



Management's Discussion and Analysis
and Financial Statements
June 30, 2015

Seiling Municipal Hospital Authority

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Independent Auditor's Report

Board of Trustees
Seiling Municipal Hospital Authority
Seiling, Oklahoma

Report on the Financial Statements

We have audited the accompanying statement of net position of the governmental and business type activities of Seiling Municipal Hospital Authority (Authority), a component unit of the Town of Seiling, as of June 30, 2015, and the related notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statement 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 statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statement 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 perform the audit to obtain reasonable assurance about whether the statement of net position is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statement 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 Authority'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 statement.

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 statement of net position referred to in the first paragraph presents fairly, in all material respects, the financial position of the governmental and business-type activities of Seiling Municipal Hospital Authority as of June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on the Statement of Revenues, Expenses, and Changes in Net Position and Cash Flows

Because we were not engaged to audit the statements of revenues, expenses, and changes in net position and cash flows, we did not extend our auditing procedures to enable us to express an opinion on the results of operations and cash flows for the year ended June 30, 2015. Accordingly, we express no opinion on the results of operations and cash flows for the year ended June 30, 2015.

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 Statement of Net Position. 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 February 16, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
February 16, 2016

Introduction

Our discussion and analysis for Seiling Municipal Hospital Authority (Authority) provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2015, and 2014. Please read it in conjunction with the Authority's financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position decreased by \$377,951 or 56% in 2015.
- The Authority reported an operating loss in 2015 of \$767,946. During 2015, the operating loss increased by \$586,398 or 348% compared to 2014.
- Net nonoperating income increased by \$59,469 or 18% in 2015 compared to 2014.

Using This Annual Report

The Authority's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority 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 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority'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. 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 Authority's net position and changes in them. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position 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 Authority'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 Authority.

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 Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Authority's net position decreased by \$377,951 or 56% in 2015 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

	2015	2014
Assets		
Current assets	\$ 1,301,926	\$ 493,300
Capital assets, net	417,198	288,313
Total assets	<u>\$ 1,719,124</u>	<u>\$ 781,613</u>
Liabilities		
Current liabilities	\$ 966,230	\$ 108,741
Long-term debt, less current maturities	457,973	-
Total liabilities	<u>1,424,203</u>	<u>108,741</u>
Net Position		
Net investment in capital assets	302,423	238,044
Unrestricted (Deficit)	(7,502)	434,828
Total net position	<u>294,921</u>	<u>672,872</u>
Total liabilities and net position	<u>\$ 1,719,124</u>	<u>\$ 781,613</u>

Assets, Liabilities and Net Position

The Authority's assets increased by \$937,511 or 120% in 2015. Patient and resident receivables, net of estimated uncollectibles, increased \$614,392 or 1,821% as the Authority took over the operations of Seiling Community Hospital. The Authority's liabilities increased by \$1,315,462 or 1,210% in 2015. Estimated third-party payor settlements increased \$613,442 or 100% by taking over the operations of Seiling Community Hospital.

Table 2: Operating Results and Changes in Net Position

	2015	2014
Operating Revenues		
Net patient and resident service revenue	\$ 3,174,397	\$ 875,111
Other revenue	29,631	7,973
Total operating revenues	<u>3,204,028</u>	<u>883,084</u>
Operating Expenses		
Nursing services	1,508,688	768,338
Other professional services	931,329	-
Service expense	208,402	-
Administrative services	1,287,740	261,718
Depreciation and amortization	35,815	24,576
Total operating expenses	<u>3,971,974</u>	<u>1,054,632</u>
Operating Loss	<u>(767,946)</u>	<u>(171,548)</u>
Nonoperating Revenues (Expenses)		
Sales tax	388,623	329,823
Investment income	1,116	957
Interest expense	(9,431)	(4,220)
Noncapital contributions and grants	9,687	3,966
Total nonoperating revenues (expenses)	<u>389,995</u>	<u>330,526</u>
Revenues in excess of (less than) and changes in net position	(377,951)	158,978
Net Position, Beginning of Year	<u>672,872</u>	<u>513,894</u>
Net Position, End of Year	<u><u>\$ 294,921</u></u>	<u><u>\$ 672,872</u></u>

Operating Results

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating loss for 2015 increased by \$596,398 or 348% as compared to 2014. The primary components of the decreased operating income are:

- An increase in net patient and resident revenue of \$2,299,286 or 263% as compared to 2014. This is due to the purchase of Seiling Community Hospital.
- An increase in administrative services expense of \$1,026,022 or 392% as compared to 2014. This is due to assuming the operations of Seiling Community Hospital.
- Nursing services expense increased \$740,350 or 96% as compared to 2014 due to assuming the operations of the Seiling Community Hospital.
- Other professional services expense increased \$931,329 as a result of assuming the operations of the Seiling Community Hospital.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of sales tax revenue. Sales tax revenues increased in 2015 by \$58,800 or 18%.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

At the end of 2015, the Authority had \$417,198 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets costing \$164,700 during 2015.

Debt

At June 30, 2015, the Authority had \$457,973 in notes payable outstanding as detailed in Note 6.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, residents, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-922-7361.

Seiling Municipal Hospital Authority
Statement of Net Position
June 30, 2015

Assets

Current Assets

Cash and cash equivalents	\$ 420,600
Cash restricted for capital improvements	109,423
Receivables	
Patient and resident, net of estimated uncollectibles of approximately \$369,000	648,134
Sales tax	14,214
Sales tax restricted for capital improvements	14,214
Inventory	95,341
Prepaid expenses	-
	<u>1,301,926</u>
Total current assets	<u>1,301,926</u>

Capital Assets

Capital assets not being depreciated	111,000
Capital assets being depreciated, net	<u>306,198</u>
	<u>417,198</u>
Total capital assets	<u>417,198</u>
Total assets	<u><u>\$ 1,719,124</u></u>

Liabilities and Net Position

Current Liabilities

Accounts payable	
Trade	\$ 190,128
Estimated third-party payor settlements	613,442
Accrued expenses and other liabilities	
Salaries and wages	134,928
Unearned revenue	<u>27,732</u>
Total current liabilities	966,230

Long-Term Debt

	<u>457,973</u>
Total liabilities	<u>1,424,203</u>

Net Position

Net investment in capital assets	302,423
Unrestricted (deficit)	<u>(7,502)</u>
Total net position	<u>294,921</u>
Total liabilities and net position	<u><u>\$ 1,719,124</u></u>

Seiling Municipal Hospital Authority
Statement of Revenues, Expenses, and Changes in Net Position - Unaudited
Year Ended June 30, 2015

Operating Revenues	
Net patient and resident service revenue, net of provision for bad debts of \$379,318	\$ 3,174,397
Other revenue	<u>29,631</u>
Total operating revenues	<u>3,204,028</u>
Operating Expenses	
Nursing services	1,508,688
Other professional services	931,329
Service expense	208,402
Administrative services	1,287,740
Depreciation	<u>35,815</u>
Total operating expenses	<u>3,971,974</u>
Operating Loss	<u>(767,946)</u>
Nonoperating Revenues (Expenses)	
Sales tax	388,623
Investment income	1,116
Interest expense	(9,431)
Noncapital contributions and grants	<u>9,687</u>
Total nonoperating revenues (expenses)	<u>389,995</u>
Revenues less than expenses and changes in net position	(377,951)
Net Position, Beginning of Year	<u>672,872</u>
Net Position, End of Year	<u><u>\$ 294,921</u></u>

Seiling Municipal Hospital Authority
Statement of Cash Flows - Unaudited
Year Ended June 30, 2015

Operating Activities	
Receipts from and on behalf of patients and residents	\$ 3,201,179
Other receipts and payments, net	29,631
Payments to suppliers and contractors	(1,606,197)
Payments to and on behalf of employees	<u>(2,083,202)</u>
Net Cash used for Operating Activities	<u>(458,589)</u>
Noncapital Financing Activities	
Proceeds from sales tax	195,787
Noncapital contributions and grants	9,687
Proceeds from line of credit	<u>300,000</u>
Net Cash from Noncapital Financing Activities	<u>505,474</u>
Capital and Capital Related Financing Activities	
Proceeds from sales tax	195,425
Purchase of property and equipment	(164,700)
Principal payments on long-term debt	(50,269)
Proceeds from long-term obligation	157,973
Interest paid on debt obligations	<u>(9,431)</u>
Net Cash from Capital and Capital Related Financing Activities	<u>128,998</u>
Investing Activities	
Investment income	<u>1,116</u>
Net Change in Cash and Cash Equivalents	176,999
Cash and Cash Equivalents, Beginning of Year	<u>353,024</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 530,023</u></u>
Reconciliation of Cash and Cash equivalents to the Statement of Net Position	
Cash and cash equivalents	\$ 420,600
Cash restricted for capital improvements	<u>109,423</u>
Total cash and cash equivalents	<u><u>\$ 530,023</u></u>

Seiling Municipal Hospital Authority
Statement of Cash Flows - Unaudited
Year Ended June 30, 2015

Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating loss	\$ (767,946)
Adjustments to reconcile operating loss to net cash used for operating activities	
Provision for bad debt	379,318
Depreciation and amortization	35,815
Changes in assets and liabilities	
Patient accounts receivable	(993,710)
Supplies	(87,533)
Prepaid expense	67,709
Accounts payable	170,670
Estimated third-party settlements	613,442
Accrued expenses	95,914
Unearned revenue	<u>27,732</u>
Net Cash used for Operating Activities	<u><u>\$ (458,589)</u></u>

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Seiling Municipal Hospital Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

The Authority was created to provide health services to the residents of the Town of Seiling, Oklahoma (Town) and the surrounding area. The Authority is a component unit of the Town of Seiling. The Authority's Board of Trustees consists of the members of the Town's Board of Trustees. The Authority's sole activity is the operation a 18 bed critical access hospital and a 31 bed nursing home facility to provide quality medical, surgical, hospital, and nursing care services for the residents of Seiling, OK. The Authority has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 115. The Board of Trustees exercises governing oversight responsibility for the Authority which includes such duties as budget review, care of patients, and management of the facilities.

On June 30, 2009, the Authority and Town entered in to a lease/purchase agreement with a third party to acquire the Hospital's land, building and operations. On October 1, 2014, the third party terminated the hospital building lease with the town and sold the hospital's operating assets and land to the Authority, which assumed hospital operations.

The Authority has a hospital building lease with the Town of Seiling, which expires in 2043, in exchange for the Authority to maintain the hospital property.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

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, excluding restricted cash. For purposes of the statement of cash flows, the Authority considers all cash and investments with a maturity of three months or less as cash and cash equivalents.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patients and residents and third-party payor obligations. Patient and resident receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient and resident 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 and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and residents and third-party payors. Management reviews patient and resident 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 and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Sales Tax

Effective June 1, 1996, the Town approved a 1% sales tax which expires June 1, 2016, to provide appropriations for capital improvements to and pay the expenses of equipping, operating and maintaining the Hospital. On November 4, 2014 the Town amended an additional 1% sales tax which expires December 31, 2024, to provide appropriations for capital improvements to and pay the expenses of maintaining, equipping, repairing and improving the Nursing Center.

The Authority received approximately 10% of its financial support from town appropriations related to these sales taxes in 2015. These funds were used to service debt and support operations.

Inventory

Inventory is stated at lower of cost (first-in, first-out) or market and are expensed when used.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 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. The estimated useful lives of capital assets are as follows:

Buildings and improvements	5-40 years
Equipment	2-12 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Compensated Absences

The Hospital's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued salaries and wages in the accompanying financial statements.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient and Resident Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, 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.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority 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 Authority's charity care policy were approximately \$7,000 for the year ended June 30, 2015. Total direct and indirect costs related to these foregone charges were approximately \$4,000 at June 30, 2015, based on an average ratio of cost to gross charges.

Grants and Contributions

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) 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 unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Note 2 - Net Patient and Resident Service Revenue

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

Seiling Municipal Hospital

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC).

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge or established fee schedules.

Blue Cross: Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

Other carriers: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other 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.

Seiling Nursing Center

Routine services rendered to the Nursing Center residents, who are beneficiaries of the Medicaid program or who pay from private resources, are paid according to a schedule of prospectively determined daily rates determined by Oklahoma Medicaid program. A rate is assigned to each nursing home resident based on the residents' ability to perform certain activities of daily living and on certain other clinical factors. Payments are made for each case-mix category and are adjusted annually by an inflation index. Additional services may be paid on a fee-for-service basis.

Concentration of gross charges by major payor for the Hospital and Nursing Center were as follows for the year ended June 30, 2015:

Medicare	46%
Medicaid	16%
Blue Cross	12%
Other commercial payors	10%
Self pay and other	16%
	100%

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.

Note 3 - Deposits

The carrying amounts of deposits as of June 30, 2015 are as follows:

Carrying Amount	
Cash and deposits	<u><u>\$ 530,023</u></u>

Deposits are reported in the following statement of net position captions:

Cash and cash equivalents	\$ 420,600
Cash restricted for capital improvements	<u>109,423</u>
Cash and cash equivalents	<u><u>\$ 530,023</u></u>

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. State statutes require public trusts to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit.

The Authority's deposits in banks at June 30, 2015 were exposed to custodial credit risk in the amount of \$228,050 because they were not insured or collateralized.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Income

Investment income consisting primarily of interest income for the year ended June 30, 2015 was \$1,116.

Note 4 - Capital Assets

Capital asset additions, transfers, retirements, and balances for the year ended June 30, 2015 are as follows:

	Balance June 30, 2014	Additions	Transfers and Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 6,000	\$ 105,000	\$ -	\$ 111,000
Total capital assets not being depreciated	<u>\$ 6,000</u>	<u>\$ 105,000</u>	<u>\$ -</u>	<u>\$ 111,000</u>
Capital assets being depreciated				
Building and building improvements	\$ 474,024	\$ 31,804	\$ -	\$ 505,828
Equipment	<u>144,843</u>	<u>27,896</u>	<u>-</u>	<u>172,739</u>
Total capital assets being depreciated	<u>618,867</u>	<u>\$ 59,700</u>	<u>\$ -</u>	<u>678,567</u>
Less accumulated depreciation for				
Building and building improvements	(215,595)	\$ (19,530)	\$ -	\$ (235,125)
Equipment	<u>(120,959)</u>	<u>(16,285)</u>	<u>-</u>	<u>(137,244)</u>
Total accumulated depreciation	<u>(336,554)</u>	<u>\$ (35,815)</u>	<u>\$ -</u>	<u>(372,369)</u>
Net capital assets being depreciated	<u>\$ 282,313</u>			<u>\$ 306,198</u>
Capital assets, net	<u>\$ 288,313</u>			<u>\$ 417,198</u>

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements which have been recorded as operating leases. Minimum future lease payments for the operating leases are as follows:

<u>Year Ending June 30,</u>	
2016	\$ 69,823
2017	7,098
2018	<u>2,958</u>
Total	<u>\$ 79,879</u>

Note 6 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2015 is as follows:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
Notes Payable					
Note Payable (1)	\$ 50,269	\$ -	\$ (50,269)	\$ -	\$ -
Note Payable (2)	-	157,973	-	157,973	-
Line of credit (3)	-	300,000	-	300,000	-
	<u>\$ 50,269</u>	<u>\$ 457,973</u>	<u>\$ (50,269)</u>	<u>\$ 457,973</u>	<u>\$ -</u>

(1) Note payable to bank, 4.0% interest rate, due in monthly installments of \$5,120 including interest to April 15, 2015; collateralized by property.

(2) Note payable to bank, 4.0% interest rate, interest only payments until due on August 29, 2015; collateralized by all assets. Subsequent to year end, the note payable was extended with a new maturity date of August 29, 2016.

(3) Line of credit up to \$700,000, 2.0% interest rate, due October 1, 2016; collateralized by all assets.

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	Notes Payable	
	<u>Principal</u>	<u>Interest</u>
2016	\$ -	\$ 12,319
2017	457,973	2,553
Total	<u>\$ 457,973</u>	<u>\$ 14,872</u>

Note 7 - Management Agreement

The Authority Board of Trustees has a management agreement with Mercy Health Oklahoma Communities, Inc. This agreement is a defined service agreement for managing the day-to-day operations of the Authority through October 1, 2015. The agreement automatically renews for an additional one year term unless either party provides written notice of non-renewal to the other party at least ninety days prior to the expiration of the term. During the year ended June 30, 2015, the Authority incurred fees to Mercy Health Oklahoma Communities, Inc. for management services of \$276,267. Total amount due to Mercy as of June 30, 2015 was \$50,557.

Note 8 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients and residents, most of who are insured under third-party payor agreements. The mix of receivables for third party payors, patients and residents at June 30, 2015 was as follows:

Medicare	44%
Medicaid	9%
Commercial and other third-party payors	23%
Patients and residents	25%
	<hr/>
	100%

Note 9 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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.

Malpractice Insurance

The Hospital has professional liability 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 annual aggregate limit of \$3 million. The Nursing Center has professional liability insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$250,000 per claim and an annual aggregate limit of \$750,000. Should these claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during their terms, but reported subsequently, would be uninsured.

Litigations, Claims, and Disputes

The Authority 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 Authority.

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 and resident services.

Note 10 - Subsequent Event

Subsequent to year end through February 16, 2016 the date which the financial statements were available to be issued, the Authority was advanced an additional \$100,000 on its line of credit.



Supplementary Information
June 30, 2015

Seiling Municipal Hospital Authority



Independent Auditor's Report on Supplementary Information

Board of Trustees
Seiling Municipal Hospital Authority
Seiling, Oklahoma

We have audited the statement of net position of Seiling Municipal Hospital Authority as of June 30, 2015 and our report thereon dated February 16, 2016 which expresses our opinion on the statement of net position, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the statement of net position. The schedule of combining statement of net position is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statement of net position. The information has been subjected to the auditing procedures applied in the audit of the statement of net position and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statement of net position or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statement of net position. The information in the schedule of combining revenues, expenses and changes in net position, has not been subjected to auditing procedures applied in the audit of the statement of net position and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
February 16, 2016

Seiling Municipal Hospital Authority
Schedule of Combining Statement of Net Position
June 30, 2015

	Seiling Municipal Hospital	Seiling Nursing Center	Combined Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 415,568	\$ 5,032	\$ 420,600
Cash restricted for capital improvements	-	109,423	109,423
Receivables			
Patient and resident, net of estimated uncollectibles	622,953	25,181	648,134
Sales tax	14,214	-	14,214
Sales tax restricted for capital improvements	-	14,214	14,214
Inventory	91,945	3,396	95,341
Prepays and other assets	-	-	-
Total current assets	1,144,680	157,246	1,301,926
Capital Assets, Net	142,842	274,356	417,198
Total assets	\$ 1,287,522	\$ 431,602	\$ 1,719,124
Liabilities and Net Position			
Current Liabilities			
Accounts payable	\$ 147,622	\$ 42,506	\$ 190,128
Accrued liabilities	90,898	44,030	134,928
Unearned revenue	-	27,732	27,732
Estimated third-party payor settlements	613,442	-	613,442
Total current liabilities	851,962	114,268	966,230
Long-Term Debt, Net	457,973	-	457,973
Total liabilities	1,309,935	114,268	1,424,203
Net Position			
Net investment in capital assets	28,067	274,356	302,423
Unrestricted (deficit)	(50,480)	42,978	(7,502)
Total net position (deficit)	(22,413)	317,334	294,921
Total liabilities and net position	\$ 1,287,522	\$ 431,602	\$ 1,719,124

Seiling Municipal Hospital Authority
Schedule of Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2015

	Seiling Municipal Hospital	Seiling Nursing Center	Combined Total
Operating Revenues			
Net patient and resident service revenue	\$ 2,123,738	\$ 1,050,659	\$ 3,174,397
Other revenues	19,276	10,355	29,631
Total operating revenues	<u>2,143,014</u>	<u>1,061,014</u>	<u>3,204,028</u>
Operating Expenses			
Nursing services	623,982	884,706	1,508,688
Other professional services	931,329	-	931,329
Service expenses	208,402	-	208,402
Administrative services	985,508	302,232	1,287,740
Depreciation	9,611	26,204	35,815
Total operating expenses	<u>2,758,832</u>	<u>1,213,142</u>	<u>3,971,974</u>
Operating Loss	<u>(615,818)</u>	<u>(152,128)</u>	<u>(767,946)</u>
Nonoperating Revenues (Expenses)			
Sales tax	193,992	194,631	388,623
Investment income	918	198	1,116
Interest expense	(8,617)	(814)	(9,431)
Noncapital contributions and grants	7,956	1,731	9,687
Total nonoperating revenues	<u>194,249</u>	<u>195,746</u>	<u>389,995</u>
Revenues in Excess of (Less Than) Expenses	(421,569)	43,618	(377,951)
Net Position, Beginning of Year	<u>399,156</u>	<u>273,716</u>	<u>672,872</u>
Net Position (Deficit), End of Year	<u><u>\$ (22,413)</u></u>	<u><u>\$ 317,334</u></u>	<u><u>\$ 294,921</u></u>



**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
Seiling Municipal Hospital Authority
Seiling, 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 statement of net position of Seiling Municipal Hospital Authority (Authority) as of the year ended June 30, 2015 and the related notes, and have issued our report thereon dated February 16, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the statement of net position, we considered the Authority'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 statement of net position, but not for the purpose of expressing an opinion on the effectiveness of Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority'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 certain deficiencies in internal control that we consider to be material weaknesses.

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 Authority's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses: 2015-A through 2015-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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's statement of net position is 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 the 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2015-001.

Authority's Response to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the statement of net position 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eric Sallie LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
February 16, 2016

Material Weakness In Internal Control Over Financial Reporting:

2015-A Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The deficiency is partly due to limited resources in financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by a party outside of management.

Effect: The effect of this condition is that yearend financial reporting is prepared by a party outside of the Authority. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to interim financial statements.

Auditor's Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

2015-B Material Journal Entries

Criteria: A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

Condition: During the course of our engagement, we proposed material audit adjustments to the financial statements that would not have been identified as a result of the Authority's existing internal controls, and therefore, could have resulted in a material misstatement of the Authority's financial statements.

Cause: The Hospital did not have sufficient historical data to fully develop the calculation for contractual and bad debt allowances. The Hospital was working through the change in ownership required under the Medicare regulations and did not have appropriate historical data in place to estimate the current cost report settlement. The Nursing Center does not have a standardized process to evaluate credit balances. We noted several credit balances

were subject to repayment, and although the amounts were properly refunded subsequent to year, the statement of net position was not appropriately presented at year end. Furthermore, the Hospital had a material adjustment for unrecorded liabilities.

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

Auditor's Recommendation: We recommend the Authority review process and procedures for patient and resident receivable valuation, estimated third parties and accounts payable cutoff to ensure amounts are accurately recorded.

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

2015-C Cost Report Estimate

Criteria: Accountings standards require an entity to estimate the Medicare cost report settlement in order to fairly state the financial position as of year-end.

Condition: During the current year, the Hospital did not have sufficient historical data and was in the process of obtaining a change in ownership with Medicare to estimate the financial effect of the Medicare cost report settlement for the current year.

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.

Effect: Material audit adjustments were made to the financial statements.

Auditor's Recommendation: It is recommended the Authority develop a process to estimate accurate cost report settlements for financial reporting.

Management Response: With the change of ownership in place and sufficient historical data management is reviewing methodologies to provide an accurate cost report settlement estimate for financial reporting.

2015-D Bad Debt and Contractual Allowances

Criteria: Accountings standards require an entity to estimate an allowance on the collectability of receivables. The allowance should be based on historical data and current reimbursement rates.

Condition: The allowance calculations were not properly estimated during the year.

Cause: The Hospital management did not have sufficient historical collection data, and was in the process of obtaining a change in ownership approval which delayed billings, and were thus unable to develop an accurate collection model to accurately determine the potential impact on contractual adjustments or bad debt write-offs.

Effect: Interim financial statements may not be properly stated. A material audit adjustment was made to the allowance accounts.

Recommendation: We recommend that management develop an estimate based on historical collections and adjustments. The allowance accounts should be reviewed each month as well for reasonableness in relation to the accounts receivable and revenue.

Management Response: Management has developed an estimate based on historical collection percentages.

2015-E Accounts Payable

Criteria: Accounting standards require liabilities to be recorded in the period in which the obligation is incurred.

Condition: During our search for unrecorded liabilities at the Hospital, we noted exceptions in which invoices relating to goods received or services performed prior to the year-end date were not recorded as payables in the proper period.

Cause: Transactions were not recorded in the proper period.

Effect: Interim financial statements may not be properly stated. A material audit adjustment was made to accounts payable.

Recommendation: We suggest that management prepare written instructions to be included as a part of the Authority accounting policies and procedures manual which establishes process to ensure transactions are recorded in the proper period.

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

Material Weakness In Internal Control Over Compliance:

2015-001 Deposits Exposed to Custodial Risk

Criteria: State law requires collateralization of all deposits with federal depository insurance or qualified investments.

Condition: At June 30, 2015 the Authority had \$228,050 exposed to custodial risk.

Cause: The Authority has collateral agreements with most of its banks; however, the Authority maintains deposits in excess of FDIC limits with institutions that do not have collateral agreements

Effect: The effect of this condition is that the Authority is not in compliance with state law.

Recommendation: It is the responsibility of management to periodically review collateralization agreements in conjunction with deposits.

Management Response: Management is in the process of reviewing collateral agreements and will establish or modify them as needed.