

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, 2014 and 2013



**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
April 30, 2014 and 2013**

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Independent Auditor's Report

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, 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 April 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.

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 17, 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

Tulsa, Oklahoma
October 17, 2014

**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, 2014 and 2013**

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, 2014 and 2013. 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 2014 by \$1,291,550 or 11% and increased in 2013 by \$2,450,787 or 25%.
- Patient accounts receivable, net, decreased to \$481,434 in 2014 from \$1,399,996 in 2013, a decrease of \$918,562 or 66%.
- Estimated settlements with Medicare changed from a \$250,000 amount due to Medicare at April 30, 2013, to a \$622,500 amount due to the Hospital at April 30, 2014, an increase of \$872,500.
- The Hospital had no debt outstanding at April 30, 2014 and 2013.
- The Hospital's net position increased in 2014 by \$3,286,599 or 21% and in 2013 by \$3,478,865 or 29%.
- The Hospital reported operating losses in both 2014 and 2013 in the amounts of \$945,718 and \$663,935, respectively. The operating loss in 2014 increased by \$281,783 or 42% over the operating loss reported in 2013. The operating loss in 2013 decreased by \$28,464 or 4% over the operating loss reported in 2012.
- Net nonoperating revenues increased by \$89,517 or 2% in 2014 compared to 2013 and decreased by \$52,465 or 1% in 2013 compared to 2012.

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 \$3,286,599 or 21% in 2014 over 2013 and by \$3,478,865 or 29% in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2014	2013	2012
Assets			
Cash and short-term certificates of deposit	\$ 13,397,872	\$ 12,106,322	\$ 9,655,535
Patient accounts receivable, net	481,434	1,399,996	615,588
County appropriations receivable	975,927	1,136,439	1,092,503
Capital assets, net	3,694,926	1,014,052	1,037,590
Other current and noncurrent assets	804,046	179,709	195,779
Total assets	<u>\$ 19,354,205</u>	<u>\$ 15,836,518</u>	<u>\$ 12,596,995</u>
Liabilities			
Total liabilities	<u>\$ 704,818</u>	<u>\$ 473,730</u>	<u>\$ 713,072</u>
Net Position			
Investment in capital assets	3,250,209	1,014,052	1,037,590
Unrestricted	<u>15,399,178</u>	<u>14,348,736</u>	<u>10,846,333</u>
Total net position	<u>18,649,387</u>	<u>15,362,788</u>	<u>11,883,923</u>
Total liabilities and net position	<u>\$ 19,354,205</u>	<u>\$ 15,836,518</u>	<u>\$ 12,596,995</u>

One significant change in the Hospital's assets is the increase in cash and short-term certificates of deposit in 2014 of \$1,291,550 or 11% as compared to 2013. In 2013, cash and short-term certificated of deposit increased by \$2,450,787 or 25% as compared to 2012. This increase is due primarily to appropriations from the County.

In addition, the Hospital's accounts receivable decreased by \$918,562 or 66% due primarily to decreases in volume during the year and regular payment from Medicare after the issues in 2013 noted below. In 2013, 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.

Another significant change is in the estimated amounts due to/from third-party payers. This changed from a payable of \$250,000 in 2013 to a \$622,500 receivable in 2014. This is due to a receivable of \$400,000 from Medicaid related to the Electronic Health Records (EHR) Incentive Program and a receivable from Medicare on the 2014 cost report.

Capital assets, net of accumulated depreciation also increased \$2,680,874 or 264% in 2014 as compared to 2013 due to the Hospital undertaking a major renovation of its facilities.

Operating Results and Changes in the Hospital's Net Position

The Hospital's net position increased by \$3,286,599 or 21% in 2014 and by \$3,478,865 or 29% in 2013 as shown in Table 2. These increases are made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	\$ 2,693,525	\$ 3,208,691	\$ 3,023,290
Other operating revenues	686,053	297,914	314,641
Total operating revenues	3,379,578	3,506,605	3,337,931
Operating Expenses			
Salaries, wages and employee benefits	2,915,292	2,760,927	2,517,453
Purchased services and professional fees	308,247	368,523	448,938
Supplies and other	911,037	848,131	857,921
Depreciation and amortization	190,720	192,959	206,014
Total operating expenses	4,325,296	4,170,540	4,030,326
Operating Loss	(945,718)	(663,935)	(692,395)
Nonoperating Revenues			
Noncapital appropriations – Roger Mills County	4,073,724	4,037,550	4,119,767
Investment income	158,593	105,250	75,498
Total nonoperating revenues	4,232,317	4,142,800	4,195,265
Increase in Net Position	<u>\$ 3,286,599</u>	<u>\$ 3,478,865</u>	<u>\$ 3,502,870</u>

Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. 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 the 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 2014 increased by \$281,783 or 42% as compared to 2013. Decreases in net patient service revenue due to declining volumes and increases in salaries, wages and employee benefits combined for this increase.

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.

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 an increase in its appropriations related to a county sales tax of \$36,174 or 1% in 2014 as compared to 2013, and a decrease of \$82,217 or 2% in 2013 as compared to 2012. These fluctuations 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 2014 and 2013 discussed earlier with the exception of the decrease in accounts receivable and increase in amounts due from third-party payers during 2014.

Capital Assets and Debt Administration

Capital Assets

At the end of 2014, the Hospital had \$3,694,926 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014, the Hospital purchased new capital assets costing \$2,871,594, which are primarily related to significant renovations of the Hospital and clinic facilities started during fiscal 2014.

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 equipment costing \$169,421.

Debt

At April 30, 2014 and 2013, 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, 2014 and 2013**

Assets

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 1,567,847	\$ 2,333,455
Short-term certificates of deposit	11,830,025	9,772,867
Patient accounts receivable, net of allowance; 2014 – \$319,000, 2013 – \$294,000	481,434	1,399,996
County appropriations receivable	975,927	1,136,439
Estimated amounts due from third-party payers	622,500	-
Supplies	151,070	141,494
Prepaid expenses	<u>30,476</u>	<u>38,215</u>
Total current assets	15,659,279	14,822,466
Capital Assets, Net	<u>3,694,926</u>	<u>1,014,052</u>
Total assets	<u><u>\$ 19,354,205</u></u>	<u><u>\$ 15,836,518</u></u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 481,500	\$ 28,304
Accrued expenses	223,318	195,426
Estimated amounts due to third-party payer	<u>-</u>	<u>250,000</u>
Current and total liabilities	<u>704,818</u>	<u>473,730</u>
Net Position		
Investment in capital assets	3,250,209	1,014,052
Unrestricted	<u>15,399,178</u>	<u>14,348,736</u>
Total net position	<u>18,649,387</u>	<u>15,362,788</u>
Total liabilities and net position	<u><u>\$ 19,354,205</u></u>	<u><u>\$ 15,836,518</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 Revenues, Expenses and Changes in Net Position
Years Ended April 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – \$349,959, 2013 – \$333,127	\$ 2,693,525	\$ 3,208,691
EMS contract revenue	283,200	266,400
Other	<u>402,853</u>	<u>31,514</u>
Total operating revenues	<u>3,379,578</u>	<u>3,506,605</u>
Operating Expenses		
Salaries and wages	2,358,951	2,225,340
Employee benefits	556,341	535,587
Purchased services and professional fees	308,247	368,523
Supplies and other	911,037	848,131
Depreciation	<u>190,720</u>	<u>192,959</u>
Total operating expenses	<u>4,325,296</u>	<u>4,170,540</u>
Operating Loss	<u>(945,718)</u>	<u>(663,935)</u>
Nonoperating Revenues		
Noncapital appropriations – Roger Mills County	4,073,724	4,037,550
Investment income	<u>158,593</u>	<u>105,250</u>
Total nonoperating revenues	<u>4,232,317</u>	<u>4,142,800</u>
Increase in Net Position	3,286,599	3,478,865
Net Position, Beginning of Year	<u>15,362,788</u>	<u>11,883,923</u>
Net Position, End of Year	<u><u>\$ 18,649,387</u></u>	<u><u>\$ 15,362,788</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, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	\$ 2,739,587	\$ 2,224,283
Payments to suppliers and contractors	(1,212,642)	(1,301,482)
Payments to and on behalf of employees	(2,887,400)	(2,710,005)
Other receipts, net	<u>686,053</u>	<u>308,548</u>
Net cash used in operating activities	<u>(674,402)</u>	<u>(1,478,656)</u>
Noncapital Financing Activities		
Noncapital appropriations – Roger Mills County	<u>4,234,236</u>	<u>3,993,614</u>
Net cash provided by noncapital financing activities	<u>4,234,236</u>	<u>3,993,614</u>
Capital and Related Financing Activities		
Purchase of capital assets	<u>(2,426,877)</u>	<u>(169,421)</u>
Net cash used in capital and related financing activities	<u>(2,426,877)</u>	<u>(169,421)</u>
Investing Activities		
Purchases of short-term certificates of deposit	(11,797,549)	(9,740,934)
Proceeds from sale of short-term certificates of deposit	9,744,262	8,173,777
Interest income received	<u>154,722</u>	<u>103,022</u>
Net cash used in investing activities	<u>(1,898,565)</u>	<u>(1,464,135)</u>
Increase (Decrease) in Cash	(765,608)	881,402
Cash, Beginning of Year	<u>2,333,455</u>	<u>1,452,053</u>
Cash, End of Year	<u><u>\$ 1,567,847</u></u>	<u><u>\$ 2,333,455</u></u>

See Notes to Financial Statements

	2014	2013
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (945,718)	\$ (663,935)
Depreciation and amortization	190,720	192,959
Provision for uncollectible accounts	349,959	333,127
Changes in operating assets and liabilities		
Patient accounts receivable, net	568,603	(1,117,535)
Estimated amounts due to or from third-party payer	(872,500)	(200,000)
Accounts payable and accrued expenses	36,371	(11,578)
Other assets and liabilities	(1,837)	(11,694)
	<u>\$ (674,402)</u>	<u>\$ (1,478,656)</u>
Net cash used in operating activities	<u>\$ (674,402)</u>	<u>\$ (1,478,656)</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 444,717	\$ -

**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, 2014 and 2013

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 the County 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 the County. 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 the County.

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, 2014 and 2013

Cash Equivalents

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

Investments consist of non-negotiable certificates of deposit which are carried at amortized cost.

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.

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

**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, 2014 and 2013

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 two components. 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. Unrestricted net position is the remaining net position that does not meet the definition of investment in capital assets.

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

As an essential government function of the 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, 2014 and 2013, no provision has been made for tax on unrelated business taxable income.

**Roger Mills County Hospital Authority
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A Component Unit of Roger Mills County, Oklahoma**

Notes to Financial Statements

April 30, 2014 and 2013

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP 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 years ended April 30, 2014 and 2013, the Hospital received approximately \$73,000 and \$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 annual amounts to be received by the Hospital over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual benefit to the Hospital over the term of the SHOPP program is not expected to be materially different than the amount received in 2014.

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 are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by CMS. The final amount for any payment year under both programs is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

**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, 2014 and 2013

In 2014, the Hospital completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$400,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position. The Hospital plans to complete the first-year requirements under the Medicare program and the second-year requirements under the Medicaid program in 2015.

County Appropriations

Effective December 1, 1997, the citizens of the County 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 sales tax was renewed for another six-year term beginning December 1, 2013, at the same rate. The County collects the sales tax and remits it monthly to the Hospital. The Hospital received approximately 54% and 53% of its financial support from county appropriations related to the sales tax during 2014 and 2013, respectively. Revenue from county appropriations is recognized in the year in which the sales tax is earned.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement 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 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, 2012.
- **Medicaid** – The Hospital is reimbursed for services rendered to patients covered by the state Medicaid program on a prospective per discharge or fee schedule method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

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Approximately 65% and 72% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 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 2014 net patient service revenue increased approximately \$432,000 due to final settlements in excess of amounts previously estimated.

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, 2014 and 2013, none of the Hospital's deposits were exposed to custodial credit risk.

Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	<u>\$ 13,397,872</u>	<u>\$ 12,106,322</u>
Included in the following balance sheet captions		
Cash	\$ 1,567,847	\$ 2,333,455
Short-term certificates of deposit	<u>11,830,025</u>	<u>9,772,867</u>
	<u>\$ 13,397,872</u>	<u>\$ 12,106,322</u>

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Investment Income

Investment income for the years ended April 30 consisted of:

	2014	2013
Interest income	\$ 63,935	\$ 73,754
Income from joint venture	94,658	31,496
	<u>\$ 158,593</u>	<u>\$ 105,250</u>

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:

	2014	2013
Medicare	\$ 228,304	\$ 1,148,103
Medicaid	4,904	29,483
Other third-party payers	238,769	212,371
Patients	328,457	304,039
	<u>800,434</u>	<u>1,693,996</u>
Less allowance for uncollectible accounts	319,000	294,000
	<u>\$ 481,434</u>	<u>\$ 1,399,996</u>

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Note 5: Capital Assets

Capital assets activity for the years ended April 30 was:

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
Buildings and improvements	1,227,237	-	-	-	1,227,237
Equipment	1,418,666	669,689	(73,886)	32,388	2,046,857
Construction in progress	169,421	2,201,905	-	(32,388)	2,338,938
	<u>2,818,324</u>	<u>2,871,594</u>	<u>(73,886)</u>	<u>-</u>	<u>5,616,032</u>
Less accumulated depreciation					
Buildings and improvements	717,749	57,820	-	-	775,569
Equipment	1,086,523	132,900	(73,886)	-	1,145,537
	<u>1,804,272</u>	<u>190,720</u>	<u>(73,886)</u>	<u>-</u>	<u>1,921,106</u>
Capital assets, net	<u>\$ 1,014,052</u>	<u>\$ 2,680,874</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,694,926</u>

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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>

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Notes to Financial Statements

April 30, 2014 and 2013

Note 6: Medical Malpractice Claims

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.

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 costs relating to these services for the years ended April 30 are as follows:

	2014	2013
Charity care	\$ 57,000	\$ 25,000
State Medicaid	162,000	201,000
	<u>\$ 219,000</u>	<u>\$ 226,000</u>

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The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. 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 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 5.1% and 0.8% for 2014 and 4.0% and 0.7% for 2013, respectively. Contributions actually made by plan members and the Hospital aggregated approximately \$120,000 and \$19,000 during 2014 and \$87,000 and \$16,000 during 2013, 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, 2014 and 2013, was \$283,200 and \$266,400, respectively, for services related to the contract.

Note 10: Investment in Cimarron

Through December 31, 2013, the Hospital was a subscriber (member) of Cimarron and had less than a 10% ownership (equity) interest in Cimarron. Cimarron was originally chartered as a risk retention group by the State of Vermont to provide hospital professional and general liability coverage to its subscribers. In 2012, Cimarron was redomiciled to Oklahoma and licensed by the Oklahoma Insurance Department to continue its operations as a risk retention group. The Hospital obtained a letter of credit of \$99,101 from a commercial bank to secure equity ownership in Cimarron in accordance with the subscriber agreement set forth between the Hospital and Cimarron. No draws were made on the letter of credit. Effective December 31, 2013, Cimarron was dissolved and the letter of credit cancelled. The Hospital's investment in Cimarron amounted to \$0 at April 30, 2014 and 2013.

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The Hospital purchased its professional liability and other liability insurance coverages from Cimarron (see *Note 6*) through December 31, 2013. For the years ended April 30, 2014 and 2013, the Hospital paid approximately \$8,000 and \$37,000, respectively, to Cimarron for the coverage.

Note 11: *Patient Protection and Affordable Care Act*

The *Patient Protection and Affordable Care Act* (the PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Hospital's net patient service revenue. In addition, it is possible the Hospital will experience payment delays and other operational challenges during the PPACA's implementation.

Note 12: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas 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.

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April 30, 2014 and 2013**

Construction Project

The Hospital entered into an agreement for approximately \$3,600,000 to perform significant renovations to the hospital and clinic facilities. The remaining costs as of April 30, 2014, expected to be paid under this agreement are approximately \$1,200,000, which includes accrued amounts as of April 30, 2014, of approximately \$295,000. 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, 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 17, 2014.

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 2014-1 to be a material weakness.

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

Management's Response to the Finding

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.

We also noted certain matters that we reported to the Hospital's management in a separate letter dated October 17, 2014.

Purpose of this Report

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

BKD, LLP

Tulsa, Oklahoma
October 17, 2014

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, 2014

Reference Number	Finding
2014-1	<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 contractual allowance estimates, accruing invoices for proper accounts payable cutoff and correcting entries posted incorrectly during the year.</p> <p>Effect – Potentially material adjustments or errors could be made to the financial statements and not be detected in a timely manner.</p> <p>Cause – The process of preparing estimates of allowances for contractual adjustments and bad debts and estimated amounts due to or from third parties is inadequate. In addition, 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 computing key significant estimates and posting procedures to address potential errors in a timely manner.</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>