Management's Discussion and Analysis
And Financial Statements
March 31, 2014 and 2013

Sequoyah County-City of Sallisaw Hospital Authority d/b/a Sequoyah Memorial Hospital

Table of Contents

March 31, 2014 and 2013

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Sequoyah Memorial Hospital
Sallisaw, OK

Report on the Financial Statements

We have audited the accompanying financial statements of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Sequoyah Memorial Hospital (Hospital) which comprises the balance sheet as of March 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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 audit. 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. Those standards require that we plan and preform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Hospital'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 Hospital'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 Sequoyah County-City of Sallisaw Hospital Authority d/b/a Sequoyah Memorial Hospital as of March 31, 2014, and the results of its operations, changes in net position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Sequoyah Memorial Hospital as of March 31, 2013 were audited by other auditors, whose report dated April 4, 2014 expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a 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 audit 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 December 31, 2014 on our consideration of 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 Hospital's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 31, 2014

Introduction

Our discussion and analysis for Sequoyah County-City of Sallisaw Hospital Authority d/b/a Sequoyah Memorial Hospital's financial performance provides an overview of the Hospital's financial activities for the fiscal years ended March 31, 2014 and 2013, and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Current assets decreased in 2014 by $123,332 or 3% and decreased in 2013 by $1,160,909 or 22%.
- Total liabilities increased in 2014 by $1,420,056 or 137% and decreased in 2013 by $640,971 or 38%.
- The Hospital's net position decreased in 2014 by $1,523,598 or 20% and decreased in 2013 by $1,225,800 or 14%.
- The Hospital reported an operating loss in 2014 of $2,211,212 and an operating loss in 2013 of $1,887,777. During 2014, operating loss increased by $323,435 or 17% and increased by $1,930,036 or 4,567% in 2013.
- Other operating revenue decreased by $1,022,180 or 57% in 2014 and increased by $1,424,190 or 379% in 2013.
- Operating expenses increased in 2014 by $708,624 or 5% and $772,091 or 5% in 2013.

Using This Annual Report

The Hospital's financial statements consist of three statements – Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the 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 liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. You can think of the Hospital's net position - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing 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 balance 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 decreased by $1,523,598 or 20% in 2014 and decreased by $1,225,800 or 14% in 2013 as shown below.

	2014	2013	2012
Assets			
Current assets	$ 4,093,226	$ 4,216,558	$ 5,377,467
Capital assets, net	3,481,927	2,623,427	2,576,685
Assets limited to use	1,024,674	1,863,384	2,633,047
Other assets	59,934	59,934	42,875
Total assets	$ 8,659,761	$ 8,763,303	$ 10,630,074
Liabilities			
Total current liabilities	$ 1,553,064	$ 1,033,008	$ 1,673,979
Long term debt	900,000	-	-
Total liabilities	2,453,064	1,033,008	1,673,979
Net Position			
Net investment in capital assets	3,481,927	2,670,227	1,805,381
Restricted, expendable for capital acquisitions	61,942	1,863,828	2,877,884
Unrestricted	2,662,828	3,196,240	4,272,830
Total net position	6,206,697	7,730,295	8,956,095
Total liabilities and net position	$ 8,659,761	$ 8,763,303	$ 10,630,074

Assets, Liabilities, and Net Position

The Hospital's total assets decreased $103,542 in 2014. Non-restricted cash and certificates of deposit decreased $859,293 due the Hospital having to utilize cash reserves to fund operating losses. Patient receivables increased $387,480 as the Hospital is performing more in house collections.

The Hospital purchased $1,422,938 of capital assets primarily with funds designated for capital improvements. The Hospital's total liabilities increased $1,420,056 as a result of a note payable for $900,000 which was used for operations.

Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	$ 13,027,623	$ 11,620,254	$ 14,202,389
Other operating revenue	778,190	1,800,370	376,180
Total operating revenues	13,805,813	13,420,624	14,578,569
Operating Expenses			
Salaries and wages	7,817,757	7,497,795	7,045,211
Employee benefits	1,499,458	1,232,506	1,249,360
Purchased services and professional fees	2,850,653	2,820,780	2,165,552
Supplies and other	3,284,719	3,308,381	3,596,378
Depreciation	564,438	448,939	479,809
Total operating expenses	16,017,025	15,308,401	14,536,310
Operating (loss) income	(2,211,212)	(1,887,777)	42,259
Nonoperating Revenues (Expenses)			
Interest income	13,253	20,108	54,117
Interest expense	(4,839)	(13,501)	(12,681)
Noncapital gifts	1,400	8,905	12,089
Gain (loss) on disposal of equipment	20,950	-	(3,595)
Capital Appropriations, City of Sallisaw, Oklahoma	656,850	646,465	637,673
Total nonoperating revenues	687,614	661,977	687,603
(Decrease) increase in net position	$ (1,523,598)	$ (1,225,800)	$ 729,862

Operating Results

The first component of the overall change in the Hospital's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The past two years the Hospital has had operating losses.

The operating loss for 2014 decreased by $323,435 or 17% as compared to the increase of $1,930,036 or 4567% in 2013. The primary components of the increase in operating loss are:

An increase in net patient service revenue of $1,407,369 or 12% in 2014 compared to a decrease of $2,582,135 or 18% in 2013 as well as an increase in operating expenses of $708,624 or 5% in 2014 and $772,091 or 5% in 2013. Other operating revenues decreased $1,022,180 or 57% in 2014 and increased $1,424,190 or 379% in 2013.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county sales tax, interest income, noncapital gifts and interest expense. Investment income decreased $6,855 or 34% in 2014 as compared to the decrease of $34,009 or 63% in 2013. Intergovernmental transfers (county sales tax) increased $10,385 or 2% in 2014 and increased $8,792 or 1% in 2013.

The Hospital's Cash Flows

The Hospital's overall liquidity decreased during the year with a net decrease to cash of $1,244,330 when compared with 2013. Cash flows used for operating activities increased by $317,101 during 2014 when compared with 2013. This was due primarily to the decrease in other receipts. Cash provided by non-capital financing activities decreased by $7,505 when compared with 2013. Cash provided by capital and capital related financing activities increased by $734,455 when compared with 2013. Cash provided by investing activities was $469,715 in 2014 compared to $3,112,761 in 2013.

Capital Assets and Debt Administration

The Hospital had $3,481,927 invested in capital assets at the end of 2014 and $2,623,427 at the end of 2013, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Hospital purchased new capital assets costing $1,422,938 in 2014 and $495,681 in 2013.

Debt

At March 31, 2014, the Hospital had $900,000 in outstanding long-term debt, an increase of $900,000 from the prior year. For additional information regarding long-term debt, please see Note 6 to the financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers 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 administration by calling 918-774-1100.

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	2014	2013
Assets		
Current Assets		
Cash	$ 57,279	$ 453,314
Short term certificates of deposit	64,517	527,775
Patient, net of estimated uncollectibles of $5,758,000 in 2014 and $3,925,000 in 2013	2,686,941	2,299,461
Estimated third-party payor settlements	296,000	272,769
Other	261,714	-
Supplies	595,165	445,618
Prepaid expenses	131,610	217,621
Total current assets	4,093,226	4,216,558
Assets Limited as to Use for Capital Acquisitions		
Cash	5,512	853,807
Certificate of deposit	962,732	955,936
Capital appropriations receivable	56,430	53,641
Total assets limited as to use	1,024,674	1,863,384
Property and Equipment, Net	3,481,927	2,623,427
Other Assets		
Cash value of life insurance	59,934	59,934
Total assets	$ 8,659,761	$ 8,763,303

	2014	2013
Liabilities and Net Position		
Current Liabilities		
Accounts payable	$ 1,164,044	$ 586,037
Accrued expenses	389,020	446,971
Total current liabilities	1,553,064	1,033,008
Long-term Liabilities		
Long-term debt	900,000	-
Total liabilities	2,453,064	1,033,008
Net Position		
Net investment in capital assets	3,481,927	2,670,227
Restricted, expendable for capital acquisitions	61,942	1,863,828
Unrestricted	2,662,828	3,196,240
Total net position	6,206,697	7,730,295
Total liabilities and net position	$ 8,659,761	$ 8,763,303

	2014	2013
Operating Revenue		
Patient service revenue, net of provision for bad debts of $4,159,612 in 2014 and $3,964,718 in 2013	$ 13,027,623	$ 11,620,254
Other revenue	778,190	1,800,370
Total revenues, gains, and other support	13,805,813	13,420,624
Operating Expenses		
Salaries and wages	7,817,757	7,497,795
Employee benefits	1,499,458	1,232,506
Purchased services and professional fees	2,850,653	2,820,780
Supplies and other	3,284,719	3,308,381
Depreciation	564,438	448,939
Total operating expenses	16,017,025	15,308,401
Operating Loss	(2,211,212)	(1,887,777)
Nonoperating Income (Expenses)		
Interest income	13,253	20,108
Interest expense	(4,839)	(13,501)
Noncapital gifts	1,400	8,905
Gain on disposal of equipment	20,950	-
Nonoperating income, net	30,764	15,512
Deficiency of Revenues over Expenses Before Capital Appropriations	(2,180,448)	(1,872,265)
Capital Appropriations - City of Sallisaw, Oklahoma	656,850	646,465
Decrease in Net Position	(1,523,598)	(1,225,800)
Net Position, Beginning of Year	7,730,295	8,956,095
Net Position, End of Year	$ 6,206,697	$ 7,730,295

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	$ 12,616,912	$ 11,277,280
Payments to suppliers and contractors	(5,620,901)	(5,975,361)
Payments to employees	(9,375,166)	(8,647,867)
Other receipts	516,476	1,800,370
Net Cash used for Operating Activities	(1,862,679)	(1,545,578)
Noncapital Related Financing Activities		
Noncapital grants and contributions	1,400	8,905
Capital and Related Financing Activities		
Sales tax revenue received	654,061	646,465
Principal payments on long-term debt	-	(625,274)
Proceeds from issuance of long term debt	900,000	-
Interest paid on long-term debt	(4,839)	(13,501)
Purchase of property and equipment	(1,422,938)	(594,911)
Proceeds from the sale of equipment	20,950	-
Net Cash provided by (used for) Capital and Related Financing Activities	147,234	(587,221)
Investing Activities		
Purchases of certificates of deposit	-	(527,775)
Proceeds from redemption of certificates of deposit	456,462	3,620,428
Interest income	13,253	20,108
Net Cash provided by Investing Activities	469,715	3,112,761
Net Decrease in Cash and Cash Equivalents	(1,244,330)	988,867
Cash, Beginning of Year	1,307,121	318,254
Cash, End of Year	$ 62,791	$ 1,307,121
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash in current assets	$ 57,279	$ 453,314
Cashin noncurrent assets	5,512	853,807
	$ 62,791	$ 1,307,121

	2014	2013
Reconciliation of Operating Loss to Net Cash used by Operating Activities		
Operating Loss	$ (2,211,212)	$ (1,887,777)
Adjustments to reconcile operating income to net cash used for operating activities		
Provision for depreciation	564,438	448,939
Provision for bad debts	4,159,612	3,964,718
Changes in assets and liabilities		
Patient receivables	(4,547,092)	(4,244,923)
Other receivables	(261,714)	-
Supplies and prepaids	(63,536)	152,701
Accounts payable and accrued expenses	520,056	83,533
Estimated third-party payor settlements	(23,231)	(62,769)
Reconciliation of Operating Loss to Net Cash used for Operating Activities	$ (1,862,679)	$ (1,545,578)
Supplemental Disclosures of Cash Flow Information		
Equipment purchases included in accounts payable	$ -	$ 46,800

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Sequoyah County-City of Sallisaw Hospital Authority (the Authority) was created under a trust indenture dated September 1, 1978, as a public trust under the provisions of Title 60 of the Oklahoma statues for the benefit of Sequoyah County, Oklahoma, and the City of Sallisaw, Oklahoma. The Authority operates, as its sole activity, Sequoyah Memorial Hospital (the Hospital), a 35 bed acute care facility.

On December 10, 2012, the SMH Physician Group, LLC (Physician Group), was established as a limited liability company in the state of Oklahoma for the purpose of providing physician services to patients in Sallisaw, Oklahoma and the surrounding communities. The Hospital is the sole member of the LLC. The Physician Group began operations on April 1, 2013.

As required by accounting principles generally accepted in the United States of America, these financial statements include Sequoyah Memorial Hospital and its blended component unit, SMH Physician Group, LLC. Sequoyah Memorial Hospital and SMH Physician Group, LLC are presented as blended component units because of the operational and financial relationships between the two entities.

The financial statements include the financial activity of Sequoyah Memorial Hospital and SMH Physician Group, LLC (collectively, the Hospital). All significant intercompany balances and transactions have been eliminated.

Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, sales taxes, investment income and interest on capital assets-related debt are included in non-operating 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 is available.

Income Taxes

The Hospital is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Short-term Investments

Short-term investments include certificates of deposit with an original maturity of three to twelve months.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collections procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Assets Limited as to Use

Assets limited as to use include cash, certificate of deposit, and sales tax receivable which are restricted for renovating, expanding, equipping, and maintaining the hospital facilities. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

Capital Assets

Capital assets acquisitions in excess of $500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	5-40 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Compensated Absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay 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 is presented in the following components:

Net investment in Capital Assets -Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Restricted, Expendable for Capital Acquisitions – Restricted, expendable for capital acquisitions consists of assets whose use is restricted for a specific purpose.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of net investment in capital assets or restricted.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the years ended March 31, 2014 and 2013, the Hospital recorded $712,949 and $1,747,569 related to the Medicare program in other operating revenue for meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. The Hospital demonstrated meaningful use and attested to the compliance requirements for the Medicare and Medicaid programs during 2013.

Amounts recognized represent management's best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Hospital (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Amounts paid and received through the SHOPP program as of March 31, 2014 and 2013 are as follows:

	2014	2013
SHOPP funds received	$ 614,583	$ 700,097
SHOPP assessment fees paid	(290,888)	(262,929)
Net SHOPP benefit	$ 323,695	$ 437,168

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Hospital's charity care policy were $32,569 and $170,159 for the years ended March 31, 2014 and 2013. Total direct and indirect costs related to these foregone charges were $18,000 and $82,000 at March 31, 2014 and 2013, based on an average ratio of cost to gross charges.

Advertising Costs

The Hospital expenses advertising costs as incurred. The Hospital incurred $18,794 and $12,441 for advertising costs for the years ended March 31, 2014 and 2013.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues, Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Sales Tax Revenue

The Hospital benefits from a 0.5% sales tax assessment. The tax, approved by the Board of Commissioners of the City of Sallisaw, has no expiration date. The Hospital received approximately 4.4% and 4.6% of its financial support from city appropriations during the years ended March 31, 2014 and 2013. These funds are restricted for capital improvements and debt service.

Grants and Contributions

From time to time, the Hospital receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Reclassifications have been made to the March 31, 2013 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Hospital annually files cost reports with the Medicare Administrative Contractor which are subject to annual audit for items that result in annual settlement. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through the year ended March 31, 2010.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge, or other established rates with no retrospective adjustments.

Other carriers: 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 31% and 20% of the Hospital's net patient service revenue for the year ended March 31, 2014 and 47% and 22% for the year ended March 31, 2013. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue and contractual adjustments for the years ended March 31, 2014 and 2013, is as follows:

	2014	2013
Total patient service revenue	$ 27,759,684	$ 28,066,005
Less contractual adjustments	(10,572,449)	(12,481,033)
Less provision for bad debts	(4,159,612)	(3,964,718)
Net patient service revenue	$ 13,027,623	$ 11,620,254

Note 3 - Deposits and Investments

State statutes require public trusts to invest monies in direct obligations of the United States Government or in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Hospital's practice to mainly invest in demand and time deposit accounts and certificates of deposit.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital has a general investment policy to minimize custodial credit risk. 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 March 31, 2014 and 2013, the Hospital's deposits exposed to custodial credit risk were as follows:

	2014	2013
Total Bank Balance -		
Insured (FDIC)	$ 250,000	$ 250,000
Collateralized with securities held by the Authority's agent in the Authority's name	948,070	2,783,713
	$ 1,198,070	$ 3,033,713
Total Carrying Value -		
Cash	$ 57,279	$ 453,314
Certificates of deposit	64,517	527,775
Restricted cash and certificate of deposit	5,512	853,807
	$ 127,308	$ 1,834,896

Credit Risk

Statutes require that investments be made only in U.S. government obligations. The Hospital's investment policy does not further limit its investment options.

Interest Rate Risk

The Hospital's investment policy does not contain a provision that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The Hospital places no limit on the amount it may invest in any one issuer.

Investment Income

Investment income for the years ended March 31, 2014 and 2013, consisted of interest income in the amounts of $13,253 and $20,108.

Note 4 - Capital Assets

A summary of capital assets at March 31, 2014 and 2013 follows:

	2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated					
Land	$ 193,633	$ -	$ -	$ -	$ 193,633
Capital assets being depreciated					
Land improvements	12,443	-	-	-	12,443
Building and improvements	3,040,744	598,180	-	-	3,638,924
Major moveable and fixed equipment	7,378,239	824,758	-	(75,860)	8,127,137
Total assets being depreciated	10,431,426	1,422,938	-	(75,860)	11,778,504
Less accumulated depreciation for:					
Land improvements	7,625	2,003	-	-	9,628
Building and improvements	2,469,458	63,352	-	-	2,532,810
Major moveable and fixed equipment	5,524,549	499,083	-	(75,860)	5,947,772
Total accumulated depreciation	8,001,632	$ 564,438	$ -	$ (75,860)	8,490,210
Capital assets, net	$ 2,623,427				$ 3,481,927

	2013				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets not being depreciated					
Land	$ 193,633	$ -	$ -	$ -	$ 193,633
Construction in progress	725,324	23,171	(748,495)	-	-
Total assets not being depreciated	918,957	23,171	(748,495)	-	193,633
Capital assets being depreciated					
Land improvements	12,443	-	-	-	12,443
Building and improvements	2,896,224	144,520	-	-	3,040,744
Major moveable and fixed equipment	6,301,754	327,990	748,495	-	7,378,239
Total assets being depreciated	9,210,421	472,510	748,495	-	10,431,426
Less accumulated depreciation for:					
Land improvements	6,645	980	-	-	7,625
Building and improvements	2,418,848	50,610	-	-	2,469,458
Major moveable and fixed equipment	5,127,200	397,349	-	-	5,524,549
Total accumulated depreciation	7,552,693	$ 448,939	$ -	$ -	8,001,632
Capital assets, net	$ 2,576,685				$ 2,623,427

Note 5 - Leases

The Hospital leases certain equipment under noncancelable long-term lease agreements. The rental expense for all operating leases was $48,727 and $46,809 for 2014 and 2013. Minimum future lease payments for operating leases are as follows:

Year Ending March 31,	Operating Leases
2015	$ 16,614
2016	1,432
2017	1,432
2018	1,432
2019	1,194
Total minimum lease payments	$ 22,104

Note 6 - Long-Term Debt

A summary of long-term debt as of March 31, 2014, follows:

	Beginning Balance	March 31, 2014 Additions	Deductions	Ending Balance	Current Portion
Long term debt	$ -	$ 900,000	$ -	$ 900,000	$ -

The Hospital had no long term debt at March 31, 2013.

The terms and due dates of the Hospital's long term debt at March 31, 2014 follows:

- Promissory note with an interest rate of 1.65%, due annually with the principal balance to be paid in a single payment on July 29, 2017, collateralized by certificate of deposit.

Long-term debt maturities are as follows:

Year Ending March 31,	Amount
2015	$ -
2016	-
2017	-
2018	900,000
Total	$ 900,000

Note 7 - Profit Sharing Plan

Effective October 1, 2008, the Hospital created 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 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 Board of Trustees. As of April 1, 2010, the Hospital is no longer required by the plan to make contributions as a result of amendments to the plan by the Board of Trustees. The Hospital did not make any contributions to the plan in 2014 or 2013.

Note 8 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of who are residents and are insured under third-party payor agreements. The mix of patient accounts receivable at March 31, 2014 and 2013, was as follows:

	2014	2013
Medicare	17%	11%
Medicaid	7%	6%
Commercial insurance	11%	8%
Other third-party payors and patients	65%	75%
	100%	100%

Note 9 - Contingencies

Malpractice Insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

The Hospital accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Hospital's own claim experience. No accrual for medical malpractice claims has been included in the accompanying financial statements.

Litigations, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 10 - Blended Component Unit

The following summarizes combining information for the Hospital and Physician Group which have been presented as a blended component unit, as of and for the year ended March 31, 2014.

Table 1: Assets, Liabilities and Net Position	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Eliminations	Total
Assets				
Current assets	$ 4,204,595	$ 115,778	$ (227,147)	$ 4,093,226
Capital assets	3,481,927	-	-	3,481,927
Limited to use	1,024,674	-	-	1,024,674
Other non current assets	59,934	-	-	59,934
Total Assets	$ 8,771,130	$ 115,778	$ (227,147)	$ 8,659,761
Liabilities				
Current liabilities	$ 1,553,064	$ 227,147	$ (227,147)	$ 1,553,064
Long term liabilities	900,000	-	-	900,000
Total liabilities	$ 2,453,064	$ 227,147	$ (227,147)	$ 2,453,064
Net Position				
Net investment in capital assets	$ 3,481,927	$ -	$ -	$ 3,481,927
Restricted, expendable for capital acquisitions	5,512	-	-	5,512
Unrestricted net position	2,830,627	(111,369)	-	2,719,258
	$ 6,318,066	$ (111,369)	$ -	$ 6,206,697
Total liabilities and net position	$ 8,771,130	$ 115,778	$ (227,147)	$ 8,659,761

Table 2: Operating results and Changes in Net Position	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Total
Operating Revenues			
Net patient service revenue	$ 12,006,906	$ 1,020,717	$ 13,027,623
Other operating revenue	778,190	-	778,190
Total operating revenue	12,785,096	1,020,717	13,805,813
Operating Expenses			
Depreciation	540,954	23,484	564,438
Other operating expenses	14,343,985	1,108,602	15,452,587
Total operating expense	14,884,939	1,132,086	16,017,025
Operating Loss	(2,099,843)	(111,369)	(2,211,212)
Nonoperating Revenue (Expense)			
Interest income	13,253	-	13,253
Interest expense	(4,839)	-	(4,839)
Noncapital gifts	1,400	-	1,400
Gain on disposal of equipment	20,950	-	20,950
Total non operating revenue (expense)	30,764	-	30,764
Capital appropriations	656,850	-	656,850
Decrease in Net Position	(1,412,229)	(111,369)	(1,523,598)
Net Position Beginning of Year	7,730,295	-	7,730,295
Net Position End of Year	$ 6,318,066	$ (111,369)	$ 6,206,697

Table 3: Cash flows	Sequoyah Memorial Hospital	SMH Physician Group, LLC	Total
Net Cash from Operating Activities	$ (1,808,873)	$ (53,806)	$ (1,862,679)
Net Cash from Noncapital Financing Activities	1,400	-	1,400
Net Cash from Capital and related Financing Activities	150,023	(2,789)	147,234
Net Cash from Investing Activities	476,511	(6,796)	469,715
Net Increase in Cash and Cash Equivalents	(1,180,939)	(63,391)	(1,244,330)
Cash and Cash Equivalents, Beginning of Year	2,263,057	-	1,307,121
Cash and Cash Equivalents, End of Year	$ 1,082,118	$ (1,019,327)	$ 62,791

Note 11 - Decrease in Net position and Management Plans

For the year ended March 31, 2014, the Hospital experienced a decrease in net position of $1,245,598. The Hospital has approved and implemented plans to mitigate this issue. The plans implemented included a reduction in expense through a reduction in payroll expenses and contracted services payments, and revising billing and collection procedures. The efforts have already begun and management projects that cash needs will be met throughout the next fiscal year.

Note 12 - Subsequent Events

Subsequent to year end, the Board of Trustees approved a line of credit with a limit of $1,300,000, secured by accounts receivable and inventory. As of December 31, 2014, the balance on the line of credit was approximately $900,000. The interest rate on the line of credit is 3.25%.

The Hospital has evaluated subsequent events through December 31, 2014, the date which the financial statements were available to be issued.

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Sequoyah County-City of Sallisaw Hospital Authority
d/b/a Sequoyah Memorial Hospital
Cordell, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Sequoyah County-City of Sallisaw Hospital Authority d/b/a Sequoyah Memorial Hospital(Hospital) as of and for the year ended March 31, 2014,and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated December 31, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in described in the accompanying Schedule of Findings and Responses, to be material weaknesses, 2014-A through 2014-E.

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. We consider the following deficiency in described in the accompanying Schedule of Findings and Responses, to be significant deficiencies, 2014-F.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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*.

Response to Findings

The Hospital’s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Hospital’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Hospital’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

Eide Bailly LLP

Oklahoma City, Oklahoma
December 31, 2014

Findings Related To Financial Statements – Internal Controls over Financial Reporting

Material Weaknesses:

2014-A Material Journal Entries

Condition and criteria: Management is responsible for establishing and maintaining effective internal controls to ensure accurate recording and classification of accounting transactions.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

Cause: Material misstatements were not identified and corrected in a timely manner.

Auditor's Recommendation: It is recommended the Hospital implement a system that provides adequate controls over recording transactions and identifying misstatements.

Management Response: Management agrees with the finding and recommendation and will evaluate the controls in place.

2014-B Preparation of Financial Statements

Condition and criteria: The Hospital does not have the internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

Cause: The board of trustees had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Auditor's Recommendation: It is recommended the Hospital implement a system that allows the preparation of financial statements in accordance with GAAP.

Management Response: The board of trustees has taken into consideration the expense of hiring additional accounting personnel for the accurate reporting of the financial statements and feels that the cost does not justify the benefit.

2014-C Reconciliation of Cash

Condition and criteria: The Hospital does not have the internal control system over timely reconciling of cash accounts.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner as well as an increased risk of fraud due to misappropriation of cash.

Cause: Bank accounts were not reconciled timely throughout the year.

Auditor's Recommendation: It is recommended the Hospital reconcile all cash accounts on a timely basis.

Management Response: Management has corrected the findings and is now reconciling all accounts on a timely basis.

2014-D Allowance Calculations

Condition and criteria: Management is responsible for establishing and maintaining effective internal controls to ensure accurate estimation of allowances.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

Cause: Allowances were not properly estimated at year end which resulted in a material journal entry to the financial statements.

Auditor's Recommendation: It is recommended the Hospital implement a system that provides adequate controls over estimating allowances.

Management Response: Management agrees with the finding and recommendation and will evaluate the controls in place.

2014-E Due to/from Medicare

Condition and criteria: Management is responsible for establishing and maintaining effective internal controls to ensure accurate estimation of cost report settlements.

Effect: Material misstatements could occur in the financial statements and not be detected by management in a timely manner.

Cause: The current year cost report settlement was not properly estimated at year end which resulted in a material journal entry to the financial statements.

Auditor's Recommendation: It is recommended the Hospital implement a system that provides adequate controls over estimating cost report settlements.

Management Response: Management agrees with the finding and recommendation and will evaluate the controls in place.

Significant Deficiency In Internal Control Over Financial Reporting:

2014-F Segregation of Duties

Criteria: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

Condition: During the course of our engagement, we noted that the Hospital has limited staff completing incompatible accounting functions due to the size of the entity.

Cause: The Hospital's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Effect: Inadequate segregation of duties could adversely affect the organizations ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations. In addition, we recommend that the functions be reviewed to determine if additional segregation is feasible to improve efficiency and effectiveness of the financial management of the organization.

Management Response: Management accepts the risk associated with this condition.