

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Independent Auditor's Reports and Financial Statements
April 30, 2015 and 2014



**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
April 30, 2015 and 2014**

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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 balance sheets of Roger Mills County Hospital Authority d/b/a Roger Mills County Memorial Hospital (the Hospital), a component unit of Roger Mills County, Oklahoma, as of April 30, 2015 and 2014, 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, 2015 and 2014, 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 6, 2015, 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 6, 2015

**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, 2015 and 2014**

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, 2015 and 2014. 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 2015 by \$107,234 or 1% and increased in 2014 by \$1,291,550 or 11%.
- Patient accounts receivable, net increased to \$992,600 in 2015 from \$481,434 in 2014, an increase of \$511,166 or 106%.
- Estimated settlements with Medicare changed from a \$622,500 amount due to the Hospital at April 30, 2014, to a \$40,000 amount due to the Hospital at April 30, 2014, a decrease of \$582,500.
- The Hospital's net position increased in 2015 by \$2,345,177 or 13% and in 2014 by \$3,286,599 or 21%.
- The Hospital reported operating losses in both 2015 and 2014 in the amounts of \$858,079 and \$945,718, respectively. The operating loss in 2015 decreased by \$87,639 or 9% over the operating loss reported in 2014. The operating loss in 2014 increased by \$281,783 or 42% over the operating loss reported in 2013.
- Net nonoperating revenues decreased by \$1,029,061 or 24% in 2015 compared to 2014 and increased by \$89,517 or 2% in 2014 compared to 2013.

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, if any. 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 \$2,345,177 or 13% in 2015 over 2014 and by \$3,286,599 or 21% in 2014 over 2013 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2015	2014	2013
Assets			
Cash and short-term certificates of deposit	\$ 13,505,106	\$ 13,397,872	\$ 12,106,322
Patient accounts receivable, net	992,600	481,434	1,399,996
County appropriations receivable	392,064	975,927	1,136,439
Capital assets, net	6,181,265	3,694,926	1,014,052
Other current and noncurrent assets	247,024	804,046	179,709
Total assets	<u>\$ 21,318,059</u>	<u>\$ 19,354,205</u>	<u>\$ 15,836,518</u>
Liabilities			
Total liabilities	<u>\$ 323,495</u>	<u>\$ 704,818</u>	<u>\$ 473,730</u>
Net Position			
Investment in capital assets	6,156,674	3,250,209	1,014,052
Unrestricted	<u>14,837,890</u>	<u>15,399,178</u>	<u>14,348,736</u>
Total net position	<u>20,994,564</u>	<u>18,649,387</u>	<u>15,362,788</u>
Total liabilities and net position	<u>\$ 21,318,059</u>	<u>\$ 19,354,205</u>	<u>\$ 15,836,518</u>

One significant change in the Hospital's assets is the increase in patient accounts receivable in 2015 of \$511,166 or 106% as compared to 2014. This increase was primarily due to an increase in Medicare reimbursement rates as well as delays in payment from the Medicare administrative contractor at year-end. In 2014, the Hospital's accounts receivable decreased by \$918,562 or 66% due primarily to decreases in volume during the year and the return of more regular payments from Medicare after delays in 2013 from the change in administrative contractor.

In addition, the Hospital's county appropriations receivable decreased in 2015 by \$583,863 or 60% as compared to 2014. This is due to lower sales tax receipts collected during the year due to the decline in oil and gas prices.

Another significant change is in the estimated amounts due to/from third-party payers. This changed from a receivable of \$622,500 in 2014 to a \$40,000 receivable in 2015. This decline is primarily due to a receivable of \$400,000 recorded in 2014 from Medicaid related to the Electronic Health Records (EHR) Incentive Program. The Hospital did not attest to the second-year requirements during 2015 to be eligible to receive additional incentive revenue. See additional information in *Note 1* to the financial statements.

Capital assets, net of accumulated depreciation also increased \$2,486,339 or 67% in 2015 as compared to 2014 and \$2,680,874 or 264% in 2014 as compared to 2013 due to the Hospital completing a major renovation and expansion of its facilities and adding a new CT scanner.

Operating Results and Changes in the Hospital's Net Position

The Hospital's net position increased by \$2,345,177 or 13% in 2015 and by \$3,286,599 or 21% in 2014 as shown in Table 2. These increases are made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 3,349,748	\$ 2,693,525	\$ 3,208,691
Other operating revenues	464,702	686,053	297,914
Total operating revenues	<u>3,814,450</u>	<u>3,379,578</u>	<u>3,506,605</u>
Operating Expenses			
Salaries, wages and employee benefits	3,106,983	2,915,292	2,760,927
Purchased services and professional fees	330,747	308,247	368,523
Supplies and other	923,675	911,037	848,131
Depreciation and amortization	311,124	190,720	192,959
Total operating expenses	<u>4,672,529</u>	<u>4,325,296</u>	<u>4,170,540</u>
Operating Loss	<u>(858,079)</u>	<u>(945,718)</u>	<u>(663,935)</u>
Nonoperating Revenues			
Noncapital appropriations – Roger Mills County	3,137,908	4,073,724	4,037,550
Investment income	65,348	158,593	105,250
Total nonoperating revenues	<u>3,203,256</u>	<u>4,232,317</u>	<u>4,142,800</u>
Increase in Net Position	<u>\$ 2,345,177</u>	<u>\$ 3,286,599</u>	<u>\$ 3,478,865</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 2015 decreased by \$87,639 or 9% as compared to 2014. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$656,223 or 24% due primarily to increased reimbursement rates from Medicare
- An increase in salaries, wages and employee benefits of \$191,691 or 7% due primarily to regular wage increases and an increase in the number of full-time equivalents
- An increase in depreciation and amortization of \$120,404 or 63% due to the renovated facility and equipment being placed in service

The operating loss for 2014 increased by \$281,783 or 42% as compared to 2013. This increase was due primarily to decreases in net patient service revenue due to declining volumes and increases in salaries, wages and employee benefits.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county sales tax appropriations received by the Hospital and interest income. The Hospital received a decrease in its appropriations related to a county sales tax of \$935,816 or 23% in 2015 as compared to 2014, and an increase in its appropriations related to a county sales tax of \$36,174 or 1% in 2014 as compared to 2013. 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 primarily due to the maturity of certain Hospital certificates of deposit that were converted to cash rather than reinvested for 2015 and are consistent with changes in operating losses and nonoperating revenues and expenses for 2014.

Capital Assets and Debt Administration

Capital Assets

At the end of 2015, the Hospital had \$6,181,265 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015, the Hospital purchased new capital assets costing \$2,797,463, which are primarily related to significant renovations of the Hospital and clinic facilities started during fiscal 2014.

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.

Debt

At April 30, 2015 and 2014, 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, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash	\$ 4,302,226	\$ 1,567,847
Short-term certificates of deposit	9,202,880	11,830,025
Patient accounts receivable, net of allowance; 2015 – \$398,000, 2014 – \$319,000	992,600	481,434
County appropriations receivable	392,064	975,927
Estimated amounts due from third-party payers	40,000	622,500
Supplies	147,617	151,070
Prepaid expenses and other	<u>59,407</u>	<u>30,476</u>
Total current assets	15,136,794	15,659,279
Capital Assets, Net	<u>6,181,265</u>	<u>3,694,926</u>
Total assets	<u><u>\$ 21,318,059</u></u>	<u><u>\$ 19,354,205</u></u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 74,846	\$ 481,500
Accrued expenses	<u>248,649</u>	<u>223,318</u>
Current and total liabilities	<u>323,495</u>	<u>704,818</u>
Net Position		
Investment in capital assets	6,156,674	3,250,209
Unrestricted	<u>14,837,890</u>	<u>15,399,178</u>
Total net position	<u>20,994,564</u>	<u>18,649,387</u>
Total liabilities and net position	<u><u>\$ 21,318,059</u></u>	<u><u>\$ 19,354,205</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015 – \$293,114, 2014 – \$349,959	\$ 3,349,748	\$ 2,693,525
EMS contract revenue	332,000	283,200
Other	<u>132,702</u>	<u>402,853</u>
Total operating revenues	<u>3,814,450</u>	<u>3,379,578</u>
Operating Expenses		
Salaries and wages	2,529,240	2,358,951
Employee benefits	577,743	556,341
Purchased services and professional fees	330,747	308,247
Supplies and other	923,675	911,037
Depreciation	<u>311,124</u>	<u>190,720</u>
Total operating expenses	<u>4,672,529</u>	<u>4,325,296</u>
Operating Loss	<u>(858,079)</u>	<u>(945,718)</u>
Nonoperating Revenues		
Noncapital appropriations – Roger Mills County	3,137,908	4,073,724
Investment income	<u>65,348</u>	<u>158,593</u>
Total nonoperating revenues	<u>3,203,256</u>	<u>4,232,317</u>
Increase in Net Position	2,345,177	3,286,599
Net Position, Beginning of Year	<u>18,649,387</u>	<u>15,362,788</u>
Net Position, End of Year	<u><u>\$ 20,994,564</u></u>	<u><u>\$ 18,649,387</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, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 3,421,082	\$ 2,739,587
Payments to suppliers and contractors	(1,266,428)	(1,212,642)
Payments to and on behalf of employees	(3,081,652)	(2,887,400)
Other receipts, net	<u>464,702</u>	<u>686,053</u>
Net cash used in operating activities	<u>(462,296)</u>	<u>(674,402)</u>
Noncapital Financing Activities		
Noncapital appropriations – Roger Mills County	<u>3,721,771</u>	<u>4,234,236</u>
Net cash provided by noncapital financing activities	<u>3,721,771</u>	<u>4,234,236</u>
Capital and Related Financing Activities		
Purchase of capital assets	<u>(3,217,589)</u>	<u>(2,426,877)</u>
Net cash used in capital and related financing activities	<u>(3,217,589)</u>	<u>(2,426,877)</u>
Investing Activities		
Purchases of short-term certificates of deposit	(9,163,220)	(11,797,549)
Proceeds from sale of short-term certificates of deposit	11,797,008	9,744,262
Interest income received	<u>58,705</u>	<u>154,722</u>
Net cash provided by (used in) investing activities	<u>2,692,493</u>	<u>(1,898,565)</u>
Increase (Decrease) in Cash	2,734,379	(765,608)
Cash, Beginning of Year	<u>1,567,847</u>	<u>2,333,455</u>
Cash, End of Year	<u><u>\$ 4,302,226</u></u>	<u><u>\$ 1,567,847</u></u>

	2015	2014
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (858,079)	\$ (945,718)
Depreciation and amortization	311,124	190,720
Provision for uncollectible accounts	293,114	349,959
Changes in operating assets and liabilities		
Patient accounts receivable, net	(804,280)	568,603
Estimated amounts due to or from third-party payer	582,500	(872,500)
Accounts payable and accrued expenses	38,803	36,371
Other assets and liabilities	<u>(25,478)</u>	<u>(1,837)</u>
Net cash used in operating activities	<u><u>\$ (462,296)</u></u>	<u><u>\$ (674,402)</u></u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 24,591	\$ 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, 2015 and 2014

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, 2015 and 2014

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At April 30, 2015 and 2014, 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. 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
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A Component Unit of Roger Mills County, Oklahoma**

Notes to Financial Statements

April 30, 2015 and 2014

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 whether the employee is expected to realize the benefit as time off or in cash. 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, 2015 and 2014, no provision has been made for tax on unrelated business taxable income.

**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, 2015 and 2014

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP 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, 2015 and 2014, the Hospital received approximately \$116,000 and \$73,000, respectively, 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 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 is not expected to be materially different than the amount received in 2015.

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 three years based upon a statutory formula, as determined by the state, which is approved by CMS. The final amount for any payment year under both programs is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital 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, 2015 and 2014

In 2014, the Hospital completed the first-year requirements under the Medicaid program and recorded revenue of approximately \$400,000 in 2014 and \$75,000 in 2015, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position. The Hospital implemented its EHR software in May 2015 and plans to complete the first-year requirements under the Medicare program and the second-year requirements under the Medicaid program in 2016.

County Appropriations

Effective December 1, 2013, the citizens of the County approved a 0.9% sales tax for the operations of the Hospital for a six-year term. The County collects the sales tax and remits it monthly to the Hospital. The Hospital received approximately 44% and 54% of its financial support from county appropriations related to the sales tax during 2015 and 2014, respectively. Revenue from county appropriations is recognized in the year in which the sales tax is earned.

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

Approximately 78% and 65% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 30, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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Notes to Financial Statements

April 30, 2015 and 2014

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, which requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At April 30, 2015 and 2014, 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:

	2015	2014
Carrying value		
Deposits	\$ 13,505,106	\$ 13,397,872
Included in the following balance sheet captions		
Cash	\$ 4,302,226	\$ 1,567,847
Short-term certificates of deposit	9,202,880	11,830,025
	\$ 13,505,106	\$ 13,397,872

Investment Income

Investment income for the years ended April 30 consisted of:

	2015	2014
Interest income	\$ 65,348	\$ 63,935
Income from joint venture	-	94,658
	\$ 65,348	\$ 158,593

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Notes to Financial Statements

April 30, 2015 and 2014

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:

	2015	2014
Medicare	\$ 765,754	\$ 228,304
Medicaid	9,118	4,904
Other third-party payers	205,203	238,769
Patients	410,525	328,457
	<u>1,390,600</u>	<u>800,434</u>
Less allowance for uncollectible accounts	<u>398,000</u>	<u>319,000</u>
	<u><u>\$ 992,600</u></u>	<u><u>\$ 481,434</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended April 30 was:

	2015			
	Beginning Balance	Additions	Disposals	Transfers
Land	\$ 3,000	\$ -	\$ -	\$ -
Buildings and improvements	1,227,237	8,600	-	3,999,735
Equipment	2,046,857	106,128	(47,019)	160,969
Construction in progress	2,338,938	2,682,735	-	(4,160,704)
	<u>5,616,032</u>	<u>2,797,463</u>	<u>(47,019)</u>	<u>-</u>
	<u>8,366,476</u>			
Less accumulated depreciation				
Buildings and improvements	775,569	80,829	-	-
Equipment	1,145,537	230,295	(47,019)	-
	<u>1,921,106</u>	<u>311,124</u>	<u>(47,019)</u>	<u>-</u>
	<u>2,185,211</u>			
Capital assets, net	<u><u>\$ 3,694,926</u></u>	<u><u>\$ 2,486,339</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
	<u><u>\$ 6,181,265</u></u>			

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Notes to Financial Statements

April 30, 2015 and 2014

	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>

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.

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

Notes to Financial Statements

April 30, 2015 and 2014

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:

	2015	2014
Charity care	\$ 43,000	\$ 57,000
State Medicaid	144,000	162,000
	<u>\$ 187,000</u>	<u>\$ 219,000</u>

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 4.3% and 0.8% for 2015 and 5.1% and 0.8% for 2014, respectively. Contributions actually made by plan members and the Hospital aggregated approximately \$108,000 and \$19,000 during 2015 and \$120,000 and \$19,000 during 2014, respectively.

**Roger Mills County Hospital Authority
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A Component Unit of Roger Mills County, Oklahoma
Notes to Financial Statements
April 30, 2015 and 2014**

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, 2015 and 2014, was approximately \$332,000 and \$283,000, respectively, for services related to the contract.

Note 10: 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.

**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 basic 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, 2015, 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 6, 2015.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Trustees
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*. We noted certain matters that we reported to the Hospital's management in a separate letter dated October 6, 2015.

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 6, 2015

**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, 2015**

Reference Number	Finding
No matters are reportable.	