

Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Auditor's Reports and Financial Statements
June 30, 2013 and 2012



Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
June 30, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

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 financial statements of Okeene Municipal Hospital and Schallmo Authority d/b/a Okeene Municipal Hospital (the Hospital), a component unit of the Town of Okeene, Oklahoma, which are comprised of the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the 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 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 respective financial position of the Hospital as of June 30, 2013 and 2012, and the changes 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits 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 our report dated October 11, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
October 11, 2013

**Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012**

Introduction

This management's discussion and analysis of the financial performance of Okeene Municipal Hospital and Schallmo Authority d/b/a Okeene Municipal Hospital (the Hospital), a component unit of the Town of Okeene, Oklahoma, provides an overview of the Hospital's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased in 2013 by \$214,342 (14.3%) and decreased in 2012 by \$849,719 (36.1%).
- The Hospital's net position decreased by \$16,294 (0.6%) in 2013 and increased by \$475,673 (21.7%) in 2012.
- The Hospital reported operating income of \$322,591 in 2013 and \$839,566 in 2012. The operating income in 2013 is a decrease compared to 2012 of \$516,975. The operating income in 2012 is an increase compared to 2011 of \$625,583.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net 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 all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that 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 it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents 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 balance sheet. The Hospital's net position decreased by \$16,294 (0.6%) in 2013 over 2012 and increased by \$475,673 (21.7%) in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Cash and cash equivalents	\$ 1,715,660	\$ 1,501,318	\$ 2,351,037
Patient accounts receivable, net	904,544	530,364	932,212
Other current assets	863,824	1,148,095	515,279
Capital assets, net	5,784,253	6,166,335	6,541,694
Other noncurrent assets	998,001	1,016,709	1,025,819
	<u>\$ 10,266,282</u>	<u>\$ 10,362,821</u>	<u>\$ 11,366,041</u>
Liabilities			
Long-term debt (including current portion)	\$ 6,973,897	\$ 7,071,093	\$ 7,168,592
Other current liabilities	643,275	626,324	2,007,718
	<u>7,617,172</u>	<u>7,697,417</u>	<u>9,176,310</u>
Net Position			
Net investment in capital assets	(191,643)	107,150	398,917
Restricted – expendable for debt service	50,600	57,294	52,374
Unrestricted	2,790,153	2,500,960	1,738,440
	<u>2,649,110</u>	<u>2,665,404</u>	<u>2,189,731</u>
	<u>\$ 10,266,282</u>	<u>\$ 10,362,821</u>	<u>\$ 11,366,041</u>

Significant changes that took place in 2013 relate to the increase in cash and cash equivalents and decrease in net capital assets. During the year, cash balances increased by \$214,342 (14.3%) in 2013 over 2012. This resulted from the combination of the Hospital receiving the prior year Medicare underpayment during the year. The Hospital has recorded a \$380,000 receivable from Medicare at June 30, 2013, compared to a \$650,000 receivable at June 30, 2012. Patient accounts receivable increased by \$374,180 (70.6%) in 2013 over 2012. This resulted from billing and payment delays in the billing and collections process. Capital assets decreased by \$382,082 (6.2%) due to annual depreciation of assets and insignificant additions to capital assets during the year.

Significant changes that took place in 2012 relate to the decrease in cash and cash equivalents, patient accounts receivable and other current liabilities. During the year, cash balances decreased by \$849,719 (36.1%) in 2012 over 2011. This resulted from the Hospital repaying the prior year Medicare overpayment and being underpaid by Medicare during 2012. The Hospital has recorded a \$650,000 receivable from Medicare at June 30, 2012, compared to a \$1,387,093 liability at June 30, 2011. Patient accounts receivable decreased by \$401,848 (43.1%) in 2012 over 2011. This resulted from the loss of a physician in 2012, which also impacted net patient service revenues.

Operating Results and Changes in the Hospital's Net Position

In 2013 and 2012, the Hospital's net position decreased by \$16,294 (0.6%) and by \$475,673 (21.7%) as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 5,200,631	\$ 5,749,959	\$ 5,689,912
Other operating revenue	58,129	244,624	54,222
Total operating revenues	<u>5,258,760</u>	<u>5,994,583</u>	<u>5,744,134</u>
Operating Expenses			
Salaries and wages and employee benefits	2,804,157	2,808,520	2,992,990
Purchased services and professional fees	350,837	430,511	473,581
Depreciation and amortization	409,700	427,005	437,408
Other operating expenses	1,371,475	1,488,981	1,626,172
Total operating expenses	<u>4,936,169</u>	<u>5,155,017</u>	<u>5,530,151</u>
Operating Income	<u>322,591</u>	<u>839,566</u>	<u>213,983</u>
Nonoperating Revenues (Expenses)			
Noncapital appropriations – Town of Okeene	97,308	87,886	85,254
Investment income	71,848	19,356	23,826
Interest expense	(520,141)	(526,837)	(534,265)
Noncapital grants and gifts	12,100	55,702	42,849
Total nonoperating revenues (expenses)	<u>(338,885)</u>	<u>(363,893)</u>	<u>(382,336)</u>
Increase (Decrease) in Net Position	<u>\$ (16,294)</u>	<u>\$ 475,673</u>	<u>\$ (168,353)</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2013, 2012 and 2011, the Hospital reported operating income. 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.

Operating income decreased by \$516,975 as compared to 2012. The decrease is made up of several components, including:

- Other operating revenue decreased by \$186,495, which is primarily due to additional revenues received in 2012 from the Hospital's participation in the Medicaid Electronic Health Records Incentive Program that were not received in 2013.
- Net patient service revenue decreased by \$549,328 due primarily to a decrease in utilization during the year.
- Other operating expenses decreased by \$117,506 due largely to decreases in insurance expense, administrative supplies and clinic expenses.
- Purchased services and professional fees decreased by \$79,674 largely due to a decrease in on-call emergency room staffing expense during 2012.

The operating income for 2012 increased by \$625,583 (292.35%) as compared to 2011. The primary component of the increased operating income is an increase in other operating revenues of \$190,402 (351.2%). Other operating revenues increased in 2012 as a result of additional revenues for the Hospital's participation in the Medicaid Electronic Health Records Incentive Program. Salaries and wages and employee benefits decreased in 2012 by \$184,470 (6.2%) due to a decrease in clinic wages caused by the loss of an employed physician during 2012. Net patient service revenue increased by \$60,047 (1.1%) as compared to 2011 due to the Hospital's participation in Oklahoma's Supplemental Hospital Offset Payment Program, net of a decrease caused by the loss of a physician during 2012. Other operating expenses decreased by \$137,191 (8.4%) due largely to decreases in insurance expense, lab supplies and pharmacy expenses.

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 2013 as compared to 2012 and 2011.

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 2012 and 2011, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2013, the Hospital had \$5,784,253 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2013, the Hospital purchased new equipment costing \$13,711.

At June 30, 2012, the Hospital had \$6,166,335 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2012, the Hospital purchased new equipment costing \$40,239.

Debt

At June 30, 2013 and 2012, the Hospital had \$6,973,897 and \$7,071,093, respectively, in revenue bonds and a capital lease obligation outstanding as detailed in *Note 8* to the financial statements. The Hospital issued no new debt in 2013 or 2012.

Other Economic Factors

One large employer in the Hospital's geographic region, CCA Diamondback prison, ceased operations May 28, 2010. CCA Diamondback had more than 300 employees, many of whom were local.

In addition, another local employer, U.S. Gypsum, began a reduction in workforce in July 2009. Due to a declining construction market, the plant was reduced to two shifts resulting in layoffs of 10 employees. In April 2010, the construction market decline caused U.S. Gypsum to cease wallboard production resulting in a decrease from 240 to 180 employees.

Contacting the Hospital's Financial Management

This financial report is designed to provide the Hospital's 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. Questions about this report and requests for additional financial information should be directed to the Hospital's Business Administration by telephoning 580.822.4417.

**Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital**

A Component Unit of the Town of Okeene, Oklahoma

Balance Sheets

June 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 1,715,660	\$ 1,501,318
Restricted cash and investments – current	302,600	307,993
Patient accounts receivable, net of allowance; 2013 – \$665,000, 2012 – \$631,000	904,544	530,364
Estimated amounts due from third-party payers	380,000	650,000
Supplies	158,516	158,769
Prepaid expenses and other	22,708	31,333
Total current assets	3,484,028	3,179,777
Noncurrent Cash and Investments		
Held by trustee for debt service	1,001,600	1,011,794
Less amount required to meet current obligations	302,600	307,993
	699,000	703,801
Capital Assets, Net	5,784,253	6,166,335
Deferred Financing Costs, Net	299,001	312,908
Total assets	\$ 10,266,282	\$ 10,362,821

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Current maturities of long-term debt	\$ 95,720	\$ 98,542
Accounts payable	138,759	131,339
Accrued expenses	252,516	239,485
Accrued interest payable	<u>252,000</u>	<u>255,500</u>
Total current liabilities	738,995	724,866
Long-Term Debt		
	<u>6,878,177</u>	<u>6,972,551</u>
Total liabilities	<u>7,617,172</u>	<u>7,697,417</u>
Net Position		
Net investment in capital assets	(191,643)	107,150
Restricted – expendable for debt service	50,600	57,294
Unrestricted	<u>2,790,153</u>	<u>2,500,960</u>
Total net position	<u>2,649,110</u>	<u>2,665,404</u>
Total liabilities and net position	<u><u>\$ 10,266,282</u></u>	<u><u>\$ 10,362,821</u></u>

Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$360,320, 2012 – \$421,180	\$ 5,200,631	\$ 5,749,959
Other	58,129	244,624
Total operating revenues	5,258,760	5,994,583
Operating Expenses		
Salaries and wages	2,460,084	2,454,170
Employee benefits	344,073	354,350
Purchased services and professional fees	350,837	430,511
Supplies and other	1,371,475	1,488,981
Depreciation and amortization	409,700	427,005
Total operating expenses	4,936,169	5,155,017
Operating Income	322,591	839,566
Nonoperating Revenues (Expenses)		
Noncapital appropriations – Town of Okeene	97,308	87,886
Investment income	71,848	19,356
Interest expense	(520,141)	(526,837)
Noncapital grants and gifts	12,100	55,702
Total nonoperating revenues (expenses)	(338,885)	(363,893)
Excess (Deficiency) of Revenues over Expenses and Increase (Decrease) in Net Position	(16,294)	475,673
Net Position, Beginning of Year	2,665,404	2,189,731
Net Position, End of Year	\$ 2,649,110	\$ 2,665,404

Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 5,096,451	\$ 4,114,714
Payments to suppliers and contractors	(1,706,014)	(1,889,584)
Payments to and on behalf of employees	(2,791,126)	(2,812,918)
Other receipts and payments, net	58,129	244,624
Net cash provided by (used in) operating activities	657,440	(343,164)
Noncapital Financing Activities		
Noncapital grants and gifts	12,100	55,702
Town appropriations supporting operations	97,308	87,886
Net cash provided by noncapital financing activities	109,408	143,588
Capital and Related Financing Activities		
Principal paid on long-term debt	(108,541)	(108,845)
Interest paid on long-term debt	(512,296)	(518,991)
Purchase of capital assets	(13,711)	(40,239)
Net cash used in capital and related financing activities	(634,548)	(668,075)
Investing Activities		
Interest on investments	71,848	19,356
Net cash provided by investing activities	71,848	19,356
Increase (Decrease) in Cash and Cash Equivalents	204,148	(848,295)
Cash and Cash Equivalents, Beginning of Year	1,814,112	2,662,407
Cash and Cash Equivalents, End of Year	\$ 2,018,260	\$ 1,814,112
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,715,660	\$ 1,501,318
Cash and cash equivalents in restricted cash and investments – current	302,600	312,794
	\$ 2,018,260	\$ 1,814,112

See Notes to Financial Statements

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Income to Net Cash Provided by (Used in)		
Operating Activities		
Operating income	\$ 322,591	\$ 839,566
Item not requiring cash		
Depreciation and amortization	409,700	427,005
Changes in operating assets and liabilities		
Patient accounts receivable, net	(374,180)	401,848
Supplies, prepaid expenses and other receivables	8,878	16,311
Estimated amounts due to/from third-party payers	270,000	(2,037,093)
Accounts payable and accrued expenses	20,451	9,199
	<u>657,440</u>	<u>(343,164)</u>
Net cash provided by (used in) operating activities	<u>\$ 657,440</u>	<u>\$ (343,164)</u>

**Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital**

A Component Unit of the Town of Okeene, Oklahoma

Notes to Financial Statements

June 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and 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 Board appoints the Board of Trustees of the Authority.

The Authority operates the Hospital under a bargain lease agreement with the Town. The initial term of the lease is from December 1, 2004 to November 30, 2014, and will remain in effect thereafter as long as any security interest in the Hospital facility has been given to a financial institution or creditor. The lease has been amended to extend the lease term by an additional 21 years until November 30, 2035. Upon termination of the lease, control of Hospital operations reverts back to the Town.

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.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, town appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific, such as town appropriations, investment income and interest on capital assets-related debt, are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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.

Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers and a certificate of deposit.

Risk Management

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

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

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.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the Town, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

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 program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program 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 2013 and 2012, the Hospital received approximately \$161,000 and \$166,000, respectively, in SHOPP funds, which is the estimated annual amount to be received by the Hospital over the term of the SHOPP program. Revenue from the SHOPP program is recorded in net patient service revenues on the accompanying statements of revenues, expenses and changes in net position.

Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
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Notes to Financial Statements
June 30, 2013 and 2012

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by CMS. The final amount for any payment year under both programs is determined based upon an audit by the Medicare administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

During fiscal year 2012, the Hospital recognized approximately \$175,000 in revenue under the Oklahoma Medicaid program's EHR Incentive Program. The Hospital expects to complete the first-year requirements under the Medicare program in 2014. The revenue is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2011.

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.

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Approximately 75% and 77% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider 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.

Note 3: Unrestricted Town Appropriations

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% and 1% of its financial support from town appropriations related to sales tax during 2013 and 2012, respectively. Revenue from town appropriations is recognized in the year in which the sales tax is earned.

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires that all deposits for public trusts be insured or collateralized.

At June 30, 2013 and 2012, approximately \$357,000 and \$0 of the Hospital's bank balances of \$2,416,534 and \$2,240,535, respectively, were exposed to custodial credit risk as follows:

	<u>2013</u>	<u>2012</u>
Uninsured and uncollateralized	<u>\$ 357,000</u>	<u>\$ -</u>

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Investments

At June 30, 2013 and 2012, the Hospital had the following investments and maturities:

		June 30, 2013			
		Maturities in Years			
Fair Value	Less than 1	1-5	6-10	More than 10	
Money market mutual funds	\$ 302,600	\$ 302,600	\$ -	\$ -	\$ -
		June 30, 2012			
		Maturities in Years			
Fair Value	Less than 1	1-5	6-10	More than 10	
Money market mutual funds	\$ 312,794	\$ 312,794	\$ -	\$ -	\$ -

Interest Rate Risk – Interest rate risk is the exposure to fair value losses arising from rising interest rates. The Hospital’s investment policy does not address interest rate risk; however, all the Hospital’s investments are held by a trustee for debt service. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013 and 2012, the Hospital had no investments which were not explicitly guaranteed by the U.S. government.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Hospital had no investments denominated in foreign currency at June 30, 2013 and 2012.

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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	2013	2012
Carrying value		
Deposits	\$ 2,414,660	\$ 2,200,318
Investments	302,600	312,794
	\$ 2,717,260	\$ 2,513,112
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,715,660	\$ 1,501,318
Restricted cash and investments – current	302,600	307,993
Noncurrent cash and investments	699,000	703,801
	\$ 2,717,260	\$ 2,513,112

Investment Income

Investment income for the years ended June 30, 2013 and 2012, consisted of interest income.

Note 5: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30 consisted of:

	2013	2012
Medicare	\$ 655,715	\$ 251,072
Medicaid	8,866	8,632
Other third-party payers	127,435	146,191
Patients	777,528	755,469
	1,569,544	1,161,364
Less allowance for uncollectible accounts	665,000	631,000
	\$ 904,544	\$ 530,364

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Note 7: Medical Malpractice Claims

The Hospital is a member of Cimarron Insurance Exchange, RRG (Reciprocal Risk Retention Group) (the RRG) approved by the state of Vermont to provide hospital professional and general liability coverage to its subscribers. The RRG was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. The RRG members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. During 2012, the RRG was redomiciled in Oklahoma.

The Hospital has obtained letters of credit totaling \$79,928 from a commercial bank to secure equity ownership in the RRG in accordance with the subscriber agreement set forth between the Hospital and the RRG. As stated by the subscriber agreement, the beneficiary of the letters of credit is the Commissioner of Insurance of the State of Oklahoma. The commissioner has the authority to draw down on the letters of credit as needed to fund the RRG. As of June 30, 2013 and 2012, there have been no draws on the letters of credit.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended June 30:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds	\$ 7,300,000	\$ -	\$ (100,000)	\$ 7,200,000	\$ 100,000
Bond discount	(243,927)	-	11,345	(232,582)	(10,759)
	<u>7,056,073</u>	<u>-</u>	<u>(88,655)</u>	<u>6,967,418</u>	<u>89,241</u>
Capital lease obligation	<u>15,020</u>	<u>-</u>	<u>(8,541)</u>	<u>6,479</u>	<u>6,479</u>
Total long-term debt	<u>\$ 7,071,093</u>	<u>\$ -</u>	<u>\$ (97,196)</u>	<u>\$ 6,973,897</u>	<u>\$ 95,720</u>

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	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds	\$ 7,400,000	\$ -	\$ (100,000)	\$ 7,300,000	\$ 100,000
Bond discount	(255,273)	-	11,346	(243,927)	(10,759)
	<u>7,144,727</u>	<u>-</u>	<u>(88,654)</u>	<u>7,056,073</u>	<u>89,241</u>
Capital lease obligation	<u>23,865</u>	<u>-</u>	<u>(8,845)</u>	<u>15,020</u>	<u>9,301</u>
Total long-term debt	<u>\$ 7,168,592</u>	<u>\$ -</u>	<u>\$ (97,499)</u>	<u>\$ 7,071,093</u>	<u>\$ 98,542</u>

Revenue Bonds

The Series 2006 Revenue Bonds (the Bonds) in the original amount of \$7,800,000 and sold at a discount of \$312,000, dated March 15, 2006, bear interest at 7.00%. The Bonds are payable with principal payments due annually and interest payments due semiannually through January 1, 2035. The Hospital is required to make monthly deposits to the debt service fund held by the trustee in the amount of 1/6 of the next semiannual interest payment due and 1/12 the amount of the next annual principal payment due. All of the Bonds still outstanding may be redeemed at the Hospital's option on or after January 1, 2016. The redemption price is 101% through December 31, 2016, decreasing to 100.5% from January 1 to December 31, 2017, and decreasing to 100% on or after January 1, 2018. The Bonds are secured by the revenues and certain assets of the Hospital described in the Financing and Security Agreement (the Agreement).

The Agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The Agreement also requires the Hospital to comply with certain restrictive covenants, including:

- Maintaining minimum insurance coverage
- Maintaining a debt service coverage ratio of at least 1.25 to 1.00
- Restrictions on incurrence of additional debt
- Maintaining minimum days cash on hand of 45 days
- Maintaining minimum aged receivables of not more than 120 days
- Maintaining maximum aged payables of not more than 120 days
- Maintaining minimum current ratio of 2.00 to 1.00

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The discount on the Bonds is being amortized over the term of the Bonds using the straight-line method.

The debt service requirements as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 604,000	\$ 100,000	\$ 504,000
2015	697,000	200,000	497,000
2016	683,000	200,000	483,000
2017	669,000	200,000	469,000
2018	655,000	200,000	455,000
2019–2023	3,258,000	1,200,000	2,058,000
2024–2028	3,175,000	1,600,000	1,575,000
2029–2033	3,224,000	2,300,000	924,000
2034–2035	1,326,000	1,200,000	126,000
	<u>\$ 14,291,000</u>	<u>\$ 7,200,000</u>	<u>\$ 7,091,000</u>

Capital Lease Obligation

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under the capital lease at June 30, 2013 and 2012, totaled \$42,991, net of accumulated depreciation of \$26,102 and \$19,960, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at 5% together with the present value of the future minimum lease payments as of June 30, 2013:

Year Ending June 30,	
2014	\$ 6,573
Total minimum lease payments	<u>6,573</u>
Less amount representing interest	<u>94</u>
Present value of future minimum lease payments	<u>\$ 6,479</u>

**Okeene Municipal Hospital and Schallmo Authority
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A Component Unit of the Town of Okeene, Oklahoma

Notes to Financial Statements

June 30, 2013 and 2012

Note 9: Charity Care

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are approximately as follows:

	2013	2012
Charity allowances	\$ 85,000	\$ 67,000
Medicaid welfare	214,000	211,000
	\$ 299,000	\$ 278,000

In addition to uncompensated charges, the Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, community educational services and various support groups.

Note 10: Risks and Uncertainties

Current Economic Conditions

The current economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

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Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 11: Pension Plan

The Hospital converted its 403(b) plan to a 457 plan as of July 1, 2011. 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. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. In August 2010, the Hospital froze their contributions to the pension plan but subsequently resumed contributions in April 2013. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3.0% and 0.2%, respectively, for 2013 and 2.7% and 0%, respectively, for 2012. Contributions actually made by plan members and the Hospital aggregated approximately \$78,000 and \$6,000, respectively, during the year ended June 30, 2013, and approximately \$72,000 and \$0, respectively, during the year ended June 30, 2012.

Note 12: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas that may not be covered by commercial insurance. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
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 (the Hospital), which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control over Financial Reporting

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

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

Compliance

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matters

We noted certain matters that we reported to the Hospital's management in a separate letter dated October 11, 2013.

The purpose of this communication 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 entity's internal control or compliance. This communication 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.

BKD, LLP

Tulsa, Oklahoma
October 11, 2013

**Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2013**

Reference Number	Finding
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No matters are reportable.