



Management's Discussion and Analysis and  
Financial Statements  
June 30, 2018 and 2017

# 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

Table of Contents

June 30, 2018 and 2017

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Independent Auditor’s Report.....	1
Management’s Discussion and Analysis .....	3
Financial Statements	
Statements of Net Position.....	7
Statements of Revenue, Expenses and Changes in Net Position.....	8
Statements of Cash Flows .....	9
Notes to Financial Statements .....	11
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 <i>Government Auditing Standards</i> .....	21
Schedule of Findings and Responses.....	23



## 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 d/b/a Okeene Municipal Hospital (Hospital), a component unit of the Town of Okeene, Oklahoma, as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years 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 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. 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 Hospital'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 Hospital'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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Okeene Municipal Hospital and Schallmo Authority d/b/a Okeene Municipal Hospital, a component unit of The Town of Okeene, Oklahoma as of June 30, 2018 and 2017, and the change in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other matters***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 29, 2018 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 solely 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 effectiveness of the Hospital's 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 29, 2018

This discussion and analysis of the financial performance of Okeene Municipal Hospital and Schallmo Authority d/b/a Okeene Municipal Hospital, 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, 2018, 2017 and 2016. 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 decreased in 2018 by \$200,736 or 11% and decreased in 2017 by \$665,231 or 26%.
- Current liabilities increased in 2018 by \$28,543 or 6% and increased in 2017 by \$68,427 or 16%.
- The Hospital's net position decreased by \$295,774 or 23% in 2018 and \$514,248 or 28% decrease in 2017.
- The Hospital reported operating losses of \$421,280 in 2018 and \$260,477 in 2017. The operating loss in 2018 is an increase compared to 2017 of \$160,803. The operating loss in 2017 is an increase compared to 2016 of \$226,471.

### **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, deferred outflows of resources 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, deferred outflows of resources 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 \$295,774 or 23% in 2018 and \$514,248 or 28% in 2017, as shown in Table 1.

### Condensed Financial Statements

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	2018	2017	2016
<b>Assets</b>			
Current assets	\$ 2,557,064	\$ 3,207,131	\$ 3,573,734
Capital assets, net of accumulated depreciation	5,226,164	5,006,453	5,074,215
Other noncurrent assets	126,420	132,300	138,180
<b>Total assets</b>	<b>7,909,648</b>	<b>8,345,884</b>	<b>8,786,129</b>
<b>Deferred Outflows of Resources</b>	<b>249,103</b>	<b>260,179</b>	<b>271,255</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 8,158,751</b>	<b>\$ 8,606,063</b>	<b>\$ 9,057,384</b>
<b>Liabilities</b>			
Current liabilities	\$ 529,355	\$ 500,812	\$ 432,385
Long-term debt, less current maturities	6,617,627	6,797,708	6,803,208
<b>Total liabilities</b>	<b>7,146,982</b>	<b>7,298,520</b>	<b>7,235,593</b>
<b>Net Position</b>			
Net investment in capital assets	(1,327,911)	(1,707,493)	(1,599,622)
Unrestricted	2,339,680	3,015,036	3,421,413
<b>Total net position</b>	<b>1,011,769</b>	<b>1,307,543</b>	<b>1,821,791</b>
<b>Total liabilities and net position</b>	<b>\$ 8,158,751</b>	<b>\$ 8,606,063</b>	<b>\$ 9,057,384</b>

Significant changes took place in 2018 related to cash and cash equivalents and estimated third-party settlements. Cash and cash equivalents decreased by \$200,736 or 11% in 2018 and decreased \$665,231 or 26% in 2017. The changes to cash and cash equivalents during 2018 is primarily due to an increase in the operating loss. In 2018, the Hospital has a payable of \$45,104 to the Medicare program for estimated third-party settlements. In 2017, the Hospital was owed \$347,108 from the Medicare program for estimated third-party settlements. In 2016, the Hospital was owed \$84,658 from the Medicare program.

## Operating Results and Changes in Net Position

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	\$ 5,619,798	\$ 5,588,885	\$ 5,511,159
Other revenue	284,424	371,593	498,519
Total operating revenues	<u>5,904,222</u>	<u>5,960,478</u>	<u>6,009,678</u>
Operating Expenses			
Salaries and wages and employee benefits	3,248,543	3,258,772	3,204,435
Purchased services and professional fees	1,122,441	904,890	790,291
Depreciation	483,034	514,294	526,867
Other operating expenses	1,471,484	1,542,999	1,522,091
Total operating expenses	<u>6,325,502</u>	<u>6,220,955</u>	<u>6,043,684</u>
Operating Loss	<u>(421,280)</u>	<u>(260,477)</u>	<u>(34,006)</u>
Nonoperating Revenues (Expenses)			
Noncapital appropriations - Town of Okeene	122,042	111,724	108,509
Investment income	9,146	9,012	10,685
Interest expense	(377,832)	(383,829)	(445,036)
Noncapital grants and gifts	7,650	13,601	15,900
Gain (loss) on disposal of capital assets	364,500	(4,279)	7,905
Debt issuance costs	-	-	(264,165)
Total nonoperating revenues, net	<u>125,506</u>	<u>(253,771)</u>	<u>(566,202)</u>
Expenses in Excess of Revenues Before Capital Contributions	(295,774)	(514,248)	(600,208)
Capital Contributions	-	-	24,000
Change in Net Position	(295,774)	(514,248)	(576,208)
Net Position, Beginning of the Year	<u>1,307,543</u>	<u>1,821,791</u>	<u>\$ 2,397,999</u>
Net Position, End of Year	<u>\$ 1,011,769</u>	<u>\$ 1,307,543</u>	<u>\$ 1,821,791</u>

### Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss - 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 \$421,280 in 2018 compared to an operating loss of \$260,477 in 2017. 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 loss are:

- Purchased services and professional fees expense increased \$217,551 or 24% in 2018 and \$114,599 or 15% in 2017 due to the starting senior life solutions in 2017 and new agreements entered into during 2018.
- Other operating revenue decreased \$87,169 or 23% in 2018 and \$126,926 or 25% in 2017 which is attributable to the hospital receiving less funds for their internet service rebate in 2018 and a decrease in 340B revenue in 2017.

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of appropriations from the Town of Okeene, gain (loss) on disposal of capital assets, and interest expense. Appropriations increased \$10,318 in 2018 or 8% and \$3,215 or 3% in 2017. Interest expense declined \$5,997 or 2% in 2018 and \$61,207 or 14% in 2017. Gain on disposal of capital assets increased \$368,779 or 101% in 2018 decreased \$12,184 or 154% in 2017.

### **The Hospital's Cash Flows**

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses, discussed earlier. The principal changes in the Hospital's cash flows were as follows:

- Net cash provided by operating activities increased in 2018 by \$528,765 or 6,949% and decreased by \$749,012 or 99% in 2017.
- Net cash used for capital and capital related activities increased in 2018 by \$68,771 or 9% and decreased by \$324,769 or 29% in 2017.

### **Capital Assets**

At June 30, 2018, the Hospital had \$5,226,164 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements compared with \$5,006,453 at June 30, 2017. In 2018, the Hospital's roof was impaired due to a storm. The Hospital received approximately \$360,000 from their insurance carrier for repairs. In 2018, the Hospital purchased new capital assets costing \$706,813. In 2017, the Hospital purchased new capital assets costing \$463,457.

### **Debt**

At June 30, 2018 and 2017, the Hospital had \$6,803,178 and \$6,974,125 in capital lease obligations and notes payable outstanding as detailed in Note 6. During 2018, the Hospital did not issue any additional debt obligations. During 2017, the Hospital obtained two new capital lease obligations totaling \$183,000.

### **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.



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	<u>2018</u>	<u>2017</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 1,693,841	\$ 1,894,577
Receivables		
Patient, net of estimated uncollectibles of: \$329,000 in 2018 and \$175,000 in 2017	602,684	761,455
Estimated third-party payor settlements	-	347,108
Supplies	181,031	153,280
Prepaid expenses and other	<u>79,508</u>	<u>50,711</u>
Total current assets	<u>2,557,064</u>	<u>3,207,131</u>
Capital Assets		
Capital assets not being depreciated	160,101	296,022
Capital assets being depreciated, net	<u>5,066,063</u>	<u>4,710,431</u>
Total capital assets	<u>5,226,164</u>	<u>5,006,453</u>
Other Assets		
USDA mortgage insurance	<u>126,420</u>	<u>132,300</u>
Total assets	7,909,648	8,345,884
Deferred Outflows of Resources		
Refunding costs	<u>249,103</u>	<u>260,179</u>
Total assets and deferred outflows of resources	<u>\$ 8,158,751</u>	<u>\$ 8,606,063</u>

See Notes to Financial Statements

Okeene Municipal Hospital and Schallmo Authority  
 Statements of Net Position  
 June 30, 2018 and 2017

	2018	2017
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 185,551	\$ 176,417
Accounts payable		
Trade	108,536	125,224
Estimated third-party payor settlements	45,104	-
Accrued expenses		
Salaries, wages and benefits	174,630	183,637
Interest	15,534	15,534
	529,355	500,812
<b>Long-Term Debt, Less Current Maturities</b>	6,617,627	6,797,708
<b>Total liabilities</b>	7,146,982	7,298,520
 <b>Net Position</b>		
Net investment in capital assets	(1,327,911)	(1,707,493)
Unrestricted	2,339,680	3,015,036
	1,011,769	1,307,543
<b>Total net position</b>	1,011,769	1,307,543
<b>Total liabilities and net position</b>	\$ 8,158,751	\$ 8,606,063

Okeene Municipal Hospital and Schallmo Authority  
 Statements of Revenue, Expenses and Changes in Net Position  
 Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$583,604 in 2018 and \$344,570 in 2017	\$ 5,619,798	\$ 5,588,885
Other	284,424	371,593
Total operating revenues	5,904,222	5,960,478
Operating Expenses		
Salaries and wages	2,784,151	2,801,836
Employee benefits	464,392	456,936
Purchased services and professional fees	1,122,441	904,890
Supplies	698,341	723,945
Depreciation	483,034	514,294
Other expenses	773,143	819,054
Total operating expenses	6,325,502	6,220,955
Operating Loss	(421,280)	(260,477)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Town of Okeene	122,042	111,724
Investment income	9,146	9,012
Interest expense	(377,832)	(383,829)
Noncapital grants and gifts	7,650	13,601
Gain (loss) on disposal of capital assets	364,500	(4,279)
Net nonoperating revenues (expenses)	125,506	(253,771)
Expenses in Excess of Revenues and Change in Net Position	(295,774)	(514,248)
Net Position, Beginning of the Year	1,307,543	1,821,791
Net Position, End of Year	\$ 1,011,769	\$ 1,307,543

Okeene Municipal Hospital and Schallmo Authority  
 Statements of Cash Flows  
 Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	\$ 6,170,781	\$ 5,273,958
Payments to suppliers and contractors	(2,661,281)	(2,403,477)
Payments to and on behalf of employees	(3,257,550)	(3,234,465)
Other receipts and payments, net	284,424	371,593
Net Cash from Operating Activities	536,374	7,609
Noncapital Financing Activities		
Noncapital grants and gifts	7,650	13,601
Town appropriations supporting operations	122,042	111,724
Net Cash from Noncapital Financing Activities	129,692	125,325
Capital and Related Financing Activities		
Purchase of property and equipment	(706,813)	(280,457)
Proceeds from sale of property	368,568	-
Principal payments of long-term debt	(170,947)	(153,967)
Payment of interest on long term debt	(366,756)	(372,753)
Net Cash used for Capital and Related Financing Activities	(875,948)	(807,177)
Investing Activities		
Interest received	9,146	9,012
Net Cash from Investing Activities	9,146	9,012
Net Change in Cash and Cash Equivalents	(200,736)	(665,231)
Cash and Cash Equivalents, Beginning of Year	1,894,577	2,559,808
Cash and Cash Equivalents, End of Year	\$ 1,693,841	\$ 1,894,577

Okeene Municipal Hospital and Schallmo Authority

Statements of Cash Flows

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Loss to Net Cash from by Operating Activities		
Operating loss	\$ (421,280)	\$ (260,477)
Depreciation	483,034	514,294
Provision for bad debts	583,604	344,570
Provided by operating assets and liabilities		
Accounts receivable, net	(424,833)	(397,047)
Estimated third party settlements	392,212	(262,450)
Supplies	(27,751)	36,357
Prepaid expense	(22,917)	(14,178)
Accounts payable	(16,688)	34,879
Accrued expenses	(9,007)	11,661
Net Cash from Operating Activities	<u>\$ 536,374</u>	<u>\$ 7,609</u>
Supplemental Disclosure of Noncash Capital and Related Financing Activities		
Accounts payable forgiven for capital assets	<u>\$ -</u>	<u>\$ 12,646</u>
Equipment purchased under capital lease	<u>\$ -</u>	<u>\$ 183,000</u>

**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**

The Hospital is a 17-bed critical access hospital and physician clinic organized as a public trust established for the benefit of the Town of Okeene in Blaine County, Oklahoma (Town). The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Okeene, Oklahoma area. The Hospital is a component unit of the Town and the Town's Board appoints the Board of Trustees of the Hospital.

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, 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. The Hospital has no restricted, expendable net position at June 30, 2018 and 2017.

*Restricted – nonexpendable net position* is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. The Hospital has no nonrestricted, expendable net position at June 30, 2018 and 2017.

*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 and Cash Equivalents**

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

### **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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements, 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 expenses in excess of revenues. 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 future periods 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.

**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 statement of net position 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 \$45,000 and \$46,000 for the years ended June 30, 2018 and 2017, 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 2% of its financial support from Town appropriations related to sales tax during 2018 and 2017. Revenue from Town appropriations is recognized in the year in which the sales tax is earned.

**Supplemental Hospital Offset Payment 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 expire on December 31, 2020. 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 2018 and 2017, the Hospital received approximately \$215,000 and \$214,000 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 2018. Revenue from the SHOPP is recorded in net patient service revenue on the accompanying statements of revenues, expenses and changes 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, 2017. 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, 2018 and 2017:

	2018	2017
Medicare	52%	52%
Medicaid	9%	9%
Commercial and other third-party payors	32%	31%
Self pay	7%	8%
	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.

**Note 3 - Deposits**

The carrying amounts of deposits as of June 30, 2018 and 2017 was \$1,693,841 and \$1,894,577.

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

	2018	2017
Cash and cash equivalents	\$ 1,693,841	\$ 1,894,577

### 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, 2018 and 2017 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, 2018 are as follows:

	Balance June 30, 2017	Additions	Transfers and Retirements	Balance June 30, 2018
Capital assets not being depreciated				
Land	\$ 160,101	\$ -	\$ -	\$ 160,101
Construction in progress	135,921	112,637	(248,558)	-
Total capital assets not being depreciated	<u>\$ 296,022</u>	<u>\$ 112,637</u>	<u>\$ (248,558)</u>	<u>\$ 160,101</u>
Capital assets being depreciated				
Land improvements	\$ 70,808	\$ -	\$ -	\$ 70,808
Building and improvements and fixed equipment	8,660,717	409,267	79,351	9,149,335
Major moveable equipment	1,434,970	184,909	(191,642)	1,428,237
Capital leases	183,000	-	-	183,000
Total capital assets being depreciated	<u>10,349,495</u>	<u>\$ 594,176</u>	<u>\$ (112,291)</u>	<u>10,831,380</u>
Less accumulated depreciation for				
Land improvements	60,008	\$ 1,899	\$ -	61,907
Building and improvements and fixed equipment	4,459,274	299,722	(169,207)	4,589,789
Major moveable equipment	1,109,675	152,270	(187,574)	1,074,371
Capital leases	10,107	29,143	-	39,250
Total accumulated depreciation	<u>5,639,064</u>	<u>\$ 483,034</u>	<u>\$ (356,781)</u>	<u>5,765,317</u>
Net capital assets being depreciated	<u>\$ 4,710,431</u>			<u>\$ 5,066,063</u>
Capital assets, net	<u>\$ 5,006,453</u>			<u>\$ 5,226,164</u>

Okeene Municipal Hospital and Schallmo Authority  
Notes to Financial Statements  
June 30, 2018 and 2017

Capital asset additions, disposals, transfers and balances for the year ended June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Transfers and Retirements	Balance June 30, 2017
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Capital assets not being depreciated				
Land	\$ 160,101	\$ -	\$ -	\$ 160,101
Construction in progress	<u>21,227</u>	<u>114,694</u>	<u>-</u>	<u>135,921</u>
Total capital assets not being depreciated	<u>\$ 181,328</u>	<u>\$ 114,694</u>	<u>\$ -</u>	<u>\$ 296,022</u>
Capital assets being depreciated				
Land improvements	\$ 70,808	\$ -	\$ -	\$ 70,808
Building and improvements and fixed equipment	8,544,567	124,950	(8,800)	8,660,717
Major moveable equipment	1,473,442	40,813	(79,285)	1,434,970
Capital leases	<u>-</u>	<u>183,000</u>	<u>-</u>	<u>183,000</u>
Total capital assets being depreciated	<u>10,088,817</u>	<u>\$ 348,763</u>	<u>\$ (88,085)</u>	<u>10,349,495</u>
Less accumulated depreciation for				
Land improvements	55,089	\$ 4,919	\$ -	60,008
Building and improvements and fixed equipment	4,128,642	339,236	(8,604)	4,459,274
Major moveable equipment	1,012,199	160,032	(62,556)	1,109,675
Capital leases	<u>-</u>	<u>10,107</u>	<u>-</u>	<u>10,107</u>
Total accumulated depreciation	<u>5,195,930</u>	<u>\$ 514,294</u>	<u>\$ (71,160)</u>	<u>5,639,064</u>
Net capital assets being depreciated	<u>\$ 4,892,887</u>			<u>\$ 4,710,431</u>
Capital assets, net	<u>\$ 5,074,215</u>			<u>\$ 5,006,453</u>

**Note 5 - Lease Obligations**

The Hospital leases certain equipment under noncancelable long-term lease agreements, which have been recorded as either capital or operating leases. Total lease expense for the years ended June 30, 2018 and 2017 for all operating leases was \$441,751 and \$196,584.

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

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2019	\$ 32,951	\$ 64,976
2020	32,951	-
2021	32,951	-
2022	25,254	-
2023	21,405	-
2024-2025	7,135	-
Total minimum lease payments	152,647	<u>\$ 64,976</u>
Less interest	(13,913)	
Present value of minimum lease payments - Note 6	<u>\$ 138,734</u>	

**Note 6 - Long-Term Debt**

A schedule of changes in the Hospital's long-term debt for 2018 and 2017 is as follows:

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Amounts Due Within One Year</u>
Note payable - guaranteed	\$ 4,770,758	\$ -	\$ (97,509)	\$ 4,673,249	\$ 107,247
Note payable - unguaranteed	2,037,744	-	(46,549)	1,991,195	50,338
Capital leases (Note 5)	165,623	-	(26,889)	138,734	27,966
Total long-term debt	<u>\$ 6,974,125</u>	<u>\$ -</u>	<u>\$ (170,947)</u>	<u>\$ 6,803,178</u>	<u>\$ 185,551</u>

  

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2017</u>	<u>Amounts Due Within One Year</u>
Note payable - guaranteed	\$ 4,862,985	\$ -	\$ (92,227)	\$ 4,770,758	\$ 101,521
Note payable - unguaranteed	2,082,107	-	(44,363)	2,037,744	48,007
Capital leases (Note 5)	-	183,000	(17,377)	165,623	26,889
Total long-term debt	<u>\$ 6,945,092</u>	<u>\$ 183,000</u>	<u>\$ (153,967)</u>	<u>\$ 6,974,125</u>	<u>\$ 176,417</u>

Okeene Municipal Hospital and Schallmo Authority

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018). The unguaranteed portion of the note payable bears interest at Wall Street Journal Prime Rate + 1.25% (4.75% as of June 30, 2018). The advance refunding resulted 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 outflow of resources, is being charged to operations through the term of the Series 2006 Bonds using the effective interest method.

Capital lease obligations, at varying rates of imputed interest from 3.8% to 4.0%, collateralized by leased equipment, with varying maturity dates from October 2021 through October 2023.

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

Years Ending June30,	Notes Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2019	\$ 27,966	\$ 4,985	\$ 157,585	\$ 347,168
2020	29,087	3,864	166,078	338,675
2021	30,252	2,699	175,031	329,722
2022	23,681	1,573	184,469	320,284
2023	20,672	733	194,419	310,334
2024-2028	7,076	59	1,141,264	1,382,501
2029-2033	-	-	1,484,614	1,039,151
2034-2038	-	-	1,931,827	591,938
2039-2044	-	-	1,229,157	80,260
Total	<u>\$ 138,734</u>	<u>\$ 13,913</u>	<u>\$ 6,664,444</u>	<u>\$ 4,740,033</u>

The loan agreement places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance. For the year ended June 30, 2018, the Hospital did not meet the debt service coverage ratio covenant. The Hospital obtained a letter from the financial institution waiving the debt service ratio for the year ending June 30, 2018.

**Note 7 - Pension Plan**

The Hospital has a 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. Total pension plan expense for the years ended June 30, 2018, 2017, and 2016, was \$37,000, \$39,000, and \$38,000.

**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, 2018 and 2017 was as follows:

	2018	2017
Medicare	20%	44%
Medicaid	4%	3%
Other third-party payors	33%	25%
Self pay	43%	28%
	100%	100%

**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, d/b/a Okeene Municipal Hospital, a component unit of the Town of Okeene, Oklahoma (Hospital), as of and for the year ended June 30, 2018, 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 29, 2018.

**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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness, 2018-A.

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.

**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**

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma  
October 29, 2018

**2018-A            Preparation of Financial Statements**

**Criteria** – A properly designed system of internal control over financial reporting includes the preparation of an entity’s financial statements and accompanying notes to the financial statements by internal personnel of the entity that are materially correct. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

**Condition** – The Hospital does not have an internal control system designed to provide for the preparation of the financial statements including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were required to and did draft the financial statements and accompanying notes to the financial statements.

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

**Effect** – The effect of this condition is that year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to interim financial statements.

**Recommendation** – We recommend that management should consider the cost and benefits of financial statement preparation internally or from an outside party. In addition, management should consider the effects of other deficiencies on the financial reporting process.

**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.