

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Auditor's Reports and Financial Statements
April 30, 2013 and 2012



Roger Mills County Hospital Authority
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April 30, 2013 and 2012

Contents

Independent Auditor’s Report on Financial Statements and Supplementary Information	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
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>	20
Schedule of Findings and Responses	22

Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
Cheyenne, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Roger Mills County Hospital Authority d/b/a Roger Mills County Memorial Hospital (the Hospital), a component unit of Roger Mills County, Oklahoma, which comprise the balance sheets as of April 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 April 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 1, 2013, 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

Tulsa, Oklahoma
October 1, 2013

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Management's Discussion and Analysis
Years Ended April 30, 2013 and 2012**

Introduction

This management's discussion and analysis of the financial performance of Roger Mills County Hospital Authority d/b/a Roger Mills County Memorial Hospital (the Hospital), a component unit of Rogers Mills County, Oklahoma (the County), provides an overview of the Hospital's financial activities for the years ended April 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and short-term certificates of deposit increased in 2013 by \$2,450,787 or 25% and increased in 2012 by \$3,622,848 or 60%.
- Patient accounts receivable, net, increased to \$1,399,996 in 2013 from \$615,588 in 2012, an increase of \$784,408 or 127%.
- Estimated settlements with Medicare changed from a \$450,000 amount due to Medicare at April 30, 2012, to a \$250,000 amount due to Medicare at April 30, 2013, a decrease of \$200,000.
- The Hospital had no debt outstanding at April 30, 2013 and 2012.
- The Hospital's net position increased in 2013 by \$3,478,865 or 29% and in 2012 by \$3,502,870 or 42%.
- The Hospital reported operating losses in both 2013 and 2012 in the amounts of \$663,935 and \$692,395, respectively. The operating loss in 2013 decreased by \$28,464 or 4% over the operating loss reported in 2012. The operating loss in 2012 decreased by \$458,530 or 40% over the operating loss reported in 2011.
- Net nonoperating revenues decreased by \$52,465 or 1% in 2013 compared to 2012 and increased by \$2,287,099 or 120% in 2012 compared to 2011.

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 them. 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 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 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 \$3,478,865 or 29% in 2013 over 2012 and by \$3,502,870 or 42% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Cash and short-term certificates of deposit	\$ 12,106,322	\$ 9,655,535	\$ 6,032,687
Patient accounts receivable, net	1,399,996	615,588	246,649
County appropriations receivable	1,136,439	1,092,503	615,917
Capital assets, net	1,014,052	1,037,590	1,165,130
Other current and noncurrent assets	179,709	195,779	603,305
Total assets	<u>\$ 15,836,518</u>	<u>\$ 12,596,995</u>	<u>\$ 8,663,688</u>
Liabilities			
Total liabilities	<u>\$ 473,730</u>	<u>\$ 713,072</u>	<u>\$ 282,635</u>
Net Position			
Net investment in capital assets	1,014,052	1,037,590	1,108,349
Unrestricted	<u>14,348,736</u>	<u>10,846,333</u>	<u>7,272,704</u>
Total net position	<u>15,362,788</u>	<u>11,883,923</u>	<u>8,381,053</u>
Total liabilities and net position	<u>\$ 15,836,518</u>	<u>\$ 12,596,995</u>	<u>\$ 8,663,688</u>

One significant change in the Hospital's assets is the increase in cash and short-term certificates of deposit in 2013 of \$2,450,787 or 25% as compared to 2012, and in 2012 of \$3,622,848 or 60% as compared to 2011. This increase is due primarily to appropriations from the County.

In addition, the Hospital's accounts receivable increased by \$784,408 or 127% due primarily to increases in outstanding accounts receivable caused primarily by delays in payment from the Medicare administrative contractor. In 2012, the Hospital's accounts receivable increased by \$368,939 or 150%, due largely to delays in billing and increases in Medicare interim payment rates.

Operating Results and Changes in the Hospital's Net Position

The Hospital's net position increased by \$3,478,865 or 29% in 2013 and by \$3,502,870 or 42% in 2012 as shown in Table 2. These increases are made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 3,208,691	\$ 3,023,290	\$ 2,497,552
Other operating revenues	<u>297,914</u>	<u>314,641</u>	<u>240,115</u>
Total operating revenues	<u>3,506,605</u>	<u>3,337,931</u>	<u>2,737,667</u>
Operating Expenses			
Salaries, wages and employee benefits	2,760,927	2,517,453	2,357,453
Purchased services and professional fees	368,523	448,938	472,015
Supplies and other	848,131	857,921	842,728
Depreciation and amortization	<u>192,959</u>	<u>206,014</u>	<u>216,396</u>
Total operating expenses	<u>4,170,540</u>	<u>4,030,326</u>	<u>3,888,592</u>
Operating Loss	<u>(663,935)</u>	<u>(692,395)</u>	<u>(1,150,925)</u>
Nonoperating Revenues (Expenses)			
Noncapital appropriations – Roger Mills			
County	4,037,550	4,119,767	1,813,322
Investment income	<u>105,250</u>	<u>75,498</u>	<u>94,844</u>
Total nonoperating revenues (expenses)	<u>4,142,800</u>	<u>4,195,265</u>	<u>1,908,166</u>
Capital Grants and Gifts	<u>-</u>	<u>-</u>	<u>72,962</u>
Increase in Net Position	<u>\$ 3,478,865</u>	<u>\$ 3,502,870</u>	<u>\$ 830,203</u>

Operating Losses

The first component of the overall change in the Hospital's net position is its operating loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Roger Mills County and the surrounding area. The Hospital receives unrestricted appropriations from the County generated by a county sales tax to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2013 decreased by \$28,464 or 4% as compared to 2012. Increases in salaries, wages and employee benefits due to wage rate increases were offset by increases in net patient service revenues.

The operating loss for 2012 decreased by \$458,530 or 40% as compared to 2011. The primary component of the decreased operating loss is an increase in net patient service revenue of \$525,738 or 21% due primarily to higher Medicare utilization during the year.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county sales tax appropriations received by the Hospital and interest income. The Hospital showed a decrease in its appropriations related to a county sales tax of \$82,217 or 2% in 2013 as compared to 2012, and a significant increase of \$2,306,445 or 127% in 2012 as compared to 2011. These increases have primarily resulted from changing activity in the oil and gas industry in the County.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2013 and 2012 discussed earlier with the exception of the increase in accounts receivable and decrease in amounts due to third-party payers during 2013.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$1,014,052 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Hospital purchased new capital assets costing \$169,421, which are primarily related to significant renovations expected to begin during fiscal 2014.

At the end of 2012, the Hospital had \$1,037,590 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Hospital purchased new equipment costing \$78,474.

Debt

At April 30, 2013 and 2012, the Hospital had no outstanding debt.

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 administration by telephoning 580.497.3336.

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma**

**Balance Sheets
April 30, 2013 and 2012**

Assets

	2013	2012
Current Assets		
Cash	\$ 2,333,455	\$ 1,452,053
Short-term certificates of deposit	9,772,867	8,203,482
Patient accounts receivable, net of allowance; 2013 – \$294,000 2012 – \$265,000	1,399,996	615,588
County appropriations receivable	1,136,439	1,092,503
Supplies	141,494	125,283
Prepaid expenses	38,215	59,862
Total current assets	14,822,466	11,548,771
Capital Assets, Net	1,014,052	1,037,590
Other Assets	-	10,634
Total assets	\$ 15,836,518	\$ 12,596,995

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 28,304	\$ 118,568
Accrued expenses	195,426	144,504
Estimated amounts due to third-party payer	250,000	450,000
Current and total liabilities	473,730	713,072
Net Position		
Net investment in capital assets	1,014,052	1,037,590
Unrestricted	14,348,736	10,846,333
Total net position	15,362,788	11,883,923
Total liabilities and net position	\$ 15,836,518	\$ 12,596,995

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended April 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$333,127, 2012 – \$319,364	\$ 3,208,691	\$ 3,023,290
EMS contract revenue	266,400	258,000
Other	31,514	56,641
	<u>3,506,605</u>	<u>3,337,931</u>
Operating Expenses		
Salaries and wages	2,225,340	2,011,160
Employee benefits	535,587	506,293
Purchased services and professional fees	368,523	448,938
Supplies and other	848,131	857,921
Depreciation and amortization	192,959	206,014
	<u>4,170,540</u>	<u>4,030,326</u>
Operating Loss	<u>(663,935)</u>	<u>(692,395)</u>
Nonoperating Revenues		
Noncapital appropriations – Roger Mills County	4,037,550	4,119,767
Investment income	105,250	75,498
	<u>4,142,800</u>	<u>4,195,265</u>
Increase in Net Position	<u>3,478,865</u>	<u>3,502,870</u>
Net Position, Beginning of Year	<u>11,883,923</u>	<u>8,381,053</u>
Net Position, End of Year	<u><u>\$ 15,362,788</u></u>	<u><u>\$ 11,883,923</u></u>

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Statements of Cash Flows
Years Ended April 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 2,224,283	\$ 3,474,351
Payments to suppliers and contractors	(1,301,482)	(1,267,308)
Payments to and on behalf of employees	(2,710,005)	(2,500,260)
Other receipts, net	308,548	332,641
Net cash provided by (used in) operating activities	(1,478,656)	39,424
Noncapital Financing Activities		
Noncapital appropriations – Roger Mills County	3,993,614	3,643,181
Net cash provided by noncapital financing activities	3,993,614	3,643,181
Capital and Related Financing Activities		
Purchase of capital assets	(169,421)	(135,255)
Net cash used in capital and related financing activities	(169,421)	(135,255)
Investing Activities		
Purchases of short-term certificates of deposit	(9,740,934)	(8,149,046)
Proceeds from sale of short-term certificates of deposit	8,173,777	5,078,565
Interest income received	103,022	73,270
Net cash used in investing activities	(1,464,135)	(2,997,211)
Increase in Cash	881,402	550,139
Cash, Beginning of Year	1,452,053	901,914
Cash, End of Year	\$ 2,333,455	\$ 1,452,053

	<u>2013</u>	<u>2012</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (663,935)	\$ (692,395)
Depreciation and amortization	192,959	206,014
Changes in operating assets and liabilities		
Patient accounts receivable, net	(784,408)	(350,939)
Estimated amounts due to or from third-party payer	(200,000)	820,000
Accounts payable and accrued expenses	(11,578)	60,223
Other assets and liabilities	<u>(11,694)</u>	<u>(3,479)</u>
Net cash provided by (used in) operating activities	<u>\$ (1,478,656)</u>	<u>\$ 39,424</u>
Supplemental Cash Flows Information		
Prepaid asset included in accounts payable	\$ -	\$ 27,764

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Notes to Financial Statements
April 30, 2013 and 2012

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

Nature of Operations and Reporting Entity

Roger Mills County Memorial Hospital (the Hospital) is operated under the Roger Mills County Hospital Authority (the Authority), a public trust. The Authority is a component unit of Roger Mills County, Oklahoma (the County). The Board of County Commissioners of Roger Mills County, Oklahoma, created the Authority to operate, control and manage all matters concerning the Hospital. The Board of County Commissioners appoints the Board of Trustees of the Authority.

The Authority operates the Hospital under a bargain lease agreement with Roger Mills County, Oklahoma. The one-year lease expires June 30 and is automatically renewable each year upon payment of the bargain lease rent. Upon termination of the lease, control of hospital operations reverts back to Roger Mills County, Oklahoma.

The Hospital, located in Cheyenne, Oklahoma, is a critical access hospital facility licensed to operate 15 beds and primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Roger Mills County area. The Hospital also operates a rural health clinic and ambulance service in the same 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, county 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 county appropriations), interest income and interest expense 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.

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Notes to Financial Statements
April 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 April 30, 2013 and 2012, the Hospital held no cash equivalents.

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; 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. At April 30, 2013 and 2012, investments consisted of non-negotiable certificates of deposit.

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 patients, third-party payers 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.

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma

Notes to Financial Statements

April 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 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:

Building and leasehold improvements	10–40 years
Equipment	4–20 years

Compensated Absences

Hospital policies permit most employees to accumulate paid leave 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 paid leave benefits are earned. Compensated absence liabilities are computed using the regular 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

At April 30, 2013 and 2012, none of the Hospital's net position was classified as restricted expendable.

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.

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma**

Notes to Financial Statements

April 30, 2013 and 2012

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 County, 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. At April 30, 2013 and 2012, no provision has been made for tax on unrelated business taxable income.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare & 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 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 the year ended April 30, 2013, the Hospital received approximately \$25,000 in SHOPP funds. The SHOPP revenue is recorded as part of net patient service revenue on the accompanying statements of revenues, expenses and changes in net position.

The amounts received and paid during the year ended April 30, 2013, represent 12 months of SHOPP revenue. The estimated annual amounts to be received by the Hospital over the term of the SHOPP program are approximately \$50,000.

County Appropriations

Effective December 1, 1997, the citizens of Roger Mills County, Oklahoma, approved a 0.8% sales tax for the operations of the Hospital for a six-year term. Upon the expiration of the initial term, the sales tax was renewed for an additional six-year term beginning December 1, 2007, at a rate of 0.9%. The County collects the sales tax and remits it monthly to the Hospital. The Hospital received approximately 53% and 55% of its financial support from county appropriations related to the sales tax during 2013 and 2012, respectively. Revenue from county appropriations is recognized in the year in which the sales tax is earned.

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma

Notes to Financial Statements

April 30, 2013 and 2012

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 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 April 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.

Approximately 72% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 30, 2013 and 2012. 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: 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 collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At April 30, 2013 and 2012, none of the Hospital's deposits were exposed to custodial credit risk.

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma**

Notes to Financial Statements

April 30, 2013 and 2012

Summary of Carrying Values

The carrying values of deposits are included in the accompanying balance sheets as follows:

	<u>2013</u>	<u>2012</u>
Carrying value Deposits	<u>\$ 12,106,322</u>	<u>\$ 9,655,535</u>
Included in the following balance sheet captions		
Cash	\$ 2,333,455	\$ 1,452,053
Short-term certificates of deposit	<u>9,772,867</u>	<u>8,203,482</u>
	<u>\$ 12,106,322</u>	<u>\$ 9,655,535</u>

Investment Income

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

Note 4: Patient Accounts Receivable

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

	<u>2013</u>	<u>2012</u>
Medicare	\$ 1,148,103	\$ 394,942
Medicaid	29,483	13,951
Other third-party payers	212,371	246,269
Patients	<u>304,039</u>	<u>225,426</u>
	1,693,996	880,588
Less allowance for uncollectible accounts	<u>294,000</u>	<u>265,000</u>
	<u>\$ 1,399,996</u>	<u>\$ 615,588</u>

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma**

Notes to Financial Statements

April 30, 2013 and 2012

Note 5: Capital Assets

Capital assets activity for the years ended April 30 was:

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
Buildings and improvements	1,227,237	-	-	-	1,227,237
Equipment	1,418,666	-	-	-	1,418,666
Construction in progress	-	169,421	-	-	169,421
	<u>2,648,903</u>	<u>169,421</u>	<u>-</u>	<u>-</u>	<u>2,818,324</u>
Less accumulated depreciation					
Buildings and improvements	657,513	60,236	-	-	717,749
Equipment	953,800	132,723	-	-	1,086,523
	<u>1,611,313</u>	<u>192,959</u>	<u>-</u>	<u>-</u>	<u>1,804,272</u>
Capital assets, net	<u>\$ 1,037,590</u>	<u>\$ (23,538)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,014,052</u>
	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
Buildings and improvements	1,227,237	-	-	-	1,227,237
Equipment	1,354,612	78,474	(14,420)	-	1,418,666
	<u>2,584,849</u>	<u>78,474</u>	<u>(14,420)</u>	<u>-</u>	<u>2,648,903</u>
Less accumulated depreciation					
Buildings and improvements	593,144	64,369	-	-	657,513
Equipment	826,575	141,645	(14,420)	-	953,800
	<u>1,419,719</u>	<u>206,014</u>	<u>(14,420)</u>	<u>-</u>	<u>1,611,313</u>
Capital assets, net	<u>\$ 1,165,130</u>	<u>\$ (127,540)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,037,590</u>

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma**

Notes to Financial Statements

April 30, 2013 and 2012

Note 6: 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.

The Hospital has obtained a letter of credit of \$99,101 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 letter of credit is the Commissioner of Insurance of the State of Vermont. The commissioner has the authority to draw down on the letter of credit as needed to fund the RRG. As of April 30, 2013 and 2012, there have been no draws on the letter 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 claims 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 the Hospital's estimate of losses will change by a material amount in the near term.

Note 7: 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 the Medicaid welfare program. 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 for the years ended April 30 are as follows:

	2013	2012
Charity care	\$ 23,000	\$ 7,000
State Medicaid	120,000	89,000
	\$ 143,000	\$ 96,000

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma

Notes to Financial Statements

April 30, 2013 and 2012

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 education and promotion, blood pressure and cholesterol screening and health assessments. The expenses for these programs are included in operating expenses on the accompanying statements of revenues, expenses and changes in net position.

Note 8: Pension Plan

The Hospital contributes to a defined contribution pension plan covering 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. Contribution rates for plan members and the Hospital, expressed as a percentage of covered payroll, were 6.73% and 1.21% for 2013 and 5.98% and 1.13% for 2012, respectively. Contributions actually made by plan members and the Hospital aggregated approximately \$87,000 and \$16,000 during 2013 and \$77,000 and \$15,000 during 2012, respectively.

Note 9: EMS Contract

The Authority has a one-year contract with the Roger Mills County Emergency Medical Services (EMS) Board of Trustees to provide emergency services to Roger Mills County residents. The Hospital receives monthly compensation for services provided under the EMS contract. The contract may be renewed annually upon mutual consent of both parties. Included in operating revenue for the years ended April 30, 2013 and 2012, was \$266,400 and \$258,000, respectively, for services related to the contract.

Note 10: Contingencies

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 not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. 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.

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Notes to Financial Statements
April 30, 2013 and 2012

Note 11: Subsequent Event

During July 2013, the Hospital engaged a general contractor to perform significant renovations to the hospital and clinic facilities at an expected cost of approximately \$3,400,000. The renovations are expected to be completed in late fiscal 2015 and will be funded using Hospital cash reserves.

**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
Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
Cheyenne, 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 Roger Mills County Hospital Authority d/b/a Roger Mills County Memorial Hospital (the Hospital), which comprise the balance sheet as of April 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 1, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A 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. 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-1 to be a material weakness.

Board of Trustees
Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial 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*.

Management's Response to Findings

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

Other Matters

We also noted certain matters that we reported to the Hospital's management in a separate letter dated October 1, 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 1, 2013

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Schedule of Findings and Responses
Year Ended April 30, 2013**

Reference Number	Finding
2013-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Adjusting journal entries were required to correct misstatements in the accompanying financial statements.</p> <p>Context – Errors existed in balance sheet accounts related primarily to posting prior year audit entries and posting contractual allowance estimates.</p> <p>Effect – Potentially material adjustments or errors could be made to the financial statements and not be deleted timely.</p> <p>Cause – Posting errors occurred and were not discovered as part of the monthly preparation of the financial statements.</p> <p>Recommendation – Management should consider revisions to posting procedures to address potential errors timely.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and will perform the evaluation and implement corrections that are considered cost-effective within the next year.</p>