Management's Discussion and Analysis
and Financial Statements
June 30, 2012 and 2011

Tahlequah Hospital Authority

A Component Unit of the City of Tahlequah, Oklahoma

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Trustees
Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Tahlequah, Oklahoma

We have audited the accompanying combined balance sheets of Tahlequah Hospital Authority (Authority) as of June 30, 2012 and 2011, and the related combined statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Tahlequah Hospital Authority as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2012, on our consideration of Tahlequah Hospital Authority'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 or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 19, 2012

This discussion and analysis of the financial performance of Tahlequah Hospital Authority ("Authority") provides an overall review of the Authority's financial activities and balances as of and for the years ended June 30, 2012 and 2011. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- The Authority's net assets increased in each of the past 2 years with a $4,793,344 or 14% increase in 2012 and a $3,584,406 or 12% increase in 2011.
- The Authority reported operating income in both 2012 ($6,072,382) and 2011 ($4,292,789). Operating income increased $1,779,594 or 42% in 2012 over 2011. Operating income decreased $960,935 or 18% in 2011 over 2010.
- The Authority's total assets increased $7,368,801 or 11% in 2012 compared to 2011. Total assets increased $6,004,989 or 10% in 2011 compared to 2010.

Using This Annual Report

The Authority's financial consist of four statements – a balance sheet; a statement of operations, a statement of changes in net assets; 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 Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

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 Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets 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 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 assets and changes in them. You can think of the Authority's net assets 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 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 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 Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The 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 Assets and Changes in Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net assets increased by $4,793,344 or 14% in 2012 and increased $3,584,406 or 12% in 2011, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Current assets	$ 35,422,191	$ 31,542,289	$ 31,135,645
Capital assets	31,557,921	28,045,155	23,431,088
Other noncurrent assets	5,149,632	5,173,499	4,189,221
Total assets	$ 72,129,744	$ 64,760,943	$ 58,755,954
Liabilities			
Current liabilities	$ 10,258,335	$ 7,271,485	$ 6,766,447
Long-term liabilities	23,035,373	23,446,766	21,531,221
Total liabilities	33,293,708	30,718,251	28,297,668
Net Assets			
Invested in capital assets, net of related debt	5,451,166	2,245,090	209,025
Expendable restricted	-	-	777,109
Unrestricted	31,045,771	29,819,901	28,256,524
Noncontrolling interest in joint venture	2,339,099	1,977,701	1,215,628
Total net asset	38,836,036	34,042,692	30,458,286
Total liabilities and net assets	$ 72,129,744	$ 64,760,943	$ 58,755,954

A significant component of the change in the Authority's assets is the increase in capital assets. Capital assets increased in 2012 by $3,512,766 or 13% compared to $4,614,067 or 20% in 2011.

Table 2: Operating Results

	2012	2011	2010
Operating Revenues			
Net patient service revenue	$ 71,599,034	$ 65,749,256	$ 61,335,651
Other revenue	4,489,080	2,677,870	2,184,053
Total operating revenues	76,088,114	68,427,126	63,519,704
Expenses			
Nursing services	24,496,560	23,752,067	20,653,964
Other professional services	20,722,143	18,938,427	16,774,863
General services	5,664,309	3,948,010	3,734,195
Administrative services	15,042,388	14,177,167	14,060,085
Other expenses	1,029,504	819,687	580,602
Depreciation and amortization	3,060,828	2,498,980	2,462,272
Total expenses	70,015,732	64,134,338	58,265,981
Operating Income	6,072,382	4,292,788	5,253,723
Nonoperating Revenue (Expense)			
Investment income	90,341	63,565	74,473
Income from joint ventures	579,693	286,344	268,285
Interest expense	(1,568,924)	(1,322,994)	(1,237,386)
Gain (loss) on disposal of assets	(59,747)	20,277	(27,484)
Contributions expense	(209)	(1,600)	(4,100)
Other	17,751	-	-
Total nonoperating (expense)	(941,095)	(954,408)	(926,212)
Excess of Revenues over Expenses	5,131,287	3,338,380	4,327,511
Noncontrolling Interest in Joint Ventures	(699,341)	(516,047)	(473,461)
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	$ 4,431,946	$ 2,822,333	$ 3,854,050

Operating Income

The first component of the overall change in the Authority's net assets is its operating income - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Authority had operating income of $6,072,382 in 2012 compared to an operating income of $4,292,788 in 2011.

The primary components of the operating income are:

- Net patient service revenue, increased $5,849,778 or 9% in 2012 and $4,413,605 or 7% in 2011.
- Administrative services expenses increased $865,221 or 6% in 2012 and increased $117,082 or 1% in 2011.
- Other professional services expenses increased $1,783,716 or 9% in 2012 and increased $2,163,564 or 13% in 2011.

Net patient service revenue before provision for bad debts increased $585,280 or 0.8% from 2011 to 2012 and $4,404,372 or 6% from 2010 to 2011. The provision for uncollectible accounts decreased $3,832,392 or 42% in 2012 and increased $1,281,862 or 17% in 2011.

Total patient service revenues were $151,459,759 and $148,208,846 for the years ended June 30, 2012 and 2011, respectively. Factors impacting total patient service revenues in 2012 compared to 2011 include increased services and charge rates.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, income from joint ventures and interest expense. Income from joint ventures increased $293,349 or 202% in 2012 and $18,059 or 7% in 2011. Interest expense increased $245,930 or 18% in 2012 and $85,608 or 7% in 2011. Approximately $91,000 of this increase is due to the Authority purchasing 30% additional equity in Northeast Oklahoma Cancer Center (NOCC) and including the activity of NOCC in the combined financial statements for the year ended June 30, 2012.

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. The principal changes in the Authority's nonoperating cash flows were.

- Net cash used by capital and capital related financing activities increased in 2012 by $1,734,006 and increased in 2011 by $1,503,476.
- Net cash provided by investing activities increased in 2012 by $140,502 and increased in 2011 by $2,010,831.

Capital Assets

At the end of 2012, the Authority had $31,557,921 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2012, the authority purchased new capital assets costing $5,247,162.

Debt

At year end, the Authority had $26,106,755 in revenue notes, mortgage loans, note payable and capital lease obligations outstanding as detailed in Note 9 to the financial statements. The Authority issued $1,577,613 in new debt in 2012 versus $3,870,012 of new debt in 2011. The amount of debt issued is subject to limitations that apply to the city and its component units as a whole.

During the year ended June 30, 2012, the Authority purchased 30% additional equity in Northeast Oklahoma Cancer Center (NOCC). This resulted in $1,262,465 additional debt being included in the combined balance sheet at June 30, 2012.

Economic Factors and Next Year's Budget

The Authority has increased rates during the current fiscal year which should continue to increase revenues for the upcoming year. The Authority continues to monitor costs throughout the year. The 2013 fiscal year operating budget indicates conservative net revenue of $74,236,000. The Authority's continued mission is to be a health care leader in the area, and to enhance services to customers in a fiscally responsible manner. The Authority strives to be conscientious, consumer oriented and dedicated to teamwork, leadership and education.

Contacting The Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tahlequah Hospital Authority, 1400 East Downing, Tahlequah, Oklahoma 74465.

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	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 19,706,714	$ 16,802,331
Board designated cash	456,314	562,887
Receivables		
Patients, net of estimated uncollectibles of $6,730,000 in 2012 and $8,110,000 in 2011	9,913,452	9,898,299
Other	816,873	601,512
Current portion of lease receivable	21,962	79,279
Related parties	1,113,509	741,788
Supplies	2,111,422	2,037,995
Prepaid expenses	1,281,945	818,198
Total current assets	35,422,191	31,542,289
Capital Assets, Net		
Non-depreciable capital assets	4,095,510	8,439,963
Depreciable capital assets, net	27,462,411	19,605,192
Total capital assets, net	31,557,921	28,045,155
Other Assets		
Investments in joint ventures	2,956,919	3,505,325
Assets held under deferred compensation agreement	336,434	-
Unamortized loan origination costs	281,718	308,274
Investment in captive insurance	100,000	100,000
Lease receivable, net of current portion	808,708	781,211
Sallisaw Clinic equipment	272,877	25
Goodwill	101,008	-
Other	291,968	478,664
Total other assets	5,149,632	5,173,499
Total assets	$ 72,129,744	$ 64,760,943

See Notes to Financial Statements

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 3,407,816	$ 1,953,299
Note payable (closing costs)	-	400,000
Accounts payable	2,731,820	2,344,810
Accrued expenses		
Salaries and benefits payable	1,153,730	907,778
Vacation	1,138,329	943,044
Payroll taxes and other	672,776	680,249
Estimated third-party settlements	990,173	24,305
Due to related parties	163,691	18,000
Total current liabilities	10,258,335	7,271,485
Deferred Compensation	336,434	-
Long-Term Debt, Less Current Maturities	22,698,939	23,446,766
Total liabilities	33,293,708	30,718,251
Net Assets		
Invested in capital assets, net of related debt	5,451,166	2,245,090
Unrestricted	31,045,771	29,819,901
Noncontrolling interest in joint ventures	2,339,099	1,977,701
Total net assets	38,836,036	34,042,692
Total liabilities and net assets	$ 72,129,744	$ 64,760,943

	2012	2011
Operating Revenue		
Net patient service revenue (net of provision for bad debts of $5,621,002 in 2012 and $9,453,394 in 2011)	$ 71,599,034	$ 65,749,256
Other revenue	4,489,080	2,677,870
Total operating revenue	76,088,114	68,427,126
Expenses		
Nursing services	24,496,560	23,752,067
Other professional services	20,722,143	18,938,427
General services	5,664,309	3,948,010
Administrative services	15,042,388	14,177,167
Other expenses	1,029,504	819,687
Depreciation and amortization	3,060,828	2,498,980
Total expenses	70,015,732	64,134,338
Operating Income	6,072,382	4,292,788
Nonoperating Revenues (Expenses)		
Investment income	90,341	63,565
Income from joint venture	579,693	286,344
Interest expense	(1,568,924)	(1,322,994)
Gain (loss) on disposal of capital assets	(59,747)	20,277
Contributions expense	(209)	(1,600)
Other	17,751	-
Total non-operating expenses in excess of revenues	(941,095)	(954,408)
Excess of Revenues over Expenses	5,131,287	3,338,380
Noncontrolling Interest in Joint Ventures	(699,341)	(516,047)
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	$ 4,431,946	$ 2,822,333

	Noncontrolling Interest	Controlling Interest	Total
Net Assets, June 30, 2010	$ 1,215,628	$ 29,242,658	$ 30,458,286
Member Distributions	(218,824)	-	(218,824)
Member Contributions - Additonal Units Issued	464,850	-	464,850
Change in Net Assets	516,047	2,822,333	3,338,380
Net Assets, June 30, 2011	1,977,701	32,064,991	34,042,692
Member Distributions	(337,943)	-	(337,943)
Change in Net Assets	699,341	4,431,946	5,131,287
Net Assets, June 30, 2012	$ 2,339,099	$ 36,496,937	$ 38,836,036

	2012	2011
Operating Activities		
Cash received from patient services	$ 73,292,241	$ 64,516,344
Other operating receipts	3,901,998	1,731,913
Cash payments to suppliers for goods and services	(41,108,012)	(37,730,442)
Cash payments to employees for services	(25,167,847)	(23,078,449)
Net Cash from Operating Activities	10,918,380	5,439,366
Noncapital Related Financing Activities		
Contributions	(209)	(1,600)
Capital and Capital Related Financing Activities		
Proceeds from issuance of long-term debt	1,577,613	4,470,012
Payments on long-term debt	(2,552,736)	(1,892,010)
Payment of interest on long-term debt	(1,568,924)	(1,322,994)
Purchase of property and equipment	(5,247,162)	(8,086,717)
Payment on closing cost (note payable)	(400,000)	-
Purchase of Sallisaw Clinic equipment	(272,852)	-
Proceeds from sale of capital assets	38,326	202,225
Other non-operating payments received	17,751	-
Capitalized interest	-	(44,494)
Net Cash used for Capital and Capital Related Financing Activities	(8,407,984)	(6,673,978)
Investing Activities		
Distribution to noncontrolling interest in joint ventures	(337,943)	(218,824)
Distributions received from joint ventures	1,031,689	737,380
Cash from acquisition of controlling interest	129,223	-
Goodwill purchased	(101,008)	-
Payments received on lease receivable	29,820	-
Interest and dividends received	90,341	63,565
Investment in joint venture	(554,499)	(435,000)
Net Cash Provided by Investing Activities	287,623	147,121
Net Increase (Decrease) in Cash and Cash Equivalents	2,797,810	(1,089,091)
Cash and Cash Equivalents, Beginning of Year	17,365,218	18,454,309
Cash and Cash Equivalents, End of Year	$ 20,163,028	$ 17,365,218

	2012	2011
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	$ 19,706,714	$ 16,802,331
Board designated cash	456,314	562,887
Total Cash and Cash Equivalents	$ 20,163,028	$ 17,365,218
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 6,072,382	$ 4,292,788
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,060,828	2,498,980
Provision for bad debts	5,156,902	8,989,294
Changes in assets and liabilities		
Patient receivables	(4,429,563)	(9,201,220)
Other receivables	(215,361)	(371,004)
Due from related parties	(371,721)	(574,978)
Supplies	(73,106)	(378,126)
Prepaids	(440,459)	119,553
Other assets	201,575	221,498
Accounts payable	264,505	688,738
Accrued expenses	244,405	174,829
Deferred compensation	336,434	-
Estimated third-party payor settlement	965,868	(1,020,986)
Due to related parties	145,691	-
Net Cash from Operating Activities	$ 10,918,380	$ 5,439,366
Noncash Investing, Capital, and Financing Activities		
Income from joint venture	$ 579,693	$ 286,344
Gain (loss) on disposal of capital assets	$ (59,747)	$ 20,277

Note 1 - Organization and Significant Accounting Policies

Tahlequah Hospital Authority

Tahlequah Hospital Authority (Authority) is a public trust created on June 3, 1974, under the provisions of Title 60, Oklahoma Statutes, the Oklahoma Trust Act, and other applicable laws and statutes of the State of Oklahoma. The Authority's sole activity is the operation of a 100-bed general acute care hospital facility in Tahlequah, Oklahoma. The Authority primarily earns revenues by providing general acute care, psychiatric, and inpatient rehab services to residents in and around the City of Tahlequah, Oklahoma. The trustees of the Authority consist of one councilman of the City of Tahlequah, Oklahoma, one active medical staff member of the hospital, and five citizens and residents of Cherokee County, Oklahoma. The City of Tahlequah, Oklahoma is the beneficiary and will receive all residual trust funds and assets upon termination of the trust.

Tahlequah Hospital Foundation, Inc. (Foundation), a corporation, was established in August 2001, to raise money for the Tahlequah City Hospital (Hospital), which is also known as the Tahlequah Hospital Authority. The Foundation's Board of Managers is elected entirely by the Tahlequah Hospital Authority and is under its sole control.

The Authority has a controlling interest in Tahlequah Diagnostic Imaging, LLC (TDI), which was incorporated as a limited liability company in December 2002. TDI provides MRI, CT, hyperbarics, and other imaging equipment.

The Authority has a controlling interest in Northeast Oklahoma Heart Center (NOHC), which is a limited liability company organized under the Oklahoma Limited Liability Act in July 2005. NOHC provides cardiovascular management services to the Tahlequah Hospital Authority.

The Authority has a controlling interest in Northeast Oklahoma Cancer Center (NOCC), which was established as a limited liability company in September 2006. NOCC provides radiation oncology services to the residents of Cherokee County, Oklahoma and surrounding areas.

The Authority had a controlling interest in Tahlequah Vision Associates (TVA), which was a limited liability company organized under the Oklahoma Limited Liability Act in October 2006, to provide eye surgery equipment, specifically for the removal of cataracts. During the year ending June 30, 2011, TVA ceased operations and is no longer in existence.

Proprietary Fund Accounting

The Authority uses proprietary fund accounting whereby revenues and expenses are recognized on the accrual basis. Based on Governmental Accounting Standards Board (GASB) Topic 1600, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

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

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. The Authority does not charge interest on 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.

Notes Receivable

The Authority issues notes to employees and physicians as part of its recruitment process. Notes are receivable over a minimum of a one-year period to a maximum of a ten-year period and are issued at current interest rates ranging from 2.42% to 9%. The notes are issued with forgiveness provisions over the life of the notes to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven.

At June 30, 2012 and 2011, notes receivable from physicians and employees totaled $505,750 and $462,800, respectively, and are included in other receivables on the balance sheets..

Lease Receivable

Lease receivable includes amounts due for the lease/purchase of a portion of the MOB building by an outside organization. Lease payments are due to the Hospital under the agreement through 2032.

Supplies

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

Capital Assets

Capital assets acquisitions in excess of $1,000 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. 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	3-15 years
Buildings and improvements	5-40 years
Equipment	5-20 years

Investments in Joint Ventures

TDI, a limited liability company, was established in December 2002, to provide MRI, CT, hyperbarics, and other imaging equipment previously provided by Tahlequah City Hospital. TDI's Board of Managers consists of five managers divided into two classes, three Authority Managers and two Class A Managers. The Authority owns 75 membership units, or 60% of the outstanding units. Therefore, the Authority members elect the majority of the Board of Managers and have significant control over TDI. In its general appeal to capture all the business formerly provided by the Authority, TDI solicits to serve everyone in the community.

The Hospital's investment in TDI is $803,114 and $747,103 at June 30, 2012 and 2011, respectively. NOHC owns 5 membership units, or 4% of the outstanding units of TDI. NOHC's investment in TDI is $115,600 and $0 at June 30, 2012 and 2011, respectively As the Hospital has majority ownership interest and management control over TDI, the balance of the investment in TDI is reclassified in the combining process as reflected in the combining balance sheets and statements of operations and changes in net assets included in the supplementary schedules.

NOHC, a limited liability company, was established in July 2005, to provide heart procedures to the surrounding community. NOHC's Board of Managers consists of 4 managers divided into two classes, 3 Authority Managers, and 1 Class A Manager. The Authority owns 60% of the outstanding units. Therefore, the Hospital members elect the majority of the Board of Managers and have significant control over NOHC.

The Hospital's investment in NOHC is $1,064,798 and $1,025,963 at June 30, 2012 and 2011, respectively. As the Authority has majority ownership interest and management control over NOHC, the balance of the investment in NOHC is reclassified in the combining process as reflected in the combining balance sheets and statements of operations and changes in net assets included in the supplementary schedules.

As the Hospital has control over the Foundation, the balance of the interest in the Foundation is reclassified in the combining process as reflected in the combining balance sheets and statements of operations and changes in net assets included in the supplementary schedules. The Hospital's interest in the Foundation at June 30, 2012 and 2011 was $3,305,911 and $2,831,468, respectively.

NOCC, a limited liability company, was established in September 2006, to provide radiation oncology services to the residents of Cherokee County, Oklahoma and the surrounding community. At June 30, 2011, the Hospital owned 30% of the outstanding units. During the year ended June 30, 2012, the Hospital purchased another 30% share from another member of NOCC and now owns 60% of the outstanding units of NOCC. As the Authority now has majority ownership interest and management control over NOCC, the balance of the investment in NOCC is reclassified in the combining process as reflected in the combining balance sheets and statements of operations and changes in net assets included in the supplementary schedules.

The Hospital's investment in NOCC was $96,409 at June 30, 2011. As the Authority has majority ownership interest and management control over NOCC at June 30, 2012, the balance of the investment in NOCC is reclassified in the combining process as reflected in the combining balance sheets and statements of operations and changes in net assets included in the supplementary schedules. The Hospital's investment in NOCC at June 30, 2012 was $465,613.

Tahlequah Vision Associates (TVA) was a limited liability company organized under the Oklahoma Limited Liability Act, in Oklahoma, to provide eye surgery equipment, specifically for the removal of cataracts. TVA's Board of Managers consisted of five managers divided into two classes, three Authority managers and two Class A managers. The Authority owned 60 membership units, or 60% of the outstanding units. Therefore, the Authority members elected the majority of the Board of Managers and had significant control over TVA. In its general appeal to captivate all the business formerly provided by the Authority, TVA solicited to serve everyone in the community. As the Authority had majority ownership interest and management control over TVA, the balance of the investment in TVA was reclassified in the combining process as reflected in the combining balance sheets and statements of operations and changes in net assets included in the supplementary schedules. During the year ending June 30, 2011, TVA ceased operations and is no longer in existence. Therefore, it is no longer included in the combined financial statements of the Authority.

Investments in Affiliated Organizations

Investments in entities in which the Authority has the ability to exercise significant influence over operating and financial policies but does not have operational control (joint venture investments with minority ownership) are recorded under the equity method of accounting. Under the equity method, the initial investment is recorded at cost and adjusted annually to recognize the Members' share of earnings and losses of those entities, net of any additional investments or distributions. The Members' share of net earnings or losses of the entities is included in nonoperating revenues (expenses).

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on invetments in debt and equity securities are included in nonoperating revenue when earned.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired. On an annual basis and at interim periods when circumstances require, the Authority tests recoverability of its goodwill. The goodwill testing utilizes a two-step impairment analysis, whereby the Authority compares the carrying value of each identified reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the implied fair value of goodwill is compared to its carrying value. The Authority recognizes an impairment charge for the amount by which the carrying amount of goodwill exceeds its fair value. The fair value of the reporting unit is estimated using the net present value of discounted cash flows, excluding any financing costs or dividends, generated by each reporting unit. The Authority's discounted cash flows are based upon reasonable and appropriate assumptions about the underlying business activities of the Authority's reporting unit.

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Self-Insurance Reserves

The Authority provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan . These reserves, which are included in current liabilities on the balance sheets, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Income Taxes

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

Net Assets

Net assets are presented in the following three components

Net Assets Invested in Capital Assets, Net of Related Debt - Invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation and reduced by the remaining balances of any outstanding balances used to finance the purchase or construction of those assets.

Unrestricted Net Assets - Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Noncontrolling Interest in Joint Ventures – The portion of equity in the joint ventures other than that held by the Authority.

Net Patient 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, 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.

Operating Revenues and Expenses

The Authority's statements of operations and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Authority'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.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amounts of charges foregone for services provided under the Authority's charity care policy (Hospital only) were approximately $3,448,000 and $2,090,000 for the years ended June 30, 2012 and 2011, respectively. Total direct and indirect cost related to those forgone charges were $2,405,000 and $1,337,000 at June 30, 2012 and 2011, respectively, based on an average ratios of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred approximately $260,000 and $251,000 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

Medicare

These incentive payments will be paid out over four years on a transitional schedule. To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicare share; and (3) a transition factor applicable to that payment year.

the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

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 Authority (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 Authority records payments to other expenses and receipts as reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

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.

Reclassifications

Reclassifications have been made to the June 30, 2011 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 assets.

Note 2 - Cash and Deposits and Investment Income

Custodial credit rate risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it.

At June 30, 2012 and 2011, Tahlequah Hospital Authority had bank balances as follows:

	2012	2011
Insured (FDIC)	$ 2,369,257	$ 2,056,276
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	18,799,665	14,396,222
Uninsured	433,896	1,143,514
Total	$ 21,602,818	$ 17,596,012
Carrying value	$ 20,163,028	$ 17,365,218

State statutes require that investments be made only in U.S. government obligations and that all bank balances are protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 100 percent of the deposits not covered by insurance or bonds.

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent by not in the Authority's name.

The Authority secures cash deposits in excess of $250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2012 and 2011, the carrying amount of the Authority's deposits was $20,163,028 and $17,365,218 and the bank balance was $21,602,818 and $17,596,012, respectively. The Authority's cash balances are maintained in various bank deposit accounts. At June 30, 2012 and 2011, there were $433,896 and $1,143,514, respectively, in excess of federally insured limits.

Investment income represents interest earned on cash and deposits.

Note 3 - Net Patient 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:

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. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2008.

The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority.

Medicaid: Inpatient acute care services rendered to Medicaid 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 based on a predetermined fee per visit.

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority 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 28% and 4% of the Authority's net patient service revenue for the year ended June 30, 2012 and 36% and 3% for the year ended June 30, 2011. 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. The net patient service revenue for the years ended June 30, 2012 and 2011 decreased approximately $332,000 and $0, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final cost report settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of Authority patient service revenue and contractual adjustments for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Total patient service revenue	$ 162,116,140	$ 156,580,554
Contractual adjustments - Hospital		
Medicare	(35,168,889)	(37,240,175)
Medicaid	(15,551,832)	(15,608,023)
Other	(26,693,328)	(21,900,218)
Contractual adjustments - NOCC	(7,482,055)	(6,629,488)
Total contractual adjustments	(84,896,104)	(81,377,904)
Provision for bad debts - Hospital	(5,156,902)	(8,989,294)
Provision for bad debts - NOCC	(464,100)	(464,100)
Total provision for bad debts	(5,621,002)	(9,453,394)
Net patient service revenue	$ 71,599,034	$ 65,749,256

Note 4 - Business Combination

Northeast Oklahoma Cancer Center

On March 1, 2012, the Authority acquired an additional 30% ownership interest in the Northeast Oklahoma Cancer Center in a transaction accounted for as an acquisition. The acquisition resulted in the Organization holding a 60% ownership interest in the Cancer Center as of the acquisition date. The aggregate purchase price of the additional interest acquired was approximately $319,000. The acquisition price includes approximately $101,000 of goodwill attributable to the increased ownership interest and expectations of future cash flows and operational synergies across the market. As a result of the additional ownership interest acquired, the operations of the Cancer Center have been consolidated in the accompanying consolidated financial statements.

Note 5 - Lease Receivable

The terms, due dates, and securing collateral of the Authority's long-term receivables at June 30, 2012 and 2011 follow:

	2012	2011
Lease receivable, due in monthly installments of $6,603 through June 2031, including interest at 6.9%, secured by Medical Office Building	$ 1,518,602	$ 1,584,628
Less amounts considered to be interest	687,932	724,138
Lease receivable, net	830,670	860,490
Less current portion	21,962	79,279
Lease receivable net of current portion	$ 808,708	$ 781,211

Scheduled principal and interest repayments on long-term receivables are as follows:

Year Ending June 30,	Principal	Interest
2013	$ 21,962	$ 57,269
2014	23,537	55,695
2015	25,223	54,008
2016	27,031	52,201
2017	28,968	50,264
2018 to 2022	179,114	217,043
2023 to 2027	253,170	142,987
2028 to 2032	271,665	58,465
Total	$ 830,670	$ 687,932

Note 6 - Capital Assets

Capital assets additions, retirements, and balances for the year ended June 30, 2012 are as follows:

	Balance June 30, 2011	Assets Acquired Through NOCC Equity Purchase	Additions	Disposals	Transfers	Balance June 30, 2012
Non-Depreciable Cost						
Land	$ 2,316,788	$ -	$ 86,354	$ -	$ -	$ 2,403,142
Construction in progress	6,123,175	-	2,443,211	-	(6,874,018)	1,692,368
Non-depreciable capital assets	$ 8,439,963	$ -	$ 2,529,565	$ -	$ (6,874,018)	$ 4,095,510
Depreciable Cost						
Land improvements	$ 443,109	$ -	$ -	$ -	$ -	$ 443,109
Buildings and fixed equipment	22,898,582	93,363	70,495	7,549	6,874,018	29,928,909
Major movable equipment	16,603,186	2,634,720	2,647,102	1,537,724	-	20,347,284
Depreciable capital assets cost	39,944,877	2,728,083	2,717,597	1,545,273	6,874,018	50,719,302
Accumulated depreciation						
Land improvements	255,527	-	20,884	-	-	276,411
Buildings and fixed equipment	9,331,917	55,523	860,775	7,549	-	10,240,666
Major movable equipment	10,752,241	1,274,976	2,152,613	1,440,016	-	12,739,814
Total accumulated depreciation	20,339,685	1,330,499	3,034,272	1,447,565	-	23,256,891
Depreciable capital assets, net	$ 19,605,192	$ 1,397,584	$ (316,675)	$ 97,708	$ 6,874,018	$ 27,462,411

During the year ending June 30, 2012, the Authority purchased an additional 30% equity interest in NOCC. This brought the Authority's total investment in NOCC to 60%. The Authority accounted for the investment in NOCC as a consolidated entity for the year ending June 30, 2012. The capital assets related to NOCC were added to the schedule above as "Assets Acquired through NOCC Equity Purchase."

Construction in progress at June 30, 2012, represents various projects. The two main projects are as follows. Approximately $836,000 of the balance represents the Sallisaw Clinic building. The Foundation completed the building during 2012, however, it is not yet in operation at June 30, 2012. The Authority is now considering leasing the building to an outside organization.

Approximately $737,000 of the balance represents the Infusion Clinic building. The building was purchased and remodeled during 2012 and will be used in operations beginning in August 2012. Total expected cost of the building is $750,000 and remaining amounts will be funded with long-term debt.

Capital assets additions, retirements, and balances for the year ended June 30, 2011 are as follows:

	Balance June 30, 2010	Additions	Disposals	Transfers	Balance June 30, 2011
Non-Depreciable Cost					
Land	$ 455,512	$ 1,861,276	$ -		$ 2,316,788
Construction in progress	2,407,728	4,731,390	860,490	(155,453)	6,123,175
Non-depreciable capital assets	$ 2,863,240	$ 6,592,666	$ 860,490	$ (155,453)	$ 8,439,963
Depreciable Cost					
Land improvements	$ 496,109	$ -	$ 53,000	$ -	$ 443,109
Buildings and fixed equipment	22,845,377	-	102,248	155,453	22,898,582
Major movable equipment	15,523,748	1,538,545	459,107	-	16,603,186
Depreciable capital assets cost	38,865,234	1,538,545	614,355	155,453	39,944,877
Accumulated depreciation					
Land and improvements	234,549	20,978	-	-	255,527
Buildings and fixed equipment	8,659,303	746,313	73,699	-	9,331,917
Major movable equipment	9,403,534	1,706,596	357,889	-	10,752,241
Total accumulated depreciation	18,297,386	2,473,887	431,588	-	20,339,685
Depreciable capital assets, net	$ 20,567,848	$ (935,342)	$ 182,767	$ 155,453	$ 19,605,192

Note 7 - Investments in Affiliated Companies

The Authority uses the equity method to account for the joint venture investments listed below. At June 30, 2012 and 2011, the Authority's investment in joint ventures consisted of the following:

	2012	2011
Northeast Oklahoma Cancer Center	$ -	$ 96,409
Cherokee Health Partners, LLC	807,487	571,394
Platte Dialysis	1,814,810	1,902,522
Oklahoma Cancer Center Realty	334,622	935,000
Total investment in joint venture	$ 2,956,919	$ 3,505,325

Joint venture income, distributions, and contributions balances for the years ended June 30, 2012 and 2011 are as follow:

	Balance June 30, 2011	Joint Venture Income	Distributions	Transfer NOCC to a Consolidated Entity	Balance June 30, 2012
Investment in joint ventures	$ 3,505,325	$ 650,404	$ (1,102,401)	$ (96,409)	$ 2,956,919

	Balance June 30, 2010	Joint Venture Income	Distributions	Purchase/ Contributions	Balance June 30, 2011
Investment in joint ventures	$ 3,056,511	$ 286,344	$ (272,530)	$ 435,000	$ 3,505,325

NOCC, a limited liability company was established September 2006 to provide radiation oncology services to the residents of Cherokee County, Oklahoma and surrounding areas. During 2012, the Authority purchased an additional 30% ownership in NOCC. This brought the Authority's ownership to a total of 60%. The Authority accounted for the investment in NOCC as a consolidated entity as of and for the year ending June 30, 2012. The balance of the investment in NOCC is reclassified in the combining process as reflected in the combining balance sheets and statements of revenues, expenses and net assets are included in the supplementary schedules. During 2011, the Authority was paid $983,179 for services provided to NOCC. NOCC owed the Authority $63,670 included in accounts payable at June 30, 2011.

Cherokee Health Partners, LLC (CHP), a limited liability company, was incorporated as a tribal limited liability company in September 2004. CHP provides cardiac and other imaging services. The Authority is a 49% owner of CHP. In its general appeal to capture all the business currently provided by the Authority, CHP solicits to serve everyone in the community. During 2012 and 2011, the Authority was paid $2,768,744 and $2,549,355 for services and building space provided to CHP. The Authority owed CHP $18,000 for the year ended June 30, 2011. The Authority was owed $897,436 and $637,400 for the years ended June 30, 2012 and 2011, respectively.

Platte Dialysis, LLC (Platte), a limited liability company, was established October 2009 to provide dialysis services to residents of Cherokee County, Oklahoma and surrounding areas. The Authority is a 49% owner of Platte. In its general appeal to capture all the business currently provided by the Authority, Platte solicits to serve everyone in the community.

Oklahoma Cancer Center Realty, LLC (OCCR), a limited liability company, was established November 2009 to lease office space to physicians in Tulsa County, Oklahoma and surrounding areas. The Authority is a 50% owner of OCCR.

Note 8 - Leases

The Authority leases certain equipment under non-cancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense in June 30, 2012 and 2011 for all operating leases were approximately $1,710,491 and $1,809,164, respectively.

The capitalized leased assets consist of:

	2012	2011
Major movable equipment under capital lease obligation	$ 942,605	$ 942,605
Less accumulated amortization (included as depreciation on the accompanying financial statements)	821,689	658,403
	$ 120,916	$ 284,202

Minimum future lease payments for the operating leases are as follows:

Year Ending June 30,	
2013	$ 82,167
2014	87,384
2015	87,384
Total Minimum Lease Payments	$ 256,935

Note 9 - Note Payable and Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2011	Debt Acquired Through NOCC Equity Purchase	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Debt						
Revenue notes	$ 12,978,683	$ -	$ -	$ 472,102	$ 12,506,581	$ 503,253
Mortgage loans	11,982,651	1,681,813	1,577,613	1,940,603	13,301,474	2,758,409
Total debt	24,961,334	1,681,813	1,577,613	2,412,705	25,808,055	3,261,662
Capital lease obligations	438,731	-	-	140,031	298,700	146,154
Total long-term debt	$ 25,400,065	$ 1,681,813	$ 1,577,613	$ 2,552,736	$ 26,106,755	$ 3,407,816

During the year ending June 30, 2012, the Authority purchased an additional 30% equity interest in NOCC. This brought the Authority’s total investment in NOCC to 60%. The Authority accounted for the investment in NOCC as a consolidated entity for the year ending June 30, 2012. The long-term debt related to NOCC were added to the schedule above as “Debt Acquired through NOCC Equity Purchase.”

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Debt					
Revenue notes	$ 13,423,284	$ -	$ 444,601	$ 12,978,683	$ 472,102
Mortgage loans	9,225,881	3,870,012	1,113,242	11,982,651	1,341,165
Total debt	22,649,165	3,870,012	1,557,843	24,961,334	1,813,267
Capital lease obligations	572,898	-	134,167	438,731	140,032
Total long-term debt	$ 23,222,063	$ 3,870,012	$ 1,692,010	$ 25,400,065	$ 1,953,299

The terms, due dates, and securing collateral of the Authority’s long-term debt, including capital lease obligation, at June 30, 2012 and 2011 follow:

	2012	2011
Revenue Notes		
6.8% revenue note, due in monthly installments of $70,113 including interest, through December 2017, secured by fixed assets	$ 8,047,549	$ 8,331,116
4.9% revenue note, due in monthly installments of $34,149 including interest, through December 2027, secured by fixed assets	4,459,032	4,647,567
Total revenue notes	12,506,581	12,978,683
Mortgage Loans		
4.2% note payable, due in monthly installments of $22,312 including interest, through November 2012, secured by equipment	$ 110,411	$ 367,732
4.2% note payable, due in monthly installments of $13,011 including interest, through May 2013, secured by equipment	140,119	286,869
5.98% note payable, due in monthly installments of $36,601 including interest, through May 2013, secured by accounts receivable	1,262,465	-
4.4% notes payable, due in monthly installments of $19,198 including interest, through November 2013, secured by equipment	334,099	544,705
6.4% note payable, due in monthly installments of $24,346 including interest, through October 2014, secured by building	1,104,197	1,318,777
6.4% note payable, twelve months interest only payments following by principal and interest, through October 2014, secured by building	2,530,099	2,647,768
4.75% note payable, due in monthly installments of $3,925 including interest, through January 2019, secured by property	595,370	-
4.625% note payable, due in monthly installments of $18,206 including interest, through August 2016, secured by equipment	811,411	-
6.5% note payable, due in monthly installments of $16,867 including interest, through January 2015, secured by equipment	479,939	645,187
4.1% note payable, due in monthly installments of $4,268 including interest, through April 2024, secured by land	479,308	500,000
4.1% note payable, due in monthly installments of $6,431 including interest, through April 2024, secured by land	711,452	753,327
5.8% note payable, due in monthly installments of $32,192 including interest, through August, 2028, secured by women's center building	4,038,429	4,184,627
4.0% note payable, due in monthly installments of $4,878 including interest, through December 2028, secured by land	704,175	733,659
Total note payable	13,301,474	11,982,651
Capital lease obligations	298,700	438,731
	26,106,755	25,400,065
Less current maturities	(3,407,816)	(1,953,299)
Long-term debt, less current maturities	$ 22,698,939	$ 23,446,766

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

	Long-term Debt		Capital Lease Obligations	
Year ending June 30,	Principal	Interest	Principal	Interest
2013	$ 3,261,662	$ 1,466,664	$ 146,154	$ 9,956
2014	1,759,075	1,272,629	152,546	3,565
2015	1,647,564	1,173,956	-	-
2016	1,622,919	1,080,830	-	-
2017	1,320,339	1,017,550	-	-
2018 to 2022	11,395,582	2,159,968	-	-
2023 to 2027	4,077,346	714,996	-	-
2028 to 2032	723,568	6,050	-	-
Total	$ 25,808,055	$ 8,892,643	$ 298,700	$ 13,521

The terms, due dates, and securing collateral of the Authority's note payable for closing costs, at June 30, 2012 and 2011 follows:

	2012	2011
Note payable, due in monthly installments of $100,000, through October 2011, secured by land	$ -	$ 400,000

Note 10 - Pension Plan

The Authority contributes to a defined contribution pension plan (403b) covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by a third-party administrator. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Authority's Board of Trustees. The Authority can match a discretionary amount, and currently matches 3% of the participants' contributions. Participants vest after 3 years of full-time or part-time employment and completion of at least 1,000 hours of service in each plan year.

There is also a discretionary 403(b) contribution plan which is designed to financially reward non-physician executives of Tahlequah City Hospital for meeting or exceeding fiscal year-end budgeted expectations. Upon completion of the audited financial statements, the results may produce contributions toward non-physician executives' 403(b) account. Discretionary contributions are based on fiscal year-end net income compared to budgeted amounts.

Total pension plan expense for the years ended June 30, 2012 and 2011, was $634,259 and $503,344, respectively.

Note 11 - Deferred Compensation Plan

The Authority has adopted a non-qualified executive 457(f) deferred compensation plan. The Authority may make discretionary credits to the deferred compensation account of each active participant in an amount determined each plan year by the Authority. Eligible employees may elect to defer payment of federal and state income taxes on salaries deferred under this plan. Participants vest in their deferred compensation account either at a specific date as selected in writing by the Hospital, upon involuntary separation from service from the Authority without cause, or upon the date of a change in a control event. The value of deferred compensation at June 30, 2012, totaled $173,277 and is comprised of $160,419 in employer contributions and $12,858 in accumulated net earnings. There was no separate deferred compensation plan account at June 30, 2011.

During the year, the Authority sets aside funds in a separate account for estimated amounts that will eventually be transferred to the deferred compensation plan account. At June 30, 2012, the Authority had funds of $163,157 in this account.

Note 12 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2012 and 2011 was as follows:

	2012	2011
Medicare and Medicaid	37%	33%
Other third-party payors	38%	48%
Patients	25%	19%
	100%	100%

Note 13 - Contingencies

Malpractice Insurance

The Authority pays fixed premiums for annual medical malpractice coverage under occurrence-basis policies. In general, the Authority bears risks for any individual claims with costs exceeding $1,000,000 and the excess, if any, over aggregate costs of $3,000,000 for claims occurring during the policy year. The Authority accrues the expense of its share of malpractice claim costs, if any, of 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 Authority’s own claims experience. No accrual for medical malpractice claims has been made in the accompanying financial statements.

Self-Insured Health Care Plan

The Authority is self-insured for the health care plan of its employees. In general, the Authority is self-insured under the plan to the extent of $50,000 per person, per plan year, and in the aggregate per plan year of approximately $2,100,000 with excess risk coverage obtained from an insurance company. The Authority accrues the expense of claim costs and plan administrative expenses for actual claims and expenses incurred. The estimates of unfiled claims are based upon the Authority's own claims experience. A provision for estimated health claims outstanding of $302,000 and $388,657 is included in other accrued expenses at June 30, 2012 and 2011, respectively. In addition, a receivable from reinsurance of $84,768 and $0 is included in other receivables at June 30, 2012 and 2011.

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 services.

Note 14 - Supplemental Hospital Offset Payment Program Act (SHOPP)

The Authority made SHOPP payments totaling $1,511,560, for the period between July 2011 and June 2012. In return, the Authority received $3,147,498.

Note 15 - Electronic Health Record Incentive Payments

The Authority recognized total revenue of $2,040,164 for the year ended June 30, 2012 related to EHR incentive payments. The Authority recognized $1,427,734 and $612,430 from Medicare and Medicaid, respectively, relating to the initial EHR incentive payments received. These incentive payments are included in other operating revenue in the accompanying financial statements. Since the remaining payments are contingent upon the Authority meeting future EHR objectives, there are no additional amounts accrued as a receivable.

Note 16 - Subsequent Events

The Authority has evaluated subsequent events through December 19, 2012, that date which the financial statements were available to be issued.

Supplementary Information
June 30, 2012 and 2011

Tahlequah Hospital Authority

A Component Unit of the City of Tahlequah, Oklahoma

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Supplementary Information

The Board of Trustees
Tahlequah Hospital Authority
Tahlequah, Oklahoma

We have audited the financial statements of Tahlequah Hospital Authority as of and for the years then ended June 30, 2012 and 2011 and our report thereon dated December 19, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules of balance sheet information and combining schedules of operations and changes in net asset information, and schedules of Hospital net patient service revenue, Hospital other operating revenue, and Hospital expenses are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the Unites States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 19, 2012

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2012

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications	Consolidated
Assets							
Current Assets							
Cash and cash equivalents	$ 15,806,931	$ 1,430,105	$ 254,180	$ 1,408,922	$ 806,576	$ -	$ 19,706,714
Board designated cash	456,314	-	-	-	-	-	456,314
Receivables							
Patient, net	9,582,988	-	8,147	-	355,584	(33,267)	9,913,452
Other	958,538	-	-	-	-	(141,665)	816,873
Current portion of lease receivable	21,962	-	-	3,756	-	(3,756)	21,962
Related parties	1,234,916	205,004	920,712	50,400	-	(1,297,523)	1,113,509
Supplies	1,527,332	-	583,064	-	1,026	-	2,111,422
Prepaid expenses	1,091,202	15,729	20,370	27,707	126,937	-	1,281,945
Total current assets	30,680,183	1,650,838	1,786,473	1,490,785	1,290,123	(1,476,211)	35,422,191
Capital Assets, Net	24,769,174	1,246,253	-	4,503,281	1,039,213	-	31,557,921
Other Assets							
Investment in Diagnostic Imaging (TDI)	803,114	-	115,600	-	-	(918,714)	-
Investment in Heart Center (NOHC)	1,064,798	-	-	-	-	(1,064,798)	-
Interest in Foundation	3,305,911	-	-	-	-	(3,305,911)	-
Investment in TVA	-	-	-	-	-	-	-
Investment in Cherokee Health Partners (CHP)	807,487	-	-	-	-	-	807,487
Investment in Cancer Center (NOCC)	465,613	-	-	-	-	(465,613)	-
Investment in Realty (OCCR)	334,622	-	-	-	-	-	334,622
Investment in Platte Dialysis	1,814,810	-	-	-	-	-	1,814,810
Total investments in joint ventures	8,596,355	-	115,600	-	-	(5,755,036)	2,956,919
Assets held under deferred compensation agreement	336,434	-	-	-	-	-	336,434
Unamortized loan organization costs	281,718	-	-	-	-	-	281,718
Investment in captive insurance	100,000	-	-	-	-	-	100,000
Lease receivable, net of current portion	808,708	-	-	100,289	-	(100,289)	808,708
Sallisaw Clinic equipment	272,877	-	-	-	-	-	272,877
Goodwill	101,008	-	-	-	-	-	101,008
Other	277,089	-	-	-	14,879	-	291,968
Total other assets	10,774,189	-	115,600	100,289	14,879	(5,855,325)	5,149,632
Total assets	$ 66,223,546	$ 2,897,091	$ 1,902,073	$ 6,094,355	$ 2,344,215	$ (7,331,536)	$ 72,129,744

Liabilities and Net Assets	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications	Consolidated
Current Liabilities							
Current maturities of long-term debt	$ 1,853,907	$ 175,982	$ -	$ 119,218	$ 1,262,465	$ (3,756)	$ 3,407,816
Closing cost	-	-	-	-	-	-	-
Accounts payable	2,561,327	155,551	128,413	-	296,607	(410,078)	2,731,820
Accrued expenses							
Salaries and benefits payable	1,153,730	-	-	-	-	-	1,153,730
Vacation	1,138,329	-	-	-	-	-	1,138,329
Payroll taxes and other	672,776	-	-	-	-	-	672,776
Estimated third-party payer settlements	990,173	-	-	-	-	-	990,173
Due to related parties	920,710	-	-	305,358	-	(1,062,377)	163,691
Total current liabilities	9,290,952	331,533	128,413	424,576	1,559,072	(1,476,211)	10,258,335
Deferred Compensation	336,434	-	-	-	-	-	336,434
Long-Term Debt, Less Current Maturities	20,124,184	303,957	-	2,371,087	-	(100,289)	22,698,939
Total liabilities	29,751,570	635,490	128,413	2,795,663	1,559,072	(1,576,500)	33,293,708
Net Assets							
Noncontrolling interest in joint ventures	-	-	-	-	-	2,339,099	2,339,099
Net Assets	36,471,976	2,261,601	1,773,660	3,298,692	785,143	(8,094,135)	36,496,937
Total net assets	36,471,976	2,261,601	1,773,660	3,298,692	785,143	(5,755,036)	38,836,036
Total liabilities and net assets	$ 66,223,546	$ 2,897,091	$ 1,902,073	$ 6,094,355	$ 2,344,215	$ (7,331,536)	$ 72,129,744

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	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Reclassifications	Consolidated
Assets						
Current Assets						
Cash and cash equivalents	$ 12,964,120	$ 1,527,542	$ 160,379	$ 2,150,290	$ -	$ 16,802,331
Board designated cash	562,887	-	-	-	-	562,887
Receivables						
Patient, net	9,892,519	-	5,780	-	-	9,898,299
Other	643,230	-	-	-	(41,718)	601,512
Current portion of lease receivable	79,279	-	-	3,609	(3,609)	79,279
Related parties	605,806	264,839	1,200,167	3,434	(1,332,458)	741,788
Supplies	1,568,879	-	469,116	-	-	2,037,995
Prepaid expenses	694,517	22,317	75,919	25,445	-	818,198
Total current assets	27,011,237	1,814,698	1,911,361	2,182,778	(1,377,785)	31,542,289
Capital Assets, Net	24,043,054	1,017,972	-	2,984,129	-	28,045,155
Other Assets						
Investment in Diagnostic Imaging (TDI)	747,103	-	-	-	(747,103)	-
Investment in Heart Center (NOHC)	1,025,963	-	-	-	(1,025,963)	-
Interest in Foundation	2,831,468	-	-	-	(2,831,468)	-
Investment in TVA	-	-	-	-	-	-
Investment in Cherokee Health Partners (CHP)	571,394	-	-	-	-	571,394
Investment in Cancer Center (NOCC)	96,409	-	-	-	-	96,409
Investment in Realty (OCCR)	935,000	-	-	-	-	935,000
Investment in Platte Dialysis	1,902,522	-	-	-	-	1,902,522
Total investments in joint ventures	8,109,859	-	-	-	(4,604,534)	3,505,325
Assets held under deferred compensation agreement	-	-	-	-	-	-
Unamortized loan organization costs	308,274	-	-	-	-	308,274
Investment in captive insurance	100,000	-	-	-	-	100,000
Lease receivable, net of current portion	781,211	-	-	104,045	(104,045)	781,211
Sallisaw Clinic equipment	25	-	-	-	-	25
Goodwill	-	-	-	-	-	-
Other	478,664	-	-	-	-	478,664
Total other assets	9,778,033	-	-	104,045	(4,708,579)	5,173,499
Total assets	$ 60,832,324	$ 2,832,670	$ 1,911,361	$ 5,270,952	$ (6,086,364)	$ 64,760,943

Liabilities and Net Assets	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Reclassifications	Consolidated
Current Liabilities						
Current maturities of long-term debt	$ 1,708,867	$ 166,333	$ -	$ 81,708	$ (3,609)	$ 1,953,299
Closing cost	-	-	-	400,000	-	400,000
Trade accounts payable	2,136,243	136,075	204,783	-	(132,291)	2,344,810
Accrued expenses						
Salaries and benefits payable	907,778	-	-	-	-	907,778
Vacation	943,044	-	-	-	-	943,044
Payroll taxes and other	680,249	-		-	-	680,249
Estimated third-party payer settlements	24,305	-	-	-	-	24,305
Due to related parties	1,200,167	-	-	59,718	(1,241,885)	18,000
Total current liabilities	7,600,653	302,408	204,783	541,426	(1,377,785)	7,271,485
Deferred Compensation	-	-	-	-	-	-
Long-Term Debt, Less Current Maturities	21,166,679	478,854	-	1,905,278	(104,045)	23,446,766
Total liabilities	28,767,332	781,262	204,783	2,446,704	(1,481,830)	30,718,251
Net Assets						
Noncontrolling interest in joint ventures	-	-	-	-	1,977,701	1,977,701
Net Assets	32,064,992	2,051,408	1,706,578	2,824,248	(6,582,235)	32,064,991
Total net assets	32,064,992	2,051,408	1,706,578	2,824,248	(4,604,534)	34,042,692
Total liabilities and net assets	$ 60,832,324	$ 2,832,670	$ 1,911,361	$ 5,270,952	$ (6,086,364)	$ 64,760,943

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Combining Schedule – Operations and Changes in Net Assets Information
Year Ended June 30, 2012

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications	Consolidated
Operating Revenue							
Net patient service revenue	$ 68,888,808	$ 1,200,138	$ 9,359,903	$ -	$ 2,709,468	$ (10,559,283)	$ 71,599,034
Other revenue	4,338,440	-	-	900,727	-	(750,087)	4,489,080
Total operating revenue	73,227,248	1,200,138	9,359,903	900,727	2,709,468	(11,309,370)	76,088,114
Expenses							
Nursing services	21,097,868	-	4,598,830	-	-	(1,200,138)	24,496,560
Other professional services	29,200,057	15,007	521,555	1,100	443,966	(9,459,542)	20,722,143
General services	4,274,422	-	-	-	1,389,887	-	5,664,309
Administrative services	11,932,704	26,170	3,096,309	11,489	-	(24,284)	15,042,388
Other expenses	-	378,510	506,474	294,210	-	(149,690)	1,029,504
Depreciation and amortization	2,316,608	362,554	-	49,043	332,623	-	3,060,828
Total expenses	68,821,659	782,241	8,723,168	355,842	2,166,476	(10,833,654)	70,015,732
Operating Income	4,405,589	417,897	636,735	544,885	542,992	(475,716)	6,072,382

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications	Consolidated
Nonoperating Revenues (Expenses)							
Investment income	$ 65,212	$ 7,901	$ 1,954	$ 6,674	$ 8,600	$ -	$ 90,341
Income from TDI	241,285	-	-	-	-	(241,285)	-
Income from NOHC	383,213	-	-	-	-	(383,213)	-
Income from Foundation	474,443	-	-	-	-	(474,443)	-
Loss from TVA	-	-	-	-	-	-	-
Income from CHP	645,752	-	-	-	-	-	645,752
Income from NOCC	151,139	-	-	-	-	(151,139)	-
Loss from OCCR	(470,517)	-	-	-	-	-	(470,517)
Income from Platte	404,458	-	-	-	-	-	404,458
Investment in HHRRRRG	0	-	-	-	-	-	-
Interest expense	(1,364,154)	(36,631)	-	(77,081)	(91,058)	-	(1,568,924)
Loss on disposal of equipment	(29,227)	-	-	-	(30,520)	-	(59,747)
Contributions expense	(500,209)	-	-	-	-	500,000	(209)
Other	-	-	-	(34)	17,785	-	17,751
Total non operating revenue (expense)	1,395	(28,730)	1,954	(70,441)	(95,193)	(750,080)	(941,095)
Excess of Revenues Over Expenses	4,406,984	389,167	638,689	474,444	447,799	(1,225,796)	5,131,287
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	(699,341)	(699,341)
Temporarily Restricted Net Assets							
Grant proceeds	-	-	-	-	-	-	-
Grant expenses	-	-	-	-	-	-	-
Change in Restricted Net Assets	-	-	-	-	-	-	-
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	4,406,984	389,167	638,689	474,444	447,799	(1,925,137)	4,431,946
Net Assets, Beginning of Year	32,064,992	2,051,408	1,706,578	2,824,248	337,344	(6,919,579)	32,064,991
Shares Sold	-	115,600	-	-	-	(115,600)	-
Members' Distributions	-	(294,574)	(571,607)	-	-	866,181	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	2,339,099	2,339,099
Net Assets, End of Year	$ 36,471,976	$ 2,261,601	$ 1,773,660	$ 3,298,692	$ 785,143	$ (5,755,036)	$ 38,836,036

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	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Tahlequah Vision Associates	Reclassifications	Consolidated
Operating Revenue							
Net patient service revenue	$ 64,471,136	$ 1,198,860	$ 10,319,672	$ -	$ -	$ (10,240,412)	$ 65,749,256
Other revenue	1,829,111	-	-	825,679	23,080	-	2,677,870
Total operating revenue	66,300,247	1,198,860	10,319,672	825,679	23,080	(10,240,412)	68,427,126
Expenses							
Nursing services	19,632,127	-	5,318,600	-	-	(1,198,660)	23,752,067
Other professional services	28,731,165	14,700	510,604	900	1,630	(10,320,572)	18,938,427
General services	3,948,010	-	-	-	-	-	3,948,010
Administrative services	8,891,989	40,696	3,293,985	13,355	10,009	1,927,133	14,177,167
Other expenses	-	214,406	490,750	262,844	-	(148,313)	819,687
Depreciation	2,133,336	305,565	-	47,932	12,147	-	2,498,980
Total expenses	63,336,627	575,367	9,613,939	325,031	23,786	(9,740,412)	64,134,338
Operating Income	2,963,620	623,493	705,733	500,648	(706)	(500,000)	4,292,788

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Tahlequah Vision Associates	Reclassifications	Consolidated
Non Operating Revenues (Expenses)							
Investment income	$ 45,050	$ 12,507	$ -	$ 5,942	$ 66	$ -	$ 63,565
Income from TDI	352,967	-	-	-	-	(352,967)	-
Income from NOHC	423,441	-	-	-	-	(423,441)	-
Interest in Foundation	477,972	-	-	-	-	(477,972)	-
Loss from TVA	(687)	-	-	-	-	687	-
Income from CHP	13,843	-	-	-	-	-	13,843
Loss from NOCC	(62,640)	-	-	-	-	-	(62,640)
Loss from OCCR	-	-	-	-	-	-	-
Income from Platte	335,141	-	-	-	-	-	335,141
Investment in HHRRRRG	-	-	-	-	-	-	-
Interest expense	(1,246,650)	(47,726)	-	(28,618)	-	-	(1,322,994)
Gain on disposal of equipment	20,277	-	-	-	-	-	20,277
Contributions expense	(500,000)	-	-	-	(1,600)	500,000	(1,600)
Other	-	-	-	-	-	-	-
Total non operating revenue (expense)	(141,286)	(35,219)	-	(22,676)	(1,534)	(753,693)	(954,408)
	2,822,334	588,274	705,733	477,972	(2,240)	(1,253,693)	3,338,380
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	(516,047)	(516,047)
Temporarily Restricted Net Assets							
Grant proceeds	-	-	-	-	-	-	-
Grant expenses	-	-	-	-	-	-	-
Change in Restricted Net Assets	-	-	-	-	-	-	-
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	2,822,334	588,274	705,733	477,972	(2,240)	(1,769,740)	2,822,333
Net Assets, Beginning of Year	29,242,658	1,457,539	1,000,845	2,346,276	66,271	(4,870,931)	29,242,658
Shares Sold	-	461,975	-	-	2,875	(464,850)	-
Members' Distributions	-	(456,380)	-	-	(66,906)	523,286	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	1,977,701	1,977,701
Net Assets, End of Year	$ 32,064,992	$ 2,051,408	$ 1,706,578	$ 2,824,248	$ -	$ (4,604,534)	$ 34,042,692

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	2012		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	$ 4,479,522	$ -	$ 4,479,522
Intensive care unit	6,700,070	-	6,700,070
Nursery	946,231	-	946,231
	12,125,823	-	12,125,823
Other nursing services			
Central service supplies	149,071	40,967	190,038
Emergency room	2,731,879	13,874,743	16,606,622
Home health	-	263,392	263,392
Infection Control	52	1,680	1,732
Observation	-	1,032,075	1,032,075
Operating room	12,402,280	15,419,172	27,821,452
	15,283,282	30,632,029	45,915,311
Other professional services			
Ambulance	-	3,055,169	3,055,169
Anesthesiology	483,000	5,272,706	5,755,706
Cardiac cath lab	5,590,185	5,469,017	11,059,202
Electrocardiography	958,926	1,253,344	2,212,270
Geriatric psychology	3,093,230	-	3,093,230
Hyperbaric	1,055	150,620	151,675
Laboratory	5,017,974	9,682,678	14,700,652
Nephrology	-	263,022	263,022
Obstetrics	2,853,826	620,977	3,474,803
Pharmacy	6,629,919	2,640,508	9,270,427
Physical therapy	347,294	726,929	1,074,223
Physician	-	9,001,380	9,001,380
Radiology	2,306,309	21,927,961	24,234,270
Rehabilitation	2,860,603	88,272	2,948,875
Respiratory therapy	4,631,674	1,509,692	6,141,366
Speech therapy	34,156	125,958	160,114
Specialty clinics	-	270,654	270,654
Wellness center	-	42	42
	34,808,151	62,058,929	96,867,080
	$ 62,217,256	$ 92,690,958	154,908,214
Charity care			(3,448,455)
Total patient service revenue			151,459,759
Contractual Adjustments			
Medicare			35,168,889
Medicaid			15,551,832
Other			26,693,328
Total contractual adjustments			77,414,049
Provision for Bad Debts			5,156,902
Net Patient Service Revenue			$ 68,888,808

2011		
Inpatient	Outpatient	Total
$ 4,274,211	$ -	$ 4,274,211
7,564,744	-	7,564,744
654,876	-	654,876
12,493,831	-	12,493,831
235,468	35,267	270,735
2,435,253	12,949,605	15,384,858
-	214,747	214,747
157	1,627	1,784
-	874,641	874,641
8,972,393	16,853,886	25,826,279
11,643,271	30,929,773	42,573,044
-	2,888,250	2,888,250
448,355	5,538,312	5,986,667
8,893,538	4,049,174	12,942,712
1,119,483	1,225,697	2,345,180
2,758,206	-	2,758,206
2,625	204,565	207,190
5,086,903	9,202,582	14,289,485
-	246,676	246,676
1,753,237	269,566	2,022,803
6,506,657	2,834,605	9,341,262
325,652	675,375	1,001,027
-	8,062,465	8,062,465
2,484,371	20,666,141	23,150,512
2,981,177	45,865	3,027,042
5,170,719	1,558,427	6,729,146
34,669	59,726	94,395
-	138,198	138,198
-	294	294
37,565,592	57,665,918	95,231,510
$ 61,702,694	$ 88,595,691	150,298,385
		(2,089,539)
		148,208,846
		37,240,175
		15,608,023
		21,900,218
		74,748,416
		8,989,294
		$ 64,471,136

	2012	2011
Other Revenue		
Government incentive for electronic health records	$ 2,040,164	$ -
Rental income	1,226,189	985,408
Cafeteria	362,797	436,294
Kiosk (The Coffee House)	233,369	7,438
Miscellaneous	475,921	399,971
Total Other Revenue	$ 4,338,440	$ 1,829,111

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	2012		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Central service supplies	$ 193,767	$ 65,639	$ 259,406
Emergency room	1,387,477	2,359,826	3,747,303
Home health	-	114,337	114,337
Intensive care unit	858,106	353,841	1,211,947
Labor and delivery	1,049,206	215,114	1,264,320
Medical and surgical	2,840,564	567,707	3,408,271
Nursery	-	4,490	4,490
Nursing administration	684,134	38,794	722,928
Operating room	1,783,088	8,581,778	10,364,866
	8,796,342	12,301,526	21,097,868
Other Professional Services			
Ambulance	726,991	118,821	845,812
Anesthesiology	-	1,463,046	1,463,046
Bio Med	81,154	15,131	96,285
Cardiology	24,789	1,719	26,508
Cath lab	430	6,674,284	6,674,714
Electrocardiography	173,706	12,816	186,522
Geriatric psychology	904,501	215,669	1,120,170
Health education	99,447	19,350	118,797
Hyperbarics	679	18,768	19,447
Laboratory	1,108,006	1,970,477	3,078,483
Nephrology	-	123,358	123,358
Occupational therapy	106,113	(5,316)	100,797
Pharmacy	871,258	1,179,318	2,050,576
Physical therapy	300,606	66,947	367,553
Physician	4,891,412	2,142,722	7,034,134
Radiology	1,708,317	1,330,626	3,038,943
Rehabilitation inpatient	577,851	1,010,523	1,588,374
Respiratory therapy	1,034,056	128,087	1,162,143
Social services	63,156	3,421	66,577
Speech therapy	(1,103)	1,472	369
Specialty clinics	-	37,449	37,449
	12,671,369	16,528,688	29,200,057
General Services			
Dietary	599,353	781,932	1,381,285
Housekeeping	404,460	135,996	540,456
Laundry and linen	-	264,600	264,600
Medical records	399,170	306,947	706,117
Plant operations	447,196	934,768	1,381,964
	1,850,179	2,424,243	4,274,422
Administrative Services			
Administration and office	2,430,796	3,850,381	6,281,177
Employee benefits	-	5,651,527	5,651,527
	2,430,796	9,501,908	11,932,704
Depreciation	-	2,316,608	2,316,608
	$ 25,748,686	$ 43,072,973	$ 68,821,659

2011		
Salaries	Supplies & Expenses	Total
$ 171,755	$ 53,649	$ 225,404
1,337,714	2,351,235	3,688,949
-	135,560	135,560
791,711	498,021	1,289,732
886,735	275,218	1,161,953
2,681,805	732,868	3,414,673
-	4,612	4,612
562,871	38,606	601,477
1,672,799	7,436,968	9,109,767
8,105,390	11,526,737	19,632,127
711,138	132,218	843,356
13,949	1,440,721	1,454,670
80,339	9,685	90,024
19,043	2,602	21,645
3,840	7,849,549	7,853,389
207,736	7,994	215,730
868,219	196,634	1,064,853
86,576	11,453	98,029
2,475	17,414	19,889
1,049,415	1,831,329	2,880,744
-	104,092	104,092
77,869	(7,025)	70,844
794,278	1,252,575	2,046,853
269,288	72,050	341,338
4,300,668	1,873,690	6,174,358
1,292,875	1,387,727	2,680,602
503,024	1,038,770	1,541,794
859,253	261,679	1,120,932
80,939	3,607	84,546
(557)	727	170
-	23,307	23,307
11,220,367	17,510,798	28,731,165
531,505	695,843	1,227,348
383,839	122,811	506,650
-	247,892	247,892
349,215	334,583	683,798
437,110	845,212	1,282,322
1,701,669	2,246,341	3,948,010
2,225,252	2,293,230	4,518,482
-	4,373,507	4,373,507
2,225,252	6,666,737	8,891,989
-	2,133,336	2,133,336
$ 23,252,678	$ 40,083,949	$ 63,336,627

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*

The Board of Trustees
Tahlequah Hospital Authority
Tahlequah, Oklahoma

We have audited the accompanying combined balance sheet of Tahlequah Hospital Authority (Authority) as of and for the year ended June 30, 2012, and the related combined statements of operations, changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated December 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weakness have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Tahlequah Hospital Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusion on the Authority's response, we did not audit the Authority's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Tahlequah Hospital Authority in a separate letter dated December 19, 2012

This report, a public record by law, is intended solely for the information and use of the Board of Trustees and management of Tahlequah Hospital Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 19, 2012

Findings Related to the Financial Statements:

Material Weakness:

I-A-12 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 – Tahlequah Hospital Authority does 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. However, during the year, the policies and procedures in place to provide proper checks and balances over account reconciliations within the internal control system failed, and as a result, several adjusting journal entries were necessary at year end to fairly state the financial statements. As a result, interim financial statements were not accurate. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. However, in order to prepare the financial statements, we proposed numerous adjusting journal entries (in addition to client-prepared entries) in order to fairly present the year-end financial statements.

Cause – Misstatements to the internal financial statements were not prevented or detected on a timely basis in the normal course of business. Therefore, there were several significant adjusting journal entries at year end proposed during the audit process.

Effect – Failure to periodically review account balances can result in errors on the interim financial statements and represents a weakness in internal control over financial reporting. Improper oversight of the accounting function allowed misstatements to occur. Also, the year-end financial report is prepared by the auditors, a party outside of the Authority. The outside party does not have constant contact with ongoing financial transactions that the internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Authority management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continually review its operating procedures, other compensating controls and monitoring in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements to draft the financial statements internally and prevent material adjusting journal entries at year end. Effective oversight over account reconciliation is an important part of this process.

Findings Related to the Financial Statements: (continued)

Response: Management agrees that processes need to be improved and has already taken significant steps to ensure monthly reconciliation of accounts with review by the CFO or Accounting Director to ensure accurate financial reporting. Processes will continue to be reviewed and improved.

Internal preparation of complete financial statements to include all footnotes is not a realistic expectation at this time due to time constraints.

I-B-12 Monthly Account Reconciliations and Adjusting Journal Entries

Criteria: Reconciliation of general ledger accounts on a monthly basis is essential to prepare reliable financial statements. Furthermore, reconciliations serve as an internal control over financial reporting and the safeguarding of assets.

More specifically, accurate reconciliation of bank accounts is an important aspect of cash management and internal control over cash and essential to prepare reliable financial statements.

Condition: Certain accounts such as cash, accounts payable, intercompany due to/from accounts, and other various accounts were not properly reconciled at year end.

In addition, we noted that certain bank reconciliations were not appropriately reconciled during the year or at year end.

Several significant year-end adjustments were necessary to fairly present the financial statements in all material respects.

Cause: An internal review process that verifies the accuracy of general ledger account balances on a monthly basis was not implemented. The former Accounting Manager was not reconciling many general ledger accounts, including the general checking account.

Variances in some account balances were caused by inaccurate postings of general ledger activity during the year. Also, intercompany due to/from accounts were not monitored to ensure reconciliation between the related entities. We acknowledge that management has taken steps to improve processes involving reconciliation of all balance sheet accounts, including appointing a new Accounting Manager. However, this process takes time. Therefore, journal entries were necessary during the audit to adjust various accounts to their proper balances.

Findings Related to the Financial Statements: (continued)

Effect: Failure to periodically review account balances can result in errors on the interim financial statements and represents a weakness in internal control in the accounting system.

Significant entries were proposed during the audit to adjust year-end account balances.

Recommendation: All general ledger accounts must be reconciled and reviewed monthly. Furthermore, the Chief Financial Officer and Accounting Manager should review reconciliations prepared by the accounting staff. This will help to ensure that significant entries are made as necessary on a timely basis. We understand that management has put new procedures into place to enhance this reconciliation process. As part of this process, we also recommend that management review its procedures in recording and reconciling activity between the Authority and the various joint ventures to ensure consistency in recording transactions between the entities.

Response: Management agrees that processes need to be improved and has already taken significant steps to ensure monthly reconciliation of accounts with review by the CFO or Accounting Director to ensure accurate financial reporting. Management is also taking steps to minimize the number of intercompany transactions and has taken steps to improve the preparation and oversight of remaining intercompany transactions. Processes will continue to be reviewed and improved.