

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Accountants' Reports and Financial Statements
April 30, 2011 and 2010

FILED

OCT 03 2011

State Auditor & Inspector

BKD^{LLP}
CPAs & Advisors

Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
Accountants' Reports and Financial Statements
April 30, 2011 and 2010

FILED

OCT 03 2011

State Auditor & Inspector

BKD
LLP
CPAs & Advisors

**Roger Mills County Hospital Authority
d/b/a Roger Mills County Memorial Hospital
A Component Unit of Roger Mills County, Oklahoma
April 30, 2011 and 2010**

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information.....	1
Management's Discussion and Analysis.....	2
Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows.....	9
Notes to Financial Statements.....	10
Independent Accountants' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	20
Schedule of Findings and Responses.....	22

Independent Accountants' Report on Financial Statements and Supplementary Information

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

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, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roger Mills County Hospital Authority d/b/a Roger Mills County Memorial Hospital as of April 30, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2011, 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

September 16, 2011

**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
April 30, 2011 and 2010**

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, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and short-term certificates of deposit decreased in 2011 by \$1,069,458 or 15% and increased in 2010 by \$1,631,054 or 30%.
- Estimated settlements with Medicare changed from a \$1,400,000 amount due to Medicare at April 30, 2010, to a \$370,000 amount due from Medicare at April 30, 2011.
- The Hospital had no debt outstanding at April 30, 2011 and 2010.
- The Hospital's net assets increased in 2011 by \$830,203 or 11% and decreased in 2010 by \$212,012 or 3%.
- The Hospital reported operating losses in both 2011 and 2010 in the amounts of \$1,150,925 and \$967,133, respectively. The operating loss in 2011 increased by \$183,792 or 19% over the operating loss reported in 2010. The operating loss in 2010 decreased by \$36,545 or 4% over the operating loss reported in 2009.
- Net nonoperating revenues increased by \$1,153,045 or 153% in 2011 compared to 2010 and decreased by \$795,771 or 51% in 2010 compared to 2009.

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 assets; 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 Assets

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 assets 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 assets and changes in them. The Hospital's total net assets—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 assets 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 Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital's net assets increased by \$830,203 or 11% in 2011 over 2010 and decreased by \$212,012 or 3% in 2010 over 2009, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash	\$ 901,914	\$ 1,056,381	\$ 553,343
Short-term certificates of deposit	5,130,773	6,045,764	4,917,748
Patient accounts receivable, net	246,649	590,061	716,274
County appropriations receivable	615,917	212,781	271,298
Other current assets	592,671	245,162	411,844
Capital assets, net	1,165,130	1,018,257	1,156,753
Other noncurrent assets	10,634	10,634	4,201
Total assets	\$ 8,663,688	\$ 9,179,040	\$ 8,031,461
Liabilities			
Long-term debt, including current portion	\$ -	\$ -	\$ 12,053
Other current liabilities	282,635	1,628,190	256,546
Total liabilities	282,635	1,628,190	268,599
Net Assets			
Invested in capital assets, net of related debt	1,108,349	1,003,574	1,144,700
Unrestricted	7,272,704	6,547,276	6,618,162
Total net assets	8,381,053	7,550,850	7,762,862
Total liabilities and net assets	\$ 8,663,688	\$ 9,179,040	\$ 8,031,461

One significant change in the Hospital's assets in 2011 is the decrease in cash and short-term certificates of deposit of \$1,069,458 or 15% in 2011. This increase is due primarily to overpayments by Medicare during 2010 that were paid back to Medicare in 2011.

In addition, the Hospital's accounts receivable decreased by \$343,412 or 58% due primarily to decreases in outstanding accounts receivable and lower Medicare payment rates as compared to 2010.

One significant change in the Hospital's assets in 2010 is the increase in cash and short-term certificates of deposit of \$1,631,054 or 30% in 2010. This increase is due primarily to overpayments by Medicare during 2010.

In addition, the Hospital's accounts receivable decreased by \$126,213 or 18% due primarily to decreases in outstanding accounts receivable and an increase in reserves for private pay and third-party payer accounts.

Operating Results and Changes in the Hospital's Net Assets

The Hospital's net assets increased by \$830,203 or 11% in 2011 and decreased by \$212,012 or 3% in 2010, as shown in Table 2. The 2011 increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues			
Net patient service revenue	\$ 2,497,552	\$ 2,677,985	\$ 2,357,601
Other operating revenues	240,115	216,350	205,133
Total operating revenues	<u>2,737,667</u>	<u>2,894,335</u>	<u>2,562,734</u>
Operating Expenses			
Salaries, wages and employee benefits	2,357,453	2,255,120	2,182,945
Purchased services and professional fees	472,015	459,675	322,099
Supplies and other	842,728	949,269	881,048
Depreciation and amortization	216,396	197,404	180,320
Total operating expenses	<u>3,888,592</u>	<u>3,861,468</u>	<u>3,566,412</u>
Operating Loss	<u>(1,150,925)</u>	<u>(967,133)</u>	<u>(1,003,678)</u>
Nonoperating Revenues (Expenses)			
Noncapital appropriations – Roger Mills County	1,813,322	623,582	1,382,422
Investment income	94,844	132,005	170,140
Interest expense	-	(466)	(1,670)
Total nonoperating revenues (expenses)	<u>1,908,166</u>	<u>755,121</u>	<u>1,550,892</u>
Capital Grants and Gifts	<u>72,962</u>	<u>-</u>	<u>115,982</u>
Increase (Decrease) in Net Assets	<u>\$ 830,203</u>	<u>\$ (212,012)</u>	<u>\$ 663,196</u>

Operating Losses

The first component of the overall change in the Hospital's net assets is its operating loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Roger Mills County and the surrounding area. The Hospital receives unrestricted appropriations from Roger Mills 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 2011 increased by \$183,792 or 19% as compared to 2010. The primary component of the decreased operating loss is a decrease in net patient service revenue of \$180,433 or 7% due primarily to lower inpatient census during the year.

The operating loss for 2010 decreased by \$36,545 or 4% as compared to 2010. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$320,384 or 13% due primarily to increased utilization of the Hospital's swingbed program, which is attributed to new physical therapy services being offered.
- An increase in purchased services and professional fees of \$137,576 or 43% due to increased use of contracted physical therapy services.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county sales tax appropriations received by the Hospital and interest income and interest expense. The Hospital recognized a significant increase in its county sales tax appropriations in 2011 compared to 2010 of \$1,189,740 and a decrease in 2010 compared to 2009 of \$758,840 resulting primarily from changing activity in the oil and gas industry in the County.

The Hospital recognized a decrease in interest income in 2011 compared to 2010 of \$37,161 or 28% and a decrease in 2010 as compared to 2009 of \$38,135 or 22%, both resulting from decreased interest rates.

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 2011 and 2010 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$1,165,130 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2011, the Hospital purchased new capital assets costing \$363,269.

At the end of 2010, the Hospital had \$1,018,257 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2010, the Hospital purchased new equipment costing \$58,907.

Debt

At April 30, 2011 and 2010, 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, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash	\$ 901,914	\$ 1,056,381
Short-term certificates of deposit	5,130,773	6,045,764
Patient accounts receivable, net of allowance; 2011 – \$230,000, 2010 – \$208,000	246,649	590,061
County appropriations receivable	615,917	212,781
Other receivables	18,000	-
Estimated amounts due from third-party payer	370,000	-
Supplies	116,560	123,120
Prepaid expenses	88,111	122,042
Total current assets	7,487,924	8,150,149
Capital Assets, Net	1,165,130	1,018,257
Other Assets	10,634	10,634
Total assets	\$ 8,663,688	\$ 9,179,040

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 155,324	\$ 111,463
Accrued expenses	127,311	116,727
Estimated amounts due to third-party payer	-	1,400,000
Total current liabilities	282,635	1,628,190
Total liabilities	282,635	1,628,190
Net Assets		
Invested in capital assets, net of related debt	1,108,349	1,003,574
Unrestricted	7,272,704	6,547,276
Total net assets	8,381,053	7,550,850
Total liabilities and net assets	\$ 8,663,688	\$ 9,179,040

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 Assets
Years Ended April 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$240,856, 2010 – \$205,449	\$ 2,497,552	\$ 2,677,985
EMS contract revenue	192,000	144,000
Other	48,115	72,350
Total operating revenues	2,737,667	2,894,335
Operating Expenses		
Salaries and wages	1,869,390	1,784,083
Employee benefits	488,063	471,037
Purchased services and professional fees	472,015	459,675
Supplies and other	842,728	949,269
Depreciation and amortization	216,396	197,404
Total operating expenses	3,888,592	3,861,468
Operating Loss	(1,150,925)	(967,133)
Nonoperating Revenues (Expenses)		
Noncapital appropriations – Roger Mills County	1,813,322	623,582
Investment income	94,844	132,005
Interest expense	-	(466)
Total nonoperating revenues (expenses)	1,908,166	755,121
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	757,241	(212,012)
Capital Grants and Gifts	72,962	-
Increase (Decrease) in Net Assets	830,203	(212,012)
Net Assets, Beginning of Year	7,550,850	7,762,862
Net Assets, End of Year	\$ 8,381,053	\$ 7,550,850

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 1,070,964	\$ 4,409,198
Payments to suppliers and contractors	(1,272,489)	(1,502,778)
Payments to and on behalf of employees	(2,346,869)	(2,242,644)
Other receipts (payments), net	<u>222,115</u>	<u>209,917</u>
Net cash provided by (used in) operating activities	<u>(2,326,279)</u>	<u>873,693</u>
Noncapital Financing Activities		
Noncapital appropriations – Roger Mills County	<u>1,410,186</u>	<u>682,099</u>
Net cash provided by noncapital financing activities	<u>1,410,186</u>	<u>682,099</u>
Capital and Related Financing Activities		
Capital grants and gifts	72,962	-
Principal paid on long-term debt	-	(12,053)
Interest paid on long-term debt	-	(466)
Purchase of capital assets	<u>(321,171)</u>	<u>(44,224)</u>
Net cash used in capital and related financing activities	<u>(248,209)</u>	<u>(56,743)</u>
Investing Activities		
Purchases of short-term certificates of deposit	(5,062,802)	(5,983,923)
Proceeds from sale of short-term certificates of deposit	5,973,220	4,983,923
Interest income received	<u>99,417</u>	<u>3,989</u>
Net cash provided by (used in) investing activities	<u>1,009,835</u>	<u>(996,011)</u>
Increase (Decrease) in Cash	(154,467)	503,038
Cash, Beginning of Year	<u>1,056,381</u>	<u>553,343</u>
Cash, End of Year	<u>\$ 901,914</u>	<u>\$ 1,056,381</u>

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,150,925)	\$ (967,133)
Depreciation and amortization	216,396	197,404
Changes in operating assets and liabilities		
Patient accounts receivable, net	325,412	126,213
Estimated amounts due to or from third-party payer	(1,770,000)	1,605,000
Accounts payable and accrued expenses	2,669	(43,040)
Other assets and liabilities	<u>50,169</u>	<u>(44,751)</u>
Net cash provided by (used in) operating activities	<u>\$ (2,326,279)</u>	<u>\$ 873,693</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 56,781	\$ 14,683
Prepaid asset included in accounts payable	\$ 50,769	\$ 41,091

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, 2011 and 2010

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

Nature of Operations and Reporting Entity

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

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

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

Basis of Accounting and Presentation

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

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

**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, 2011 and 2010

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.

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At April 30, 2011 and 2010, the Hospital held no cash equivalents.

Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2013.

Risk Management

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

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. At April 30, 2011 and 2010, investments consisted of nonnegotiable certificates of deposit.

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

Patient Accounts Receivable

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

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, 2011 and 2010

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

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 Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

At April 30, 2011 and 2010, none of the Hospital's net assets were classified as restricted expendable.

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, 2011 and 2010

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, 2011 and 2010, no provision has been made for tax on unrelated business taxable income.

County Appropriations

Effective December 1, 1997, the citizens of Roger Mills County, Oklahoma, approved a 0.8% sales tax for the operations of the Hospital for a six-year term. Upon the expiration of the initial term, the sales tax was renewed for an additional six-year term beginning December 1, 2007, at a rate of 0.9%. The County collects the sales tax and remits it monthly to the Hospital. The Hospital received approximately 39% and 17% of its financial support from county appropriations related to the sales tax during 2011 and 2010, 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 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in net assets.

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, 2011 and 2010

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, 2009.
- **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 69% and 74% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: 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, 2011 and 2010, no deposits were exposed to custodial credit risk.

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

Notes to Financial Statements

April 30, 2011 and 2010

Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value Deposits	<u>\$ 6,032,687</u>	<u>\$ 7,102,145</u>
Included in the following balance sheet captions		
Cash	\$ 901,914	\$ 1,056,381
Short-term certificates of deposit	<u>5,130,773</u>	<u>6,045,764</u>
	<u>\$ 6,032,687</u>	<u>\$ 7,102,145</u>

Investment Income

Investment income for the years ended April 30, 2011 and 2010, consisted of interest.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at April 30, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 77,378	\$ 481,079
Medicaid	5,443	7,469
Other third-party payers	170,848	140,354
Patients	<u>222,980</u>	<u>169,159</u>
	476,649	798,061
Less allowance for uncollectible accounts	<u>230,000</u>	<u>208,000</u>
	<u>\$ 246,649</u>	<u>\$ 590,061</u>

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

Notes to Financial Statements

April 30, 2011 and 2010

Note 5: Capital Assets

Capital assets activity for the years ended April 30, 2011 and 2010, was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
Buildings and improvements	1,108,949	118,288	-	-	1,227,237
Equipment	1,175,631	244,981	(66,000)	-	1,354,612
	<u>2,287,580</u>	<u>363,269</u>	<u>(66,000)</u>	<u>-</u>	<u>2,584,849</u>
Less accumulated depreciation					
Buildings and improvements	519,846	73,298	-	-	593,144
Equipment	749,477	143,098	(66,000)	-	826,575
	<u>1,269,323</u>	<u>216,396</u>	<u>(66,000)</u>	<u>-</u>	<u>1,419,719</u>
Capital assets, net	<u>\$ 1,018,257</u>	<u>\$ 146,873</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,165,130</u>
	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,000	\$ -	\$ -	\$ -	\$ 3,000
Buildings and improvements	1,108,949	-	-	-	1,108,949
Equipment	1,185,357	58,907	(68,633)	-	1,175,631
	<u>2,297,306</u>	<u>58,907</u>	<u>(68,633)</u>	<u>-</u>	<u>2,287,580</u>
Less accumulated depreciation					
Buildings and improvements	448,256	71,590	-	-	519,846
Equipment	692,297	125,813	(68,633)	-	749,477
	<u>1,140,553</u>	<u>197,403</u>	<u>(68,633)</u>	<u>-</u>	<u>1,269,323</u>
Capital assets, net	<u>\$ 1,156,753</u>	<u>\$ (138,496)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,018,257</u>

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

Notes to Financial Statements

April 30, 2011 and 2010

Note 6: Medical Malpractice Claims

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

The Hospital has obtained a letter of credit of \$99,101 from a commercial bank to secure equity ownership in the RRG in accordance with the subscriber agreement set forth between the Hospital and the RRG. As stated by the subscriber agreement, the beneficiary of the letter of credit is the Commissioner of Insurance of the State of Vermont. The commissioner has the authority to draw down on the letter of credit as needed to fund the RRG. As of April 30, 2011 and 2010, there have been no draws on the letter of credit.

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

Note 7: Long-Term Debt

The Hospital had no outstanding long-term debt or long-term debt transactions as of and for the year ended April 30, 2011. The following is a summary of long-term debt transactions for the Hospital for the year ended April 30, 2010:

	2010				Current Portion
	Beginning Balance	Additions	Deductions	Ending Balance	
Long-term debt					
Capital lease obligation	\$ 12,053	\$ -	\$ (12,053)	\$ -	\$ -
Total long-term debt	<u>\$ 12,053</u>	<u>\$ -</u>	<u>\$ (12,053)</u>	<u>\$ -</u>	<u>\$ -</u>

Capital Lease Obligation

The capital lease obligation was due April 2010 and was paid in full during fiscal year 2010. There were no capital lease obligations at April 30, 2011.

**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, 2011 and 2010

Note 8: Charity Care

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

Uncompensated charges relating to these services for the years ending April 30, are as follows:

	2011	2010
Charity care	\$ 24,000	\$ 27,000
State Medicaid	82,000	68,000
	\$ 106,000	\$ 95,000

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

Note 9: 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 4.85% and 1.13% for 2011 and 3.31% and 1.10% for 2010, respectively. Contributions actually made by plan members and the Hospital aggregated approximately \$54,000 and \$12,000 during 2011 and \$35,000 and \$12,000 during 2010, respectively.

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, 2011 and 2010

Note 10: EMS Contract

The Authority has a one-year contract with 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 each of the years ended April 30, 2011 and 2010, was \$192,000 and \$144,000, respectively, for services related to the contract.

Note 11: Contingencies

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

Note 12: Current Economic Conditions

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

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

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

**Independent Accountants' 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 the financial statements of Roger Mills County Hospital Authority d/b/a Roger Mills County Memorial Hospital (the Hospital) as of and for the year ended April 30, 2011, and have issued our report thereon dated September 16, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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*.

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

We noted certain matters that we reported to the Hospital's management in a separate letter dated September 16, 2011.

This report is intended solely for the information and use of the governing body, management and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 16, 2011

**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, 2011**

No matters are reportable.

Reference Number	Finding
---------------------	---------

