
Capital Contributions	24,000	-
Change in Net Position	(576,208)	(161,852)
Net Position, Beginning of the Year	2,397,999	2,559,851
Net Position, End of Year	\$ 1,821,791	\$ 2,397,999

Okeene Municipal Hospital and Schallmo Authority
 Statements of Cash Flows
 Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 6,109,534	\$ 5,777,618
Payments to suppliers and contractors	(2,536,954)	(2,861,969)
Payments to and on behalf of employees	(3,314,478)	(3,068,495)
Other receipts and payments, net	498,519	461,990
Net Cash from Operating Activities	756,621	309,144
Noncapital Financing Activities		
Noncapital grants and gifts	15,900	14,956
Town appropriations supporting operations	108,509	111,534
Net cash from noncapital financing activities	124,409	126,490
Capital and Related Financing Activities		
Purchase of property and equipment	(56,608)	(18,513)
Proceeds from issuance of bonds	7,000,000	-
Proceeds from sale of property	8,500	-
Principal payments of long-term debt	(6,954,908)	(200,000)
Payment for long term mortgage insurance	(138,180)	-
Payment of financing costs	(264,165)	-
Payment of premium for refunded debt	(67,000)	-
Payment of interest on long term debt	(659,585)	(496,999)
Net Cash used for Capital and Related Financing Activities	(1,131,946)	(715,512)
Investing Activities		
Decrease in noncurrent cash and investments	699,000	-
Interest on investments	10,685	13,417
Net Cash from Investing Activities	709,685	13,417
Net Change in Cash and Cash Equivalents	458,769	(266,461)
Cash and Cash Equivalents, Beginning of Year	2,101,039	2,367,500
Cash and Cash Equivalents, End of Year	\$ 2,559,808	\$ 2,101,039

Okeene Municipal Hospital and Schallmo Authority
 Statements of Cash Flows
 Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents		
To the Statement of Net Position		
Cash and cash equivalents in current assets	\$ 2,559,808	\$ 1,701,977
Cash and cash equivalents in restricted cash and investments - current	-	399,062
Total cash and cash equivalents	\$ 2,559,808	\$ 2,101,039
	2016	2015
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ (34,006)	\$ 196,396
Loss on sale of capital assets	-	137
Depreciation	526,867	536,746
Provision for uncollectible accounts	360,260	402,344
Provided by operating assets and liabilities		
Accounts receivable, net	238,115	(334,672)
Supplies, prepaid expenses and other receivables	18,193	87,877
Accounts payable and accrued expenses	(352,808)	(579,684)
Net Cash from Operating Activities	\$ 756,621	\$ 309,144
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Capital assets included in accounts payable	\$ -	\$ 10,956

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Okeene Municipal Hospital and Schallmo Authority (“Hospital”) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

Okeene Municipal Hospital (the Hospital) is operated under the Okeene Municipal Hospital and Schallmo Authority (the Authority), a public trust established for the benefit of the Town of Okeene in Blaine County, Oklahoma. The Authority is a component unit of the Town of Okeene, Oklahoma (the Town). The Town's Board appoints the Board of Trustees of the Authority.

The Authority operated the Hospital on land under a bargain lease agreement with the Town. During the year ended June 30, 2016, the Town terminated the lease with the Authority and provided a special warranty deed for the Hospital land to the Authority.

The Hospital, located in Okeene, Oklahoma, is a 17-bed critical access hospital and primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Okeene, Oklahoma, area. The Hospital operates a physician clinic in the same geographic area.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital’s financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred

Basis of Presentation

The statement of net position displays the Hospital's assets, deferred outflows, and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Account Receivable

Patient receivables are uncollateralized patient and third-party payor obligations. Due to the uncertainty of collecting private pay accounts, these interest charges are recognized as income when received. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

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

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Noncurrent Cash and Investments

Noncurrent cash and investments are restricted by trustee for debt reserve and capital asset replacement.

Investment Income

Interest and dividends on deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Land improvements, buildings and leasehold improvements	5-50 years
Equipment	3-25 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues less than expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The deferred outflow of resources reported in the financial statements is deferred refunding costs which are amortized over the shorter of the remaining life of the refunded bonds or the refunding debt as a component of interest expense.

Bond Premiums and Discounts

Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are amortized over the life debt using the effective interest method. Amortization is included in interest expense.

Compensated Absences

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

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

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

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$63,000 and \$20,000 for the years ended June 30, 2016 and 2015, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) 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 unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues less than expenses.

Noncapital Appropriations – Town of Okeene

Effective October 1, 1999, the citizens of Okeene, Oklahoma, approved a 1% sales tax to be appropriated to the Hospital to support its operations. The tax is to remain in effect so long as the Hospital is in operation or until the sales tax is repealed. The Town collects the sales tax and remits it to the Hospital monthly. The Hospital received approximately 1.8% of its financial support from town appropriations related to sales tax during 2016 and 2015. Revenue from town appropriations is recognized in the year in which the sales tax is earned.

SHOPP Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP is designed to assess certain Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation. Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. During 2016 and 2015, the Hospital received approximately \$204,000 and \$161,000, respectively, in SHOPP funds. The estimated annual amount to be received by the Hospital over the term of the SHOPP is not expected to change materially from the amount received in 2016. Revenue from the SHOPP is recorded in net patient service revenue on the accompanying statements of revenues, expenses and changes in net position.

Electronic Health Record Incentives

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 demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

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) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital 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.

The Hospital recognized revenue of \$35,000 and \$288,000 for the years ended June 30, 2016 and 2015 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

Reclassifications

Reclassifications have been made to the June 30, 2015 financial information to make it confirm to the current year presentation. The reclassification had no effect on previously reported operating results or change in net position.

Note 2 - Net Patient Service Revenue

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

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2014. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: The Hospital is reimbursed for services rendered to patients covered by the state Medicaid program on a prospective per discharge or fee schedule method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended June 30, 2016 and 2015:

	2016	2015
Medicare	56%	55%
Medicaid	9%	9%
Other third-party payors	27%	29%
Self pay	8%	7%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2016 increased approximately \$67,000 due to estimates in excess of settlements and 2015 decreased approximately \$147,000 due to settlements in excess of amounts previously estimated.

Note 3 - Deposits

The carrying amounts of deposits as of June 30, 2016 and 2015 was \$2,559,808 and \$2,800,039, respectively.

Deposits are reported in the following statement of net position captions:

Included in the following statement of net position captions

Cash and cash equivalents	\$ 2,559,808	\$ 1,701,977
Restricted cash and investments - current	-	399,062
Noncurrent cash and investments	-	699,000
	<u>\$ 2,559,808</u>	<u>\$ 2,800,039</u>

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Hospital. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Hospital's deposit policy does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at June 30, 2016 and 2015 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Note 4 - Capital Assets

Capital asset additions, disposals, transfers and balances for the year ended June 30, 2016 and 2015 are as follows:

	Balance June 30, 2015	Additions	Transfers and Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 160,101	\$ -	\$ -	\$ 160,101
Construction in progress	24,025	8,158	(10,956)	21,227
Total capital assets not being depreciated	<u>\$ 184,126</u>	<u>\$ 8,158</u>	<u>\$ (10,956)</u>	<u>\$ 181,328</u>
Capital assets being depreciated				
Land improvements	\$ 71,814	\$ -	\$ (1,006)	\$ 70,808
Building and improvements and fixed equipment	8,544,567	-	-	8,544,567
Major moveable equipment	1,430,642	72,450	(29,650)	1,473,442
Total capital assets being depreciated	<u>10,047,023</u>	<u>\$ 72,450</u>	<u>\$ (30,656)</u>	<u>10,088,817</u>
Less accumulated depreciation for				
Land improvements	50,259	\$ 5,241	\$ (411)	55,089
Building and improvements and fixed equipment	3,781,729	346,913		4,128,642
Major moveable equipment	878,092	174,713	(40,606)	1,012,199
Total accumulated depreciation	<u>4,710,080</u>	<u>\$ 526,867</u>	<u>\$ (41,017)</u>	<u>5,195,930</u>
Net capital assets being depreciated	<u>\$ 5,336,943</u>			<u>\$ 4,892,887</u>
Capital assets, net	<u>\$ 5,521,069</u>			<u>\$ 5,074,215</u>

Okeene Municipal Hospital and Schallmo Authority
Notes to Financial Statements
June 30, 2016 and 2015

	Balance June 30, 2014	Additions	Transfers and Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 160,101	\$ -	\$ -	\$ 160,101
Construction in progress	-	24,025	-	24,025
Total capital assets not being depreciated	<u>\$ 160,101</u>	<u>\$ 24,025</u>	<u>\$ -</u>	<u>\$ 184,126</u>
Capital assets being depreciated				
Land improvements	\$ 71,814	\$ -	\$ -	\$ 71,814
Building and improvements and fixed equipment	8,544,567	-	-	8,544,567
Major moveable equipment	1,437,246	5,444	(12,048)	1,430,642
Total capital assets being depreciated	<u>10,053,627</u>	<u>\$ 5,444</u>	<u>\$ (12,048)</u>	<u>10,047,023</u>
Less accumulated depreciation for				
Land improvements	45,018	\$ 5,241	\$ -	50,259
Building and improvements and fixed equipment	3,426,187	355,542	-	3,781,729
Major moveable equipment	714,040	175,963	(11,911)	878,092
Total accumulated depreciation	<u>4,185,245</u>	<u>\$ 536,746</u>	<u>\$ (11,911)</u>	<u>4,710,080</u>
Net capital assets being depreciated	<u>\$ 5,868,382</u>			<u>\$ 5,336,943</u>
Capital assets, net	<u>\$ 6,028,483</u>			<u>\$ 5,521,069</u>

Construction in progress at June 30, 2016, represents costs associated with the surgery wing renovation. The estimated cost to complete the remodel is \$150,000 plus an additional \$140,000 in equipment. The project will be financed using internal funds is expected to be completed in August 2016.

Note 5 - Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. Total lease expense for the years ended June 30, 2016 and 2015 for all operating leases was \$169,428 and \$142,228.

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

Years Ending June 30,	Operating Leases
2017	\$ 168,612
2018	165,115
2019	108,800
	\$ 442,527

Note 6 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2016 and 2015 is as follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
2006 Revenue bonds	\$ 6,900,000	\$ -	\$ (6,900,000)	\$ -	\$ -
Note payable - guaranteed	-	4,900,000	(37,015)	4,862,985	96,100
Note payable - unguaranteed	-	2,100,000	(17,893)	2,082,107	45,784
Bond discount	(215,172)	-	215,172	-	-
Total long-term debt	\$ 6,684,828	\$ 7,000,000	\$ (6,739,736)	\$ 6,945,092	\$ 141,884
	December 31, 2014	Additions	Reductions	December 31, 2015	Due Within One Year
Revenue bonds	\$ 7,100,000	\$ -	\$ (200,000)	\$ 6,900,000	\$ 200,000
Bond discount	(221,237)	-	6,065	(215,172)	(10,759)
Total long-term debt	\$ 6,878,763	\$ -	\$ (193,935)	\$ 6,684,828	\$ 189,241

During 2016, the Hospital issued a \$7,000,000 Note Payable to advance refund \$6,900,000 of outstanding Series 2006 Revenue Bonds which bore interest at 7%. Seventy percent of the balance of the Note Payable is guaranteed by the United States Department of Agriculture and bears interest at the Wall Street Journal Prime Rate + 2% (5.5% as of June 30, 2016). The Unguaranteed portion of the Note Payable bears interest at Wall Street Journal Prime Rate + 1.25% (4.75% as of June 30, 2016).

The advance refunding resulting in a difference between the reacquisition price and net carrying amount of the old debt of \$276,793. This difference, recorded as deferred refunding costs and reported in the accompanying financial statements as a deferred inflow of resources, is being charged to operations through the term of the Series 2006 Bonds using the effective interest method.

Scheduled debt service requirements for the Hospital's note payable are as follows:

<u>Years Ending December 31,</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ 141,884	\$ 362,869
2017	149,528	355,225
2018	157,585	347,168
2019	166,078	338,675
2020	175,031	329,722
2021-2026	1,027,381	1,496,384
2027-2031	1,336,310	1,187,455
2032-2036	1,740,695	785,119
2037-2041	<u>2,050,600</u>	<u>322,713</u>
Total	<u>\$ 6,945,092</u>	<u>\$ 5,525,330</u>

The loan agreement places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance.

Note 7 - Pension Plan

The Hospital contributes to the defined contribution pension plan which covers substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. In August 2010, the Hospital froze their contributions to the pension plan but subsequently resumed contributions in April 2013. Total pension plan expense for the years ended June 30, 2016, 2015, and 2014, was \$38,000, \$35,000, and \$31,000, respectively.

Note 8 - Concentrations of Credit Risk

The Hospital 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, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Medicare	44%	37%
Medicaid	5%	4%
Commercial and other third-party payors	23%	21%
Self pay	<u>28%</u>	<u>38%</u>
	<u>100%</u>	<u>100%</u>

Note 9 - Contingencies

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 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.

Litigations, Claims, and Disputes

The Hospital 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 Hospital.

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.



Independent Auditor’s 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*

To the Board of Directors
Okeene Municipal Hospital and Schallmo Authority,
d/b/a Okeene Municipal Hospital
Okeene, Oklahoma

We have audited, 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, the financial statements of Okeene Municipal Hospital and Schallmo Authority, a component unit of The Town of Okeene, Oklahoma (Hospital) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements, and have issued our report thereon dated October 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hospital’s internal control. Accordingly, we do not express an opinion on the effectiveness of Hospital’s internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency (16-01).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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*.

Hospital's Response to Findings

Okeene Municipal Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Oklahoma City, Oklahoma
October 7, 2016

16-01 Preparation of Financial Statements

Statement of Condition – The Hospital does not have an internal control system designed to provide for the preparation of the financial statements being audited, which include the accompanying required footnote disclosures.

Criteria – Internal control over financial reporting was reviewed with AU-C 265, *Communicating Internal Control Related Matters Identified in an Audit*.

Effect of Condition – The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause – This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints.

Recommendation – 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 decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – Due to cost considerations, the Hospital will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.