

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, 2014 and 2013



Okeene Municipal Hospital and Schallmo Authority
d/b/a Okeene Municipal Hospital
A Component Unit of the Town of Okeene, Oklahoma
June 30, 2014 and 2013

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
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 the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25
Schedule of Findings and Responses	27

Independent Auditor's Report

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, 2014 and 2013, 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 financial position of the Hospital as of June 30, 2014 and 2013, 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.

Emphasis of Matter

As discussed in *Note 12* to the financial statements, in 2014, the Hospital changed its method of accounting for debt issuance costs as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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 30, 2014, on our consideration of the Hospital'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

**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, 2014 and 2013**

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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased in 2014 by \$302,719 (17.6%) and increased in 2013 by \$214,342 (14.3%).
- Other current liabilities increased in 2014 by \$801,228 (124.6%) and increased in 2013 by \$16,951 (2.7%).
- The Hospital's net position increased by \$209,742 (8.9%) in 2014 and decreased by \$2,387 (0.1%) in 2013.
- The Hospital reported operating income of \$501,846 in 2014 and \$336,498 in 2013. The operating income in 2014 is an increase compared to 2013 of \$165,348. The operating income in 2013 is a decrease compared to 2012 of \$516,975.

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, all liabilities and all deferred inflows and outflows of resources 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 increased by \$209,742 (8.9%) in 2014 over 2013 and decreased by \$2,387 (0.1%) in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2014	2013 (Restated – Note 12)	2012 (Restated – Note 12)
Assets			
Cash and cash equivalents	\$ 2,018,379	\$ 1,715,660	\$ 1,501,318
Patient accounts receivable, net	899,683	904,544	530,364
Other current assets	1,235,481	863,824	1,148,095
Capital assets, net	6,028,483	5,784,253	6,166,335
Other noncurrent assets	701,091	699,000	703,801
	<u>\$ 10,883,117</u>	<u>\$ 9,967,281</u>	<u>\$ 10,049,913</u>
Liabilities			
Long-term debt (including current portion)	\$ 6,878,763	\$ 6,973,897	\$ 7,071,093
Other current liabilities	1,444,503	643,275	626,324
	<u>8,323,266</u>	<u>7,617,172</u>	<u>7,697,417</u>
Net Position			
Net investment in capital assets	(732,292)	(490,644)	107,150
Restricted – expendable for debt service	103,212	50,600	57,294
Unrestricted	3,188,931	2,790,153	2,188,052
	<u>2,559,851</u>	<u>2,350,109</u>	<u>2,352,496</u>
Total liabilities and net position	<u>\$ 10,883,117</u>	<u>\$ 9,967,281</u>	<u>\$ 10,049,913</u>

Significant changes that took place in 2014 relate to the increase in cash and cash equivalents, net capital assets and other current liabilities. Cash and cash equivalent balances increased by \$302,719 (17.6%) in 2014 over 2013. This resulted from the improved operating results of the Hospital during the year. In addition, during the year, the Hospital invested heavily in the development of its electronic health records (EHR) system, including the purchase of EHR assets totaling \$637,199. Of this amount, at year-end, \$581,012 was owed to the vendor who assisted with the EHR system implementation, pending receipt of the approximately \$533,000 in EHR incentive revenue from the Medicare program. As a result of these events, the Hospital saw an increase in net capital assets of \$244,230 (4.2%) and an increase in other current liabilities of \$801,228 (124.6%).

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 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.

Operating Results and Changes in the Hospital's Net Position

In 2014 and 2013, the Hospital's net position increased by \$209,742 (8.9%) and decreased by \$2,387 (0.1%), respectively, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2014	2013 (Restated – Note 12)	2012 (Restated – Note 12)
Operating Revenues			
Net patient service revenue	\$ 5,837,746	\$ 5,200,631	\$ 5,749,959
Other operating revenue	267,351	58,129	244,624
Total operating revenues	<u>6,105,097</u>	<u>5,258,760</u>	<u>5,994,583</u>
Operating Expenses			
Salaries and wages and employee benefits	2,780,198	2,804,157	2,808,520
Purchased services and professional fees	602,162	350,837	430,511
Depreciation	455,141	395,793	413,098
Other operating expenses	1,765,750	1,371,475	1,488,981
Total operating expenses	<u>5,603,251</u>	<u>4,922,262</u>	<u>5,141,110</u>
Operating Income	<u>501,846</u>	<u>336,498</u>	<u>853,473</u>
Nonoperating Revenues (Expenses)			
Noncapital appropriations – Town of Okeene	99,143	97,308	87,886
Investment income	105,682	71,848	19,356
Interest expense	(512,244)	(520,141)	(526,837)
Noncapital grants and gifts	15,315	12,100	55,702
Total nonoperating revenues (expenses)	<u>(292,104)</u>	<u>(338,885)</u>	<u>(363,893)</u>
Increase (Decrease) in Net Position	<u>\$ 209,742</u>	<u>\$ (2,387)</u>	<u>\$ 489,580</u>

Operating Income

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. The Hospital has reported operating income in each of the past three years. 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 increased by \$165,348 in 2014 as compared to 2013. The increase is made up of several components, including:

- Net patient service revenue increased by \$637,115 due primarily to the Hospital's implementation and attestation to Stage 1 under Medicare's EHR Incentive Program, including approximately \$533,000 in revenue recorded during 2014.
- Purchased services and professional fees increased by \$251,325 largely due to an increase in on-call emergency room staffing expense and lab professional fees during 2014.
- Other operating expenses increased by \$394,275 due largely to an increase in noncapital expenses related to the Hospital's development of the EHR system in 2014.

Operating income decreased by \$516,975 in 2013 as compared to 2012. The decrease is made up of several components, including:

- Net patient service revenue decreased by \$549,328 due primarily to a decrease in utilization during the year.
- 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 EHR Incentive Program that were not received in 2013.
- 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 2013.

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 2014 as compared to 2013 and 2012 except for investment income. Investment income increased by \$33,834 (47.1%) largely due to a payment of approximately \$93,000 related to the dissolution of Cimarron Insurance Exchange, a joint venture between the Hospital and other Oklahoma health care providers.

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 2014 and 2013, discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2014, the Hospital had \$6,028,483 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2014, the Hospital purchased new equipment costing \$699,371.

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.

Debt

At June 30, 2014 and 2013, the Hospital had \$6,878,763 and \$6,973,897, 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 2014 or 2013. The capital lease obligation was paid off in 2014.

Other Economic Factors

One local employer, U.S. Gypsum, began a reduction in workforce in 2009 and 2010, which resulted in a decrease from 240 to 180 employees. As the economy and construction market have improved over the past few years, U.S. Gypsum has been able to rehire employees and currently has approximately 270 employees, 45 of which are temporary.

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, 2014 and 2013

Assets

	<u>2014</u>	<u>2013 (Restated – Note 12)</u>
Current Assets		
Cash and cash equivalents	\$ 2,018,379	\$ 1,715,660
Restricted cash and investments – current	349,121	302,600
Patient accounts receivable, net of allowance; 2014 – \$704,000, 2013 – \$665,000	899,683	904,544
Estimated amounts due from third-party payers	560,000	380,000
Supplies	164,388	158,516
Prepaid expenses and other	<u>161,972</u>	<u>22,708</u>
Total current assets	<u>4,153,543</u>	<u>3,484,028</u>
Noncurrent Cash and Investments		
Held by trustee for debt service	1,050,212	1,001,600
Less amount required to meet current obligations	<u>349,121</u>	<u>302,600</u>
	<u>701,091</u>	<u>699,000</u>
Capital Assets, Net	<u>6,028,483</u>	<u>5,784,253</u>
Total assets	<u><u>\$ 10,883,117</u></u>	<u><u>\$ 9,967,281</u></u>

Liabilities and Net Position

	2014	2013 (Restated – Note 12)
Current Liabilities		
Current maturities of long-term debt	\$ 188,655	\$ 95,134
Accounts payable	937,921	138,759
Accrued expenses	258,582	252,516
Accrued interest payable	248,000	252,000
	<hr/>	<hr/>
Total current liabilities	1,633,158	738,409
	<hr/>	<hr/>
Long-Term Debt	6,690,108	6,878,763
	<hr/>	<hr/>
Total liabilities	8,323,266	7,617,172
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	(732,292)	(490,644)
Restricted – expendable for debt service	103,212	50,600
Unrestricted	3,188,931	2,790,153
	<hr/>	<hr/>
Total net position	2,559,851	2,350,109
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Total liabilities and net position	<u>\$ 10,883,117</u>	<u>\$ 9,967,281</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, 2014 and 2013

	2014	2013 (Restated – Note 12)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – \$534,854, 2013 – \$360,320	\$ 5,837,746	\$ 5,200,631
Other	267,351	58,129
Total operating revenues	6,105,097	5,258,760
Operating Expenses		
Salaries and wages	2,399,315	2,460,084
Employee benefits	380,883	344,073
Purchased services and professional fees	602,162	350,837
Supplies and other	1,765,750	1,371,475
Depreciation	455,141	395,793
Total operating expenses	5,603,251	4,922,262
Operating Income	501,846	336,498
Nonoperating Revenues (Expenses)		
Noncapital appropriations – Town of Okeene	99,143	97,308
Investment income	105,682	71,848
Interest expense	(512,244)	(520,141)
Noncapital grants and gifts	15,315	12,100
Total nonoperating revenues (expenses)	(292,104)	(338,885)
Excess (Deficiency) of Revenues over Expenses and Increase (Decrease) in Net Position	209,742	(2,387)
Net Position, Beginning of Year, as Restated	2,350,109	2,352,496
Net Position, End of Year	\$ 2,559,851	\$ 2,350,109

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, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>(Restated –</u> <u>Note 12)</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 5,553,703	\$ 5,096,451
Payments to suppliers and contractors	(2,185,994)	(1,706,014)
Payments to and on behalf of employees	(2,774,132)	(2,791,126)
Other receipts and payments, net	<u>267,351</u>	<u>58,129</u>
Net cash provided by operating activities	<u>860,928</u>	<u>657,440</u>
Noncapital Financing Activities		
Noncapital grants and gifts	15,315	12,100
Town appropriations supporting operations	<u>99,143</u>	<u>97,308</u>
Net cash provided by noncapital financing activities	<u>114,458</u>	<u>109,408</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(106,479)	(108,541)
Interest paid on long-term debt	(504,899)	(512,296)
Purchase of capital assets	<u>(118,359)</u>	<u>(13,711)</u>
Net cash used in capital and related financing activities	<u>(729,737)</u>	<u>(634,548)</u>
Investing Activities		
Interest on investments	<u>103,591</u>	<u>71,848</u>
Net cash provided by investing activities	<u>103,591</u>	<u>71,848</u>
Increase in Cash and Cash Equivalents	349,240	204,148
Cash and Cash Equivalents, Beginning of Year	<u>2,018,260</u>	<u>1,814,112</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,367,500</u>	<u>\$ 2,018,260</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 2,018,379	\$ 1,715,660
Cash and cash equivalents in restricted cash and investments – current	<u>349,121</u>	<u>302,600</u>
	<u>\$ 2,367,500</u>	<u>\$ 2,018,260</u>

See Notes to Financial Statements

	2014	2013 (Restated – Note 12)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 501,846	\$ 336,498
Item not requiring cash		
Depreciation	455,141	395,793
Changes in operating assets and liabilities		
Patient accounts receivable, net	4,861	(374,180)
Supplies, prepaid expenses and other receivables	(145,136)	8,878
Estimated amounts due to/from third-party payers	(180,000)	270,000
Accounts payable and accrued expenses	224,216	20,451
	<u>\$ 860,928</u>	<u>\$ 657,440</u>
Net cash provided by operating activities	<u>\$ 860,928</u>	<u>\$ 657,440</u>
Supplemental Cash Flows Information		
Capital assets included in accounts payable	\$ 581,012	\$ -

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, 2014 and 2013

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, 2014 and 2013

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, 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 nonnegotiable 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, 2014 and 2013

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

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 consists 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 trustee 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.

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.

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, 2014 and 2013

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 2014 and 2013, the Hospital received approximately \$142,000 and \$161,000, 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 revenue on the accompanying statements of revenues, expenses and changes in 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, 2014 and 2013

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 (EHR) technology. Critical access hospitals (CAH) 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 made for three 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 administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the Medicare incentive payment revenue received for qualified EHR technology expenditures during 2014, which was the period during which management was reasonably assured meaningful use was achieved and the earning process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. During fiscal year 2014, the Hospital recognized approximately \$533,000 in revenue under Medicare's EHR Incentive Program. The revenue is included in net patient service revenue in the accompanying statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in financial 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, 2012.

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, 2014 and 2013

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.

Approximately 77% and 71% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2014 and 2013, 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 1.6% and 1.8% of its financial support from town appropriations related to sales tax during 2014 and 2013, 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, 2014 and 2013, approximately \$0 and \$357,000 of the Hospital's bank balances of \$2,784,103 and \$2,416,534, respectively, were exposed to custodial credit risk.

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, 2014 and 2013

Investments

At June 30, 2014 and 2013, the Hospital held investments totaling \$349,124 and \$302,600, respectively, consisting of money market mutual funds.

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 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. The Hospital’s investment policy does not address credit risk. The Hospital had investments that were rated AAA by Standard & Poor’s and Aaa by Moody’s at both June 30, 2014 and 2013.

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, 2014 and 2013.

**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, 2014 and 2013

Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	\$ 2,719,470	\$ 2,414,660
Investments	349,121	302,600
	\$ 3,068,591	\$ 2,717,260
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,018,379	\$ 1,715,660
Restricted cash and investments – current	349,121	302,600
Noncurrent cash and investments	701,091	699,000
	\$ 3,068,591	\$ 2,717,260

Investment Income

Investment income for the years ended June 30, 2014 and 2013, consisted of:

	2014	2013
Income from joint venture	\$ 92,520	\$ -
Interest income	13,162	71,848
	\$ 105,682	\$ 71,848

**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, 2014 and 2013

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:

	2014	2013
Medicare	\$ 628,345	\$ 655,715
Medicaid	2,902	8,866
Other third-party payers	142,032	127,435
Patients	830,404	777,528
	1,603,683	1,569,544
Less allowance for uncollectible accounts	704,000	665,000
Patient accounts receivable, net	\$ 899,683	\$ 904,544

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2014				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 160,101	\$ -	\$ -	\$ -	\$ 160,101
Land improvements	71,814	-	-	-	71,814
Buildings, improvements and fixed equipment	8,620,179	-	(75,612)	-	8,544,567
Major moveable equipment	765,710	699,371	(27,835)	-	1,437,246
	9,617,804	699,371	(103,447)	-	10,213,728
Less accumulated depreciation					
Land improvements	39,777	5,241	-	-	45,018
Buildings, improvements and fixed equipment	3,144,646	357,153	(75,612)	-	3,426,187
Major moveable equipment	649,128	92,747	(27,835)	-	714,040
	3,833,551	455,141	(103,447)	-	4,185,245
Capital assets, net	\$ 5,784,253	\$ 244,230	\$ -	\$ -	\$ 6,028,483

**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, 2014 and 2013

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 160,101	\$ -	\$ -	\$ -	\$ 160,101
Land improvements	72,694	-	(880)	-	71,814
Buildings, improvements and fixed equipment	8,620,355	-	(176)	-	8,620,179
Major moveable equipment	784,927	13,711	(32,928)	-	765,710
	<u>9,638,077</u>	<u>13,711</u>	<u>(33,984)</u>	<u>-</u>	<u>9,617,804</u>
Less accumulated depreciation					
Land improvements	35,416	5,241	(880)	-	39,777
Buildings, improvements and fixed equipment	2,788,596	356,226	(176)	-	3,144,646
Major moveable equipment	647,730	34,326	(32,928)	-	649,128
	<u>3,471,742</u>	<u>395,793</u>	<u>(33,984)</u>	<u>-</u>	<u>3,833,551</u>
Capital assets, net	<u>\$ 6,166,335</u>	<u>\$ (382,082)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,784,253</u>

Note 7: Medical Malpractice Claims

Through December 31, 2013, the Hospital was a member of Cimarron Insurance Exchange, RRG (Reciprocal Risk Retention Group) (Cimarron) approved by the state of Vermont to provide hospital professional and general liability coverage to its subscribers. Cimarron 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. Cimarron members were provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. Effective January 1, 2014, Cimarron was dissolved and the Hospital purchased medical malpractice insurance under a claims-made policy on a fixed premium basis from a commercial insurer.

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.

**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, 2014 and 2013

Note 8: Long-Term Debt

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

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds	\$ 7,200,000	\$ -	\$ (100,000)	\$ 7,100,000	\$ 200,000
Bond discount	(232,582)	-	11,345	(221,237)	(11,345)
	<u>6,967,418</u>	<u>-</u>	<u>(88,655)</u>	<u>6,878,763</u>	<u>188,655</u>
Capital lease obligation	6,479	-	(6,479)	-	-
Total long-term debt	<u>\$ 6,973,897</u>	<u>\$ -</u>	<u>\$ (95,134)</u>	<u>\$ 6,878,763</u>	<u>\$ 188,655</u>
	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)	(11,345)
	<u>7,056,073</u>	<u>-</u>	<u>(88,655)</u>	<u>6,967,418</u>	<u>88,655</u>
Capital lease obligation	15,020	-	(8,541)	6,479	6,479
Total long-term debt	<u>\$ 7,071,093</u>	<u>\$ -</u>	<u>\$ (97,196)</u>	<u>\$ 6,973,897</u>	<u>\$ 95,134</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).

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, 2014 and 2013

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

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, 2014, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	641,000	200,000	441,000
2020–2024	3,274,000	1,300,000	1,974,000
2025–2029	3,163,000	1,700,000	1,463,000
2030–2034	3,263,000	2,500,000	763,000
2035	642,000	600,000	42,000
	<u>\$ 13,687,000</u>	<u>\$ 7,100,000</u>	<u>\$ 6,587,000</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, totaled \$42,991, net of accumulated depreciation of \$19,960. The capital lease was paid off during 2014.

**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, 2014 and 2013

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 costs relating to these services are approximately as follows:

	2014	2013
Charity allowances	\$ 19,000	\$ 77,400
State Medicaid and other public aid programs	264,100	176,100
	\$ 283,100	\$ 253,500

The cost of uncompensated care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges based on the June 30, 2013, Medicare cost report. In addition to uncompensated costs, 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: 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's board of trustees. 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 3.1% and 1.2%, respectively, for 2014 and 3.0% and 0.2%, respectively, for 2013. Contributions actually made by plan members and the Hospital aggregated approximately \$80,000 and \$31,000, respectively, during the year ended June 30, 2014, and approximately \$78,000 and \$6,000, respectively, during the year ended June 30, 2013.

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, 2014 and 2013

Note 11: 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.

Note 12: Change in Accounting Principle

In 2014, the Hospital adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which became effective for reporting periods beginning after December 15, 2012. The impact of this change in accounting principle was to retroactively expense previously capitalized deferred financing costs. This change resulted in a decrease to the previously reported beginning net position and change in net position for 2013 of \$312,908 and \$13,907, respectively.

**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, 2014, 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 30, 2014, which contained an *Emphasis of Matter* paragraph regarding a change in accounting principle.

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 and Other Matters

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*.

We noted certain matters that we reported to the Hospital's management in a separate letter dated October 30, 2014.

Purpose of this Report

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 Hospital'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 30, 2014

**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, 2014**

Reference Number	Finding
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No matters are reportable.