



Management's Discussion and Analysis
and Financial Statements
June 30, 2013 and 2012

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
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June 30, 2013 and 2012

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Tahlequah Hospital Authority (Authority) which comprise the combined balance sheets as of June 30, 2013 and 2012, and the related combined statements of revenues, expenses, changes in net position and cash flows for the years then ended. These combined financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Tahlequah Hospital Authority as of June 30, 2013 and 2012, and the results of their operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined basic financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of 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 and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
November 22, 2013

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, 2013, 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 position increased in each of the past 2 years with a \$5,466,492 or 14% increase in 2013 and a \$4,793,344 or 14% increase in 2012.
- The Authority reported operating income in both 2013 of \$6,288,969 and 2012 of \$6,072,382. Operating income increased \$216,587 or 4% in 2013 over 2012. Operating income increased \$1,779,594 or 42% in 2012 over 2011.
- The Authority's total assets increased \$9,395,915 or 13% in 2013 compared to 2012. Total assets increased \$7,368,801 or 11% in 2012 compared to 2011.

Using This Annual Report

The Authority's financial consist of four statements – a combined balance sheet; a combined statement of revenues and expenses, a combined statement of changes in net position; and a combined statement of cash flows. These combined 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 Combined Balance Sheet and Combined Statements of Revenues and Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Combined Balance Sheet and the Combined Statements of Revenues and Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These combined 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 combined statements report the Authority's net position and changes in them. You can think of the Authority's net position the difference between assets and liabilities as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Combined Statement of Cash Flows

The final required statement is the Combined 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 Position and Changes in Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position increased by \$5,466,492 or 14% in 2013 and increased \$4,793,344 or 14% in 2012, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Current assets	\$ 41,882,743	\$ 35,422,191	\$ 31,542,289
Capital assets	30,570,287	31,557,921	28,045,155
Other noncurrent assets	9,072,629	5,149,632	5,173,499
Total assets	\$ 81,525,659	\$ 72,129,744	\$ 64,760,943
Liabilities			
Current liabilities	\$ 12,241,378	\$ 10,258,335	\$ 7,271,485
Long-term liabilities	24,981,753	23,035,373	23,446,766
Total liabilities	37,223,131	33,293,708	30,718,251
Net Position			
Invested in capital assets, net of related debt	3,456,637	5,451,166	2,245,090
Unrestricted	38,616,227	31,045,771	29,819,901
Noncontrolling interest in joint venture	2,229,664	2,339,099	1,977,701
Total net position	44,302,528	38,836,036	34,042,692
Total liabilities and net position	\$ 81,525,659	\$ 72,129,744	\$ 64,760,943

A significant component of the change in the Authority's assets is the increase in current assets. Current assets increased in 2013 by \$6,460,552 or 18% compared to \$3,879,902 or 12% in 2012. The primary increases are as follows:

- Cash and cash equivalents increased \$4,884,870 or 25% in 2013 compared to 2012 which increased \$2,904,383 or 17% when compared with 2011.
- Other receivables increased \$1,244,708 compared with 2012. The Authority will receive additional electronic health record payments.

Other non-current assets increased in 2013 by \$3,922,997 or 76% compared to 2012 compared to a decrease of \$23,867 or .5% compared to 2011. The increase in 2013 is attributable to a joint venture contribution of approximately \$3,586,000.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Management's Discussion and Analysis

Table 2: Operating Results

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues			
Net patient service revenue	\$ 73,386,840	\$ 71,599,034	\$ 65,749,256
Other revenue	4,357,297	4,489,080	2,677,870
Total operating revenues	<u>77,744,137</u>	<u>76,088,114</u>	<u>68,427,126</u>
Expenses			
Nursing services	23,671,012	24,496,560	23,752,067
Other professional services	22,413,247	20,722,143	18,938,427
General services	5,765,420	5,664,309	3,948,010
Administrative services	15,384,030	15,042,388	14,177,167
Other expenses	1,039,162	1,029,504	819,687
Depreciation and amortization	3,182,297	3,060,828	2,498,980
Total expenses	<u>71,455,168</u>	<u>70,015,732</u>	<u>64,134,338</u>
Operating Income	<u>6,288,969</u>	<u>6,072,382</u>	<u>4,292,788</u>
Nonoperating Revenue (Expense)			
Investment income	175,695	90,341	63,565
Income from joint ventures	1,164,705	579,693	286,344
Interest expense	(1,523,843)	(1,568,924)	(1,322,994)
Gain (loss) on disposal of assets	(56,834)	(59,747)	20,277
Contributions expense	-	(209)	(1,600)
Other	338	17,751	-
Nonoperating expense, net	<u>(239,939)</u>	<u>(941,095)</u>	<u>(954,408)</u>
Revenues in Excess of Expenses	6,049,030	5,131,287	3,338,380
Noncontrolling Interest in Joint Ventures	<u>(473,103)</u>	<u>(699,341)</u>	<u>(516,047)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	<u>\$ 5,575,927</u>	<u>\$ 4,431,946</u>	<u>\$ 2,822,333</u>

Operating Income

The first component of the overall change in the Authority's net position 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 \$6,288,969 in 2013 compared to an operating income of \$6,072,382 in 2012 and \$4,292,788 in 2011.

The primary components of the operating income are:

- Net patient service revenue increased \$1,787,806 or 2% in 2013 and \$5,849,778 or 9% in 2012.
- Nursing services expenses decreased \$825,548 or 3% in 2013 and \$744,493 or 3% in 2012
- Administrative services expenses increased \$341,642 or 2% in 2013 and increased \$865,221 or 6% in 2012.
- Other professional services expenses increased \$1,691,104 or 8% in 2013 and increased \$1,783,716 or 9% in 2012.

Net patient service revenue before provision for bad debts increased \$2,592,901 or 3% from 2012 to 2013 and \$2,017,386 or 3% from 2011 to 2012. The provision for uncollectible accounts increased \$805,095 or 14% in 2013 and decreased \$3,832,392 or 41% in 2012.

Total patient service revenues were \$174,003,121 and \$162,116,140 for the years ended June 30, 2013 and 2012. Factors impacting total patient service revenues in 2013 compared to 2012 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 \$585,012 or 101% in 2013 and \$293,349 or 202% in 2012. 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. Interest expense decreased \$45,081 or 3% in 2013 and increased \$245,930 or 18% in 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 as follows:

- Net cash provided by operating activities decreased in 2013 by \$16,352 and increased by \$5,479,014 in 2012.
- Net cash used by capital and capital related financing activities decreased in 2013 by \$2,281,103 and increased by \$1,734,006 in 2012.
- Net cash provided by investing activities decreased in 2013 by \$172,513 and increased by \$140,502 in 2012.

Capital Assets

At the end of 2013, the Authority had \$30,570,287 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013, the Authority purchased new capital assets costing \$2,392,470.

Debt

At June 30, 2013, the Authority had \$27,113,650 in revenue notes, mortgage loans and capital lease obligations outstanding as detailed in Note 8 to the financial statements. The Authority issued \$6,938,481 in new debt in 2013 versus \$1,577,613 of new debt in 2012. 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 2014 fiscal year operating budget indicates conservative net revenue of \$72,164,000. 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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	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 24,591,584	\$ 19,706,714
Board designated cash	461,701	456,314
Receivables		
Patients, net of estimated uncollectibles of \$6,895,000 in 2013 and \$6,736,000 in 2012	10,466,633	9,913,452
Other	2,061,581	816,873
Current portion of lease receivable	24,702	21,962
Related parties	700,253	1,113,509
Supplies	2,389,045	2,111,422
Prepaid expenses	1,187,244	1,281,945
	<u>41,882,743</u>	<u>35,422,191</u>
Capital Assets, Net		
Non-depreciable capital assets	2,403,512	4,095,510
Depreciable capital assets, net	28,166,775	27,462,411
	<u>30,570,287</u>	<u>31,557,921</u>
Other Assets		
Investments in joint ventures	7,004,552	2,956,919
Assets held under deferred compensation agreement	376,598	336,434
Unamortized loan origination costs	262,666	281,718
Investment in captive insurance	263,701	100,000
Lease receivable, net of current portion	847,369	808,708
Other	317,743	665,853
	<u>9,072,629</u>	<u>5,149,632</u>
Total other assets	<u>9,072,629</u>	<u>5,149,632</u>
Total assets	<u>\$ 81,525,659</u>	<u>\$ 72,129,744</u>

See Notes to Combined Financial Statements

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combined Balance Sheets
June 30, 2013 and 2012

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 2,508,495	\$ 3,407,816
Accounts payable	3,357,199	2,731,820
Estimated third-party settlements	2,226,516	990,173
Accrued expenses		
Salaries and benefits payable	1,342,400	1,153,730
Vacation	1,312,717	1,138,329
Payroll taxes and other	1,177,036	672,776
Due to related parties	317,015	163,691
Total current liabilities	12,241,378	10,258,335
Deferred Compensation	376,598	336,434
Long-Term Debt, Less Current Maturities	24,605,155	22,698,939
Total liabilities	37,223,131	33,293,708
Net Position		
Invested in capital assets, net of related debt	3,456,637	5,451,166
Unrestricted	38,616,227	31,045,771
Noncontrolling interest in joint ventures	2,229,664	2,339,099
Total net position	44,302,528	38,836,036
Total liabilities and net position	\$ 81,525,659	\$ 72,129,744

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combined Statements of Revenues and Expenses
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$7,386,097 in 2013 and \$5,621,002 in 2012)	\$ 73,386,840	\$ 71,599,034
Other revenue	4,357,297	4,489,080
Total operating revenue	77,744,137	76,088,114
Expenses		
Nursing services	23,671,012	24,496,560
Other professional services	22,413,247	20,722,143
General services	5,765,420	5,664,309
Administrative services	15,384,030	15,042,388
Other expenses	1,039,162	1,029,504
Depreciation and amortization	3,182,297	3,060,828
Total expenses	71,455,168	70,015,732
Operating Income	6,288,969	6,072,382
Nonoperating Revenues (Expenses)		
Investment income	175,695	90,341
Income from joint venture	1,164,705	579,693
Interest expense	(1,523,843)	(1,568,924)
Loss on disposal of capital assets	(56,834)	(59,747)
Contributions expense	-	(209)
Other	338	17,751
Nonoperating expenses, net	(239,939)	(941,095)
Revenues in Excess of Expenses	6,049,030	5,131,287
Noncontrolling Interest in Joint Ventures	(473,103)	(699,341)
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	\$ 5,575,927	\$ 4,431,946

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combined Statements of Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>Noncontrolling Interest</u>	<u>Controlling Interest</u>	<u>Total</u>
Net Position, June 30, 2011	\$ 1,977,701	\$ 32,064,991	\$ 34,042,692
Member Distributions	(337,943)	-	(337,943)
Change in Net Position	<u>699,341</u>	<u>4,431,946</u>	<u>5,131,287</u>
Net Position, June 30, 2012	2,339,099	36,496,937	38,836,036
Member Distributions	(582,538)	-	(582,538)
Change in Net Position	<u>473,103</u>	<u>5,575,927</u>	<u>6,049,030</u>
Net Position, June 30, 2013	<u>\$ 2,229,664</u>	<u>\$ 42,072,864</u>	<u>\$ 44,302,528</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combined Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Cash received from patient services	\$ 74,070,002	\$ 73,292,241
Other operating receipts	3,525,845	3,901,998
Cash payments to suppliers for goods and services	(40,373,088)	(41,108,012)
Cash payments to employees for services	(26,320,731)	(25,167,847)
	10,902,028	10,918,380
Net Cash from Operating Activities	10,902,028	10,918,380
Noncapital Related Financing Activities Contributions	-	(209)
Capital and Capital Related Financing Activities		
Proceeds from issuance of long-term debt	3,624,993	1,577,613
Payments on long-term debt	(5,931,586)	(2,552,736)
Payment of interest on long-term debt	(1,523,843)	(1,568,924)
Purchase of property and equipment	(2,392,470)	(5,247,162)
Payment on closing cost (note payable)	-	(400,000)
Purchase of Sallisaw Clinic equipment	-	(272,852)
Proceeds from sale of capital assets	95,687	38,326
Other non-operating payments received	338	17,751
	(6,126,881)	(8,407,984)
Net Cash used for Capital and Capital Related Financing Activities	(6,126,881)	(8,407,984)
Investing Activities		
Distribution to noncontrolling interest in joint ventures	(582,538)	(337,943)
Distributions received from joint ventures	702,881	1,031,689
Cash from acquisition of controlling interest	-	129,223
Goodwill purchased	-	(101,008)
Payments received on lease receivable	22,937	29,820
Interest and dividends received	175,695	90,341
Investment in joint venture	(203,865)	(554,499)
	115,110	287,623
Net Cash Provided by Investing Activities	115,110	287,623
Net Increase in Cash and Cash Equivalents	4,890,257	2,797,810
Cash and Cash Equivalents, Beginning of Year	20,163,028	17,365,218
Cash and Cash Equivalents, End of Year	\$ 25,053,285	\$ 20,163,028

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combined Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 24,591,584	\$ 19,706,714
Board designated cash	461,701	456,314
	\$ 25,053,285	\$ 20,163,028
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 6,288,969	\$ 6,072,382
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,182,297	3,060,828
Provision for bad debts	7,386,097	5,156,902
Changes in assets and liabilities		
Patient receivables	(7,939,278)	(4,429,563)
Other receivables	(1,244,708)	(371,721)
Due from related parties	413,256	(215,361)
Supplies	(277,623)	(73,106)
Prepays	94,701	(440,459)
Other assets	75,789	201,575
Accounts payable	625,379	264,505
Accrued expenses	867,318	244,405
Deferred compensation	40,164	336,434
Estimated third-party payor settlement	1,236,343	965,868
Due to related parties	153,324	145,691
	\$ 10,902,028	\$ 10,918,380
Noncash Investing, Capital, and Financing Activities		
Income from joint venture	\$ 1,164,705	\$ 579,693
Loss on disposal of capital assets	\$ (56,834)	\$ (59,747)
Joint venture acquisition in long-term debt	\$ 3,313,488	\$ -
Vested in captive insurance	\$ 163,701	\$ -
Joint venture contribution with equipment	\$ 272,321	\$ -

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.

Enterprise Fund Accounting

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

The combined financial statements have been presented in conformity with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Authority adopted the provisions of *GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No.14 and No.34*, *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AI CPA Pronouncements* and *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position in 2013*. Accordingly, the accounting change has been retrospectively applied to prior periods presented, as if the policy had always been used.

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Patient Receivables

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's 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 6% 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, 2013 and 2012, notes receivable from physicians and employees totaled \$717,286 and \$505,750 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 Authority under the agreement through 2031.

Supplies

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

Capital Assets

Capital asset 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 capital assets are as follows

Land improvements	3-15 years
Buildings and improvements	5-40 years
Equipment	5-20 years

Investments in Joint Ventures

Joint ventures in which the Authority has less than 20% ownership are stated at cost and dividends are recorded as investment income in the financial statements. Investments in joint ventures in which the Authority's ownership interest is 20% to 50% are generally reported using the equity method of accounting. Gains and losses resulting from investments in joint ventures directly related to the Authority's health care activities are recorded as operating revenues. All other gains and losses are recorded as nonoperating revenues.

Loan Origination Costs

Loan origination costs are amortized over the period the related obligation is outstanding using the straight-line method.

Goodwill

Goodwill represents the excess of cost over the fair value of the net position acquired through the acquisitions of various businesses. On an annual basis and at interim periods when circumstances require, the Authority tests the recoverability of its goodwill. The Authority has the option, when each test of recoverability is performed, to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Authority determines that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then additional analysis is unnecessary. If the Authority concludes otherwise, then a two-step impairment analysis, whereby the Authority compares the carrying value of each identified reporting unit to its fair value, is required. The first step is to quantitatively determine if the carrying value of the reporting unit is greater than its fair value. If the Authority determines that this is true, the second step is required, 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, if required under applicable accounting guidance, using the net present value of discounted cash flows, excluding any financing costs or dividends, generated by each reporting unit. The discounted cash flows are based upon reasonable and appropriate assumptions about the underlying business activities of the respective reporting unit. The Authority performs its evaluation for recoverability for goodwill at the same time each year, unless circumstances require additional analysis. There was no impairment loss recognized for the years ended June 30, 2013 and 2012.

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Grants and Contributions

From time to time, the Authority receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

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.

Net Position

Net position is presented in the following three components:

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

Unrestricted - Unrestricted is remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted for debt service.

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, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Restricted Resources

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues 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, other than financing costs, incurred to provide health care services.

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 \$3,846,000 and \$3,448,000 for the years ended June 30, 2013 and 2012. Total direct and indirect cost related to those forgone charges were \$1,581,000 and \$1,467,000 at June 30, 2013 and 2012, based on average ratios of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred approximately \$302,000 and \$273,000 for advertising costs for the years ended June 30, 2013 and 2012.

Electronic Health Record (EHR) Incentives

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

During the year ended June 30, 2013, the Authority recorded \$803,100 related to the Medicare program and \$344,492 related to the Medicaid program in other operating revenue for meaningful use incentives. During the year ended June 30, 2012, the Authority recorded \$1,427,734 related to the Medicare program and \$612,430 related to the Medicaid program in other operating revenue for meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. The Authority demonstrated meaningful use and attested to the compliance requirements for the Medicare and Medicaid programs during 2013. As the Authority has continued to use EHR technology in a meaningful way under the Medicare program criteria, management has concluded there is reasonable assurance that the Authority will successfully demonstrate meaningful use for the full reporting period and earn a subsequent year incentive payment as well.

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

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care 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.

Risk Management

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

Reclassifications

Reclassifications have been made to the June 30, 2012 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

The 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, 2010.

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.

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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 49% and 15% of the Authority's net patient service revenue for the year ended June 30, 2013 and 48% and 3% for the year ended June 30, 2012. 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, 2013 and 2012 increased approximately \$1,226,000 and decreased approximately \$332,000, 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.

CMS has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Authority may incur a liability for a claims overpayment at a future date. The Authority has accrued \$1,102,234 and \$700,000 for RAC liability for the years ending June 30, 2013 and 2012 included in estimated third party payor settlements. The estimate is based on historical payments paid back for overpayments.

A summary of Authority patient service revenue and contractual adjustments for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Total patient service revenue	<u>\$ 174,003,121</u>	<u>\$ 162,116,140</u>
Contractual adjustments - Hospital		
Medicare	(39,092,088)	(35,168,889)
Medicaid	(18,639,593)	(15,551,832)
Other	(26,927,562)	(26,693,328)
Contractual adjustments - NOCC	<u>(8,570,941)</u>	<u>(7,482,055)</u>
Total contractual adjustments	<u>(93,230,184)</u>	<u>(84,896,104)</u>
Provision for bad debts	<u>(7,386,097)</u>	<u>(5,621,002)</u>
Net patient service revenue	<u>\$ 73,386,840</u>	<u>\$ 71,599,034</u>

Note 3 - Deposits and Investment Income

Deposits

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. The Authority has a general investment policy to minimize custodial credit risk. At June 30, 2013 and 2012, Tahlequah Hospital Authority had bank balances as follows:

	2013	2012
Insured (FDIC)	\$ 1,730,806	\$ 2,369,257
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	24,140,323	18,799,665
Uncollateralized	1,243,214	433,896
Total	\$ 27,114,343	\$ 21,602,818
Carrying value	\$ 25,053,285	\$ 20,163,028

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% 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.

Summary of Carrying Amounts

The carrying amounts of the Authority's deposits shown above are included in the balance sheets at June 30, 2013 and 2012 as follows:

	2013	2012
Carry amount Deposits	\$ 25,053,285	\$ 20,163,028

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	2013	2012
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 24,591,584	\$ 19,706,714
Board designated cash	461,701	456,314
Total	\$ 25,053,285	\$ 20,163,028

Investment Income

Investment income on cash equivalents and notes receivable consists of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Nonoperating income		
Interest income	\$ 175,695	\$ 90,341

Note 4 - Lease Receivable

The terms, due dates, and securing collateral of the Authority's long-term receivables at June 30, 2013 and 2012 follow:

	2013	2012
Lease receivable, due in monthly installments of \$6,843 through June 2031, including interest at 6.9%, secured by Medical Office Building	\$ 1,503,308	\$ 1,518,602
Less amounts considered to be interest	(631,237)	(687,932)
Lease receivable, net	872,071	830,670
Less current portion	(24,702)	(21,962)
Lease receivable net of current portion	\$ 847,369	\$ 808,708

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

Year Ending June 30,	Principal	Interest
2014	\$ 24,702	\$ 57,413
2015	26,452	55,662
2016	28,327	53,788
2017	30,334	51,780
2018	32,483	49,631
2019 to 2023	200,385	210,186
2024 to 2028	282,185	128,386
2029 to 2033	247,203	24,391
Total	<u>\$ 872,071</u>	<u>\$ 631,237</u>

Note 5 - Capital Assets

Capital assets additions, retirements, and balances for the year ended June 30, 2013 are as follows:

	Balance June 30, 2012	Additions	Disposals	Transfers	Balance June 30, 2013
Non-Depreciable Cost					
Land	\$ 2,403,142	\$ -	\$ -	\$ -	\$ 2,403,142
Construction in progress	1,692,368	67,484	-	(1,759,482)	370
Non-depreciable capital assets	<u>\$ 4,095,510</u>	<u>\$ 67,484</u>	<u>\$ -</u>	<u>\$ (1,759,482)</u>	<u>\$ 2,403,512</u>
Depreciable Cost					
Land improvements	\$ 443,109	\$ 9,540	\$ -	\$ -	\$ 452,649
Buildings and fixed equipment	29,928,909	178,632	57,137	1,584,935	31,635,339
Major movable equipment	20,347,284	2,136,814	1,371,679	174,547	21,286,966
Depreciable capital assets	<u>50,719,302</u>	<u>2,324,986</u>	<u>1,428,816</u>	<u>1,759,482</u>	<u>53,374,954</u>
Accumulated depreciation					
Land improvements	276,411	18,553	-	-	294,964
Buildings and fixed equipment	10,240,666	949,683	14,842	-	11,175,507
Major movable equipment	12,739,814	2,191,083	1,193,189	-	13,737,708
Total accumulated depreciation	<u>23,256,891</u>	<u>3,159,319</u>	<u>1,208,031</u>	<u>-</u>	<u>25,208,179</u>
Depreciable capital assets, net	<u>\$ 27,462,411</u>	<u>\$ (834,333)</u>	<u>\$ 220,785</u>	<u>\$ 1,759,482</u>	<u>\$ 28,166,775</u>

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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	<u>\$ 8,439,963</u>	<u>\$ -</u>	<u>\$ 2,529,565</u>	<u>\$ -</u>	<u>\$ (6,874,018)</u>	<u>\$ 4,095,510</u>
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	<u>39,944,877</u>	<u>2,728,083</u>	<u>2,717,597</u>	<u>1,545,273</u>	<u>6,874,018</u>	<u>50,719,302</u>
Accumulated depreciation						
Land and 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	<u>20,339,685</u>	<u>1,330,499</u>	<u>3,034,272</u>	<u>1,447,565</u>	<u>-</u>	<u>23,256,891</u>
Depreciable capital assets, net	<u>\$ 19,605,192</u>	<u>\$ 1,397,584</u>	<u>\$ (316,675)</u>	<u>\$ 97,708</u>	<u>\$ 6,874,018</u>	<u>\$ 27,462,411</u>

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."

Note 6 - Investments in Joint Ventures

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2013 and 2012, the Authority's investment in joint ventures consisted of the following:

	2013	2012
Cherokee Health Partners, LLC	\$ 931,870	\$ 807,487
Platte Dialysis, LLC	5,792,521	1,814,810
Oklahoma Cancer Center Realty, LLC	280,161	334,622
Total investment in joint venture	<u>\$ 7,004,552</u>	<u>\$ 2,956,919</u>

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Joint venture income, distributions, and contributions balances for the years ended June 30, 2013 and 2012 are as follow:

	Balance June 30, 2012	Joint Venture Income	Distributions	Purchase/ Contributions	Balance June 30, 2013
Cherokee Health Partners, LLC	\$ 807,487	\$ 400,465	\$ (276,082)	\$ -	\$ 931,870
Platte Dialysis, LLC	1,814,810	688,840	(296,938)	3,585,809	5,792,521
Oklahoma Cancer Center Realty, LLC	334,622	75,400	(129,861)	-	280,161
	<u>\$ 2,956,919</u>	<u>\$ 1,164,705</u>	<u>\$ (702,881)</u>	<u>\$ 3,585,809</u>	<u>\$ 7,004,552</u>

	Balance June 30, 2011	Joint Venture Income	Distributions	Transfer NOCC to a Consolidated Entity	Balance June 30, 2012
Cherokee Health Partners, LLC	\$ 571,394	\$ 645,752	\$ (409,659)	\$ -	\$ 807,487
Platte Dialysis, LLC	1,902,522	404,457	(492,169)	-	1,814,810
Northeast Oklahoma Cancer Center, LLC	96,409	-	-	(96,409)	-
Oklahoma Cancer Center Realty, LLC	935,000	(470,517)	(129,861)	-	334,622
	<u>\$ 3,505,325</u>	<u>\$ 579,692</u>	<u>\$ (1,031,689)</u>	<u>\$ (96,409)</u>	<u>\$ 2,956,919</u>

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 2013 and 2012, the Authority was paid \$2,754,585 and \$2,303,667 for services and building space provided to CHP. The Authority was owed \$685,178 and \$897,436 for the years ended June 30, 2013 and 2012.

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. The Authority owed \$1,021 and \$0 for the years ended June 30, 2013 and 2012.

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.

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A summary of CHP's assets, liabilities, and members' equity, changes in members' equity is as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 994,737	\$ 1,123,657
Other current assets	1,132,219	929,912
Capital assets, net	82,138	127,154
Other assets	<u>471,297</u>	<u>454,560</u>
Total assets	<u>\$ 2,680,391</u>	<u>\$ 2,635,283</u>
Current liabilities	<u>\$ 710,265</u>	<u>\$ 918,759</u>
Total Liabilities	710,265	918,759
Members Equity	<u>1,970,126</u>	<u>1,716,524</u>
Total liabilities and members equity	<u>\$ 2,680,391</u>	<u>\$ 2,635,283</u>
Total revenues	\$ 3,776,327	\$ 3,918,392
Total expenses	<u>2,959,258</u>	<u>2,500,097</u>
Change in members equity	817,069	1,418,295
Members' distributions	(563,467)	(836,038)
Members Equity, beginning of year	<u>1,716,524</u>	<u>1,134,267</u>
Members Equity, end of year	<u>\$ 1,970,126</u>	<u>\$ 1,716,524</u>

A summary of Platte's assets, liabilities, and members' equity, changes in members' equity is as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 1,639,608	\$ 296,075
Other current assets	1,724,142	584,230
Capital assets, net	5,259,122	571,623
Other assets	<u>6,613,249</u>	<u>2,361,743</u>
Total assets	<u>\$ 15,236,121</u>	<u>\$ 3,813,671</u>
Current liabilities	\$ 254,633	\$ 97,172
Noncurrent liabilities	<u>1,027,222</u>	<u>12,806</u>
Total Liabilities	1,281,855	109,978
Members Equity	<u>13,954,266</u>	<u>3,703,693</u>
Total liabilities and members equity	<u>\$ 15,236,121</u>	<u>\$ 3,813,671</u>

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	<u>2013</u>	<u>2012</u>
Total revenues	\$ 4,839,146	\$ 2,007,470
Total expenses	<u>3,611,088</u>	<u>1,557,405</u>
Change in members equity	1,228,058	450,065
Members' contributions	9,494,000	-
Members' distributions	(471,485)	(468,318)
Members Equity, beginning of year	<u>3,703,693</u>	<u>3,721,946</u>
Members Equity, end of year	<u>\$ 13,954,266</u>	<u>\$ 3,703,693</u>

A summary of OCCR's assets, liabilities, and members' equity, changes in members' equity is as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 332,648	\$ 105,387
Other current assets	193,410	145,963
Capital assets, net	12,665,617	14,201,906
Other assets	<u>94,887</u>	<u>110,274</u>
Total assets	<u>\$ 13,286,562</u>	<u>\$ 14,563,530</u>
Current liabilities	\$ 1,098,506	\$ 1,094,213
Noncurrent liabilities	<u>11,677,955</u>	<u>12,800,072</u>
Total Liabilities	12,776,461	13,894,285
Members Equity	<u>510,101</u>	<u>669,245</u>
Total liabilities and members equity	<u>\$ 13,286,562</u>	<u>\$ 14,563,530</u>
Total revenues	\$ 2,282,383	\$ 692,791
Total expenses	<u>2,158,195</u>	<u>1,632,819</u>
Change in members equity	124,188	(940,028)
Members' distributions	(283,332)	(259,722)
Members Equity, beginning of year	<u>669,245</u>	<u>1,868,995</u>
Members Equity, end of year	<u>\$ 510,101</u>	<u>\$ 669,245</u>

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. During the year ending June 30, 2013, the Authority purchased an additional 2% share from other members and now owns 62% of the outstanding units of TDI. 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 Authority's investment in TDI is \$917,822 and \$803,114 at June 30, 2013 and 2012. NOHC owns 5 membership units, or 4% of the outstanding units of TDI. NOHC's investment in TDI is \$115,600 at June 30, 2013 and 2012. As the Authority 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 position 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 Authority members elect the majority of the Board of Managers and have significant control over NOHC.

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 position included in the supplementary schedules. The Authority's investment in NOHC is \$811,044 and \$1,064,798 at June 30, 2013 and 2012.

As the Authority 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 position included in the supplementary schedules. The Authority's interest in the Foundation at June 30, 2013 and 2012 was \$3,843,656 and \$3,305,911.

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. During the year ended June 30, 2012, the Authority purchased an additional 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 revenues and expenses and changes in net position included in the supplementary schedules. The Authority's interest in NOCC at June 30, 2013 and 2012 was \$589,343 and \$465,613.

Note 7 - 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, 2013 and 2012 for all operating leases was approximately \$1,969,786 and \$1,710,973.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Combined Financial Statements
June 30, 2013 and 2012

The capitalized leased assets consist of:

	2013	2012
Major movable equipment under capital lease obligation	\$ 942,605	\$ 942,605
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(884,776)	(821,689)
	\$ 57,829	\$ 120,916

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

Year Ending June 30,	Capital Lease	Operating Lease
2014	\$ 156,110	\$ 115,867
2015	-	110,191
2016	-	7,949
2017	-	7,949
2018	-	3,975
Total Minimum Lease Payments	156,110	\$ 245,931
Less interest	(3,565)	
Present value of minimum lease payments - Note 8	\$ 152,545	

Note 8 - Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Debt					
Revenue notes	\$ 12,506,581	\$ -	\$ (501,348)	\$ 12,005,233	\$ 532,450
Mortgage loans	13,301,474	6,938,481	(5,284,083)	14,955,872	1,823,500
Total debt	25,808,055	6,938,481	(5,785,431)	26,961,105	2,355,950
Capital lease obligations	298,700	-	(146,155)	152,545	152,545
Total long-term debt	\$ 26,106,755	\$ 6,938,481	\$ (5,931,586)	\$ 27,113,650	\$ 2,508,495

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Combined Financial Statements
June 30, 2013 and 2012

	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	<u>11,982,651</u>	<u>1,681,813</u>	<u>1,577,613</u>	<u>(1,940,603)</u>	<u>13,301,474</u>	<u>2,758,409</u>
Total debt	24,961,334	1,681,813	1,577,613	(2,412,705)	25,808,055	3,261,662
Capital lease obligations	<u>438,731</u>	<u>-</u>	<u>-</u>	<u>(140,031)</u>	<u>298,700</u>	<u>146,154</u>
Total long-term debt	<u>\$ 25,400,065</u>	<u>\$ 1,681,813</u>	<u>\$ 1,577,613</u>	<u>\$ (2,552,736)</u>	<u>\$ 26,106,755</u>	<u>\$ 3,407,816</u>

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 was added to the schedule above as "Debt Acquired through NOCC Equity Purchase."

The terms, due dates, and securing collateral of the Authority's long-term debt, including capital lease obligation, at June 30, 2013 and 2012 follow:

	2013	2012
Revenue Notes		
6.8% revenue note, due in monthly installments of \$70,113 including interest, through December 2017, secured by fixed assets	\$ 7,744,087	\$ 8,047,549
4.9% revenue note, due in monthly installments of \$34,149 including interest, through December 2027, secured by fixed assets	<u>4,261,146</u>	<u>4,459,032</u>
Total revenue notes	<u>12,005,233</u>	<u>12,506,581</u>
Mortgage Loans		
4.4% notes payable, due in monthly installments of \$19,198 including interest, through November 2013, secured by equipment	\$ 113,855	\$ 334,099
6.5% note payable, due in monthly installments of \$16,867 including interest, through January 2015, secured by equipment	303,796	479,939
3.6% note payable, due in monthly installments of \$33,290 including interest, through November 2015, secured by accounts receivable	922,922	-
4.625% note payable, due in monthly installments of \$18,206 including interest, through August 2016, secured by equipment	642,366	811,411
3.9% note payable, due in monthly installments of \$14,791 including interest, with a balloon payment due December 2017, secured by property and equipment	2,436,346	-
3.9% notes payable, due in monthly installments of \$60,730 including interest, with a balloon payment due December 2017, secured by property and equipment	4,279,847	-
4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2019, secured by property	576,453	595,370

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Combined Financial Statements
June 30, 2013 and 2012

	2013	2012
4.1% note payable, due in monthly installments of \$4,268 including interest, through April 2024, secured by land	\$ 447,189	\$ 479,308
4.1% note payable, due in monthly installments of \$6,431 including interest, through April 2024, secured by land	673,759	711,452
5.8% note payable, due in monthly installments of \$32,192 including interest, through August, 2028, secured by women's center building	3,883,475	4,038,429
4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	675,864	704,175
4.2% note payable	-	110,411
4.2% note payable	-	140,119
5.98% note payable	-	1,262,465
6.4% note payable	-	1,104,197
6.4% note payable	-	2,530,099
	14,955,872	8,154,183
Total mortgage loans	14,955,872	8,154,183
Capital lease obligations	152,545	298,700
	27,113,650	20,959,464
Less current maturities	(2,508,495)	(3,407,816)
Long-term debt, less current maturities	\$ 24,605,155	\$ 17,551,648

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

Year ending June 30,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2014	\$ 2,355,950	\$ 1,357,222	\$ 152,545	\$ 3,565
2015	2,267,299	1,246,422	-	-
2016	2,018,554	1,144,112	-	-
2017	1,764,179	1,049,931	-	-
2018	10,858,759	692,427	-	-
2019 to 2023	3,928,639	1,459,357	-	-
2024 to 2028	3,674,239	501,098	-	-
2029 to 2033	93,486	804	-	-
	\$ 26,961,105	\$ 7,451,373	\$ 152,545	\$ 3,565
Total	\$ 26,961,105	\$ 7,451,373	\$ 152,545	\$ 3,565

Note 9 - Pension Plan

The Authority contributes to a defined contribution pension plan 403(b) 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, 2013 and 2012 was \$616,483 and \$634,259.

Note 10 - 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 Authority, upon involuntary separation from service from the Authority without cause, or upon the date of a change in a control event. At June 30, 2013 and 2012, the value of deferred compensation, totaled \$376,598 and \$336,434.

During 2012, 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 \$336,434 in this account. The funds were transferred to deferred compensation plan account during 2013.

Note 11 - 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, 2013 and 2012 was as follows:

	2013	2012
Medicare	27%	23%
Medicaid	8%	15%
Other third-party payors	46%	38%
Patients	19%	24%
	100%	100%

Note 12 - Contingencies

Malpractice Insurance

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

The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claim experience. No accrual for medical malpractice claims has been included 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 \$767,000 and \$302,000 is included in other accrued expenses at June 30, 2013 and 2012. In addition, a receivable from reinsurance of \$9,884 and \$84,768 is included in other receivables at June 30, 2013 and 2012.

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 13 - Electronic Health Records Incentive Payments

The Authority recognized revenue of \$1,147,592 and \$2,040,164 for the years ended June 30, 2013 and 2012 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

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

The Authority made SHOPP payments totaling \$1,541,792 and \$1,511,560 for the years ended June 30, 2013 and 2012. In return, the Authority received \$3,365,247 and \$3,147,498 for the years ended June 30, 2013 and 2012.

Note 15 - Business Combination

On March 1, 2012, the Authority acquired an additional 30% ownership interest in the NOCC in a transaction accounted for as an acquisition. The acquisition resulted in the Authority holding a 60% ownership interest in NOCC 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 NOCC have been combined in the accompanying combined financial statements.

Note 16 - Subsequent Events

The Authority has evaluated subsequent events through November 22, 2013, that date which the financial statements were available to be issued.

During August 2013, the Authority sold their investment in OCCR for \$1,700,000. The Authority recognized a gain on the sale of approximately \$1,260,000.



Supplementary Information
June 30, 2013 and 2012

Tahlequah Hospital Authority

A Component Unit of the City of Tahlequah, Oklahoma



Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Tahlequah Hospital Authority (Authority) as of and for the years then ended June 30, 2013 and 2012 and our report thereon dated November 22, 2013, which expressed an unqualified opinion on those financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining schedules of balance sheet information and combining schedules of operations and changes in net position information, and schedules of Hospital net patient service revenue, Hospital other revenue, and Hospital expenses are presented for the 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

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

Oklahoma City, Oklahoma
November 22, 2013

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2013

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications or Eliminations	Combined
Assets							
Current Assets							
Cash and cash equivalents	\$ 20,661,287	\$ 1,003,672	\$ 242,513	\$ 1,705,299	\$ 978,813	\$ -	\$ 24,591,584
Board designated cash	461,701	-	-	-	-	-	461,701
Receivables							
Patient, net	10,129,549	-	11,939	-	325,145	-	10,466,633
Other	2,218,496	-	91,000	-	-	(247,915)	2,061,581
Current portion of lease receivable	24,702	-	-	3,909	-	(3,909)	24,702
Related parties	407,860	133,950	359,877	501,878	-	(703,312)	700,253
Supplies	1,841,405	-	546,006	-	1,634	-	2,389,045
Prepaid expenses	926,231	19,917	61,672	25,691	153,733	-	1,187,244
Total current assets	36,671,231	1,157,539	1,313,007	2,236,777	1,459,325	(955,136)	41,882,743
Capital Assets, Net	23,811,127	1,617,271	-	4,441,475	700,414	-	30,570,287
Other Assets							
Investment in Diagnostic Imaging (TDI)	917,822	-	115,600	-	-	(1,033,422)	-
Investment in Heart Center (NOHC)	811,044	-	-	-	-	(811,044)	-
Interest in Foundation	3,843,656	-	-	-	-	(3,843,656)	-
Investment in Cherokee Health Partners (CHP)	931,870	-	-	-	-	-	931,870
Investment in Cancer Center (NOCC)	589,343	-	-	-	-	(589,343)	-
Investment in Realty (OCCR)	280,161	-	-	-	-	-	280,161
Investment in Platte Dialysis	5,792,521	-	-	-	-	-	5,792,521
Total investments in joint ventures	13,166,417	-	115,600	-	-	(6,277,465)	7,004,552
Assets held under deferred compensation agreement	376,598	-	-	-	-	-	376,598
Unamortized loan organization costs	262,666	-	-	-	-	-	262,666
Investment in captive insurance	263,701	-	-	-	-	-	263,701
Lease receivable, net of current portion	847,369	-	-	96,379	-	(96,379)	847,369
Other	302,864	-	-	-	14,879	-	317,743
Total other assets	15,219,615	-	115,600	96,379	14,879	(6,373,844)	9,072,629
Total assets	\$ 75,701,973	\$ 2,774,810	\$ 1,428,607	\$ 6,774,631	\$ 2,174,618	\$ (7,328,980)	\$ 81,525,659

	<u>Tahlequah Hospital Authority</u>	<u>Tahlequah Diagnostic Imaging</u>	<u>Northeast Oklahoma Heart Center</u>	<u>Tahlequah Hospital Foundation</u>	<u>Northeast Oklahoma Cancer Center</u>	<u>Reclassifications or Eliminations</u>	<u>Combined</u>
Liabilities and Net Position							
Current Liabilities							
Current maturities of long-term debt	\$ 1,815,469	\$ 188,195	\$ -	\$ 136,619	\$ 372,121	\$ (3,909)	\$ 2,508,495
Accounts payable	3,236,524	111,828	91,944	-	260,338	(343,435)	3,357,199
Estimated third-party payer settlements	2,226,516	-	-	-	-	-	2,226,516
Accrued expenses							
Salaries and benefits payable	1,342,400	-	-	-	-	-	1,342,400
Vacation	1,312,717	-	-	-	-	-	1,312,717
Payroll taxes and other	1,177,036	-	-	-	-	-	1,177,036
Due to related parties	359,877	-	-	564,930	-	(607,792)	317,015
Total current liabilities	<u>11,470,539</u>	<u>300,023</u>	<u>91,944</u>	<u>701,549</u>	<u>632,459</u>	<u>(955,136)</u>	<u>12,241,378</u>
Deferred Compensation	376,598	-	-	-	-	-	376,598
Long-Term Debt, Less Current Maturities	<u>21,798,486</u>	<u>115,601</u>	<u>-</u>	<u>2,236,646</u>	<u>550,801</u>	<u>(96,379)</u>	<u>24,605,155</u>
Total liabilities	<u>33,645,623</u>	<u>415,624</u>	<u>91,944</u>	<u>2,938,195</u>	<u>1,183,260</u>	<u>(1,051,515)</u>	<u>37,223,131</u>
Net Position							
Invested in capital assets, net of related debt	297,460	1,313,475	-	2,068,210	(222,508)	-	3,456,637
Unrestricted	41,758,890	1,045,711	1,336,663	1,768,226	1,213,866	(8,507,129)	38,616,227
Noncontrolling interest in joint ventures	-	-	-	-	-	2,229,664	2,229,664
Total net position	<u>42,056,350</u>	<u>2,359,186</u>	<u>1,336,663</u>	<u>3,836,436</u>	<u>991,358</u>	<u>(6,277,465)</u>	<u>44,302,528</u>
Total liabilities and net position	<u>\$ 75,701,973</u>	<u>\$ 2,774,810</u>	<u>\$ 1,428,607</u>	<u>\$ 6,774,631</u>	<u>\$ 2,174,618</u>	<u>\$ (7,328,980)</u>	<u>\$ 81,525,659</u>

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

	<u>Tahlequah Hospital Authority</u>	<u>Tahlequah Diagnostic Imaging</u>	<u>Northeast Oklahoma Heart Center</u>	<u>Tahlequah Hospital Foundation</u>	<u>Northeast Oklahoma Cancer Center</u>	<u>Reclassifications or Eliminations</u>	<u>Combined</u>
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	<u>30,680,183</u>	<u>1,650,838</u>	<u>1,786,473</u>	<u>1,490,785</u>	<u>1,290,123</u>	<u>(1,476,211)</u>	<u>35,422,191</u>
Capital Assets, Net	<u>24,769,174</u>	<u>1,246,253</u>	<u>-</u>	<u>4,503,281</u>	<u>1,039,213</u>	<u>-</u>	<u>31,557,921</u>
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 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	<u>8,596,355</u>	<u>-</u>	<u>115,600</u>	<u>-</u>	<u>-</u>	<u>(5,755,036)</u>	<u>2,956,919</u>
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
Other	650,974	-	-	-	14,879	-	665,853
Total other assets	<u>10,774,189</u>	<u>-</u>	<u>115,600</u>	<u>100,289</u>	<u>14,879</u>	<u>(5,855,325)</u>	<u>5,149,632</u>
Total assets	<u>\$ 66,223,546</u>	<u>\$ 2,897,091</u>	<u>\$ 1,902,073</u>	<u>\$ 6,094,355</u>	<u>\$ 2,344,215</u>	<u>\$ (7,331,536)</u>	<u>\$ 72,129,744</u>

	<u>Tahlequah Hospital Authority</u>	<u>Tahlequah Diagnostic Imaging</u>	<u>Northeast Oklahoma Heart Center</u>	<u>Tahlequah Hospital Foundation</u>	<u>Northeast Oklahoma Cancer Center</u>	<u>Reclassifications or Eliminations</u>	<u>Combined</u>
Liabilities and Net Position							
Current Liabilities							
Current maturities of long-term debt	\$ 1,853,907	\$ 175,982	\$ -	119,218	1,262,465	\$ (3,756)	\$ 3,407,816
Trade accounts payable	2,561,327	155,551	128,413	-	296,607	(410,078)	2,731,820
Estimated third-party payer settlements	990,173	-	-	-	-	-	990,173
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
Due to related parties	<u>920,710</u>	<u>-</u>	<u>-</u>	<u>305,358</u>	<u>-</u>	<u>(1,062,377)</u>	<u>163,691</u>
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	<u>20,124,184</u>	<u>303,957</u>	<u>-</u>	<u>2,371,087</u>	<u>-</u>	<u>(100,289)</u>	<u>22,698,939</u>
Total liabilities	<u>29,751,570</u>	<u>635,490</u>	<u>128,413</u>	<u>2,795,663</u>	<u>1,559,072</u>	<u>(1,576,500)</u>	<u>33,293,708</u>
Net position							
Invested in capital assets, net of related debt	2,895,128	766,314	-	2,012,976	(223,252)	-	5,451,166
Unrestricted	33,576,848	1,495,287	1,773,660	1,285,716	1,008,395	(8,094,135)	31,045,771
Noncontrolling interest in joint ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,339,099</u>	<u>2,339,099</u>
Total net position	<u>36,471,976</u>	<u>2,261,601</u>	<u>1,773,660</u>	<u>3,298,692</u>	<u>785,143</u>	<u>(5,755,036)</u>	<u>38,836,036</u>
Total liabilities and net position	<u>\$ 66,223,546</u>	<u>\$ 2,897,091</u>	<u>\$ 1,902,073</u>	<u>\$ 6,094,355</u>	<u>\$ 2,344,215</u>	<u>\$ (7,331,536)</u>	<u>\$ 72,129,744</u>

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Operations and Changes in Net Position Information
Year Ended June 30, 2013

	<u>Tahlequah Hospital Authority</u>	<u>Tahlequah Diagnostic Imaging</u>	<u>Northeast Oklahoma Heart Center</u>	<u>Tahlequah Hospital Foundation</u>	<u>Northeast Oklahoma Cancer Center</u>	<u>Reclassifications or Eliminations</u>	<u>Combined</u>
Operating Revenue							
Net patient service revenue	\$ 70,980,151	1,508,193	\$ 8,859,439	\$ -	\$ 2,682,342	\$ (10,643,285)	\$ 73,386,840
Other revenue	<u>4,000,757</u>	<u>-</u>	<u>173,660</u>	<u>989,361</u>	<u>-</u>	<u>(806,481)</u>	<u>4,357,297</u>
Total operating revenue	<u>74,980,908</u>	<u>1,508,193</u>	<u>9,033,099</u>	<u>989,361</u>	<u>2,682,342</u>	<u>(11,449,766)</u>	<u>77,744,137</u>
Expenses							
Nursing services	20,822,453	-	4,356,752	-	-	(1,508,193)	23,671,012
Other professional services	30,528,973	17,859	651,540	1,208	517,142	(9,303,475)	22,413,247
General services	4,215,328	-	-	-	1,550,092	-	5,765,420
Administrative services	12,349,501	62,503	2,970,259	1,767	-	-	15,384,030
Other expenses	-	377,390	511,487	288,383	-	(138,098)	1,039,162
Depreciation and amortization	<u>2,185,289</u>	<u>574,560</u>	<u>-</u>	<u>64,984</u>	<u>357,464</u>	<u>-</u>	<u>3,182,297</u>
Total expenses	<u>70,101,544</u>	<u>1,032,312</u>	<u>8,490,038</u>	<u>356,342</u>	<u>2,424,698</u>	<u>(10,949,766)</u>	<u>71,455,168</u>
Operating Income	<u>4,879,364</u>	<u>475,881</u>	<u>543,061</u>	<u>633,019</u>	<u>257,644</u>	<u>(500,000)</u>	<u>6,288,969</u>

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications or Eliminations	Combined
Nonoperating Revenues (Expenses)							
Investment income	\$ 138,716	\$ 2,367	\$ 14,466	\$ 7,065	\$ 13,081	\$ -	\$ 175,695
Income from TDI	280,234	-	-	-	-	(280,234)	-
Income from NOHC	336,735	-	-	-	-	(336,735)	-
Income from Foundation	537,745	-	-	-	-	(537,745)	-
Income from CHP	400,464	-	-	-	-	-	400,464
Income from NOCC	123,730	-	-	-	-	(123,730)	-
Loss from OCCR	75,399	-	-	-	-	-	75,399
Income from Platte	688,842	-	-	-	-	-	688,842
Investment in HHRRRRG	-	-	-	-	-	-	-
Interest expense	(1,320,021)	(26,258)	(10,376)	(102,678)	(64,510)	-	(1,523,843)
Loss on disposal of equipment	(56,834)	-	-	-	-	-	(56,834)
Contributions expense	(500,000)	-	-	-	-	500,000	-
Other	-	-	-	338	-	-	338
Total non operating revenue (expense)	<u>705,010</u>	<u>(23,891)</u>	<u>4,090</u>	<u>(95,275)</u>	<u>(51,429)</u>	<u>(778,444)</u>	<u>(239,939)</u>
Excess of Revenues Over Expenses	5,584,374	451,990	547,151	537,744	206,215	(1,278,444)	6,049,030
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(473,103)</u>	<u>(473,103)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	5,584,374	451,990	547,151	537,744	206,215	(1,751,547)	5,575,927
Net Position, Beginning of Year	36,471,976	2,261,601	1,773,660	3,298,692	785,143	(8,094,135)	36,496,937
Members' Distributions	-	(354,405)	(984,148)	-	-	1,338,553	-
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,229,664</u>	<u>2,229,664</u>
Net Position, End of Year	<u>\$ 42,056,350</u>	<u>\$ 2,359,186</u>	<u>\$ 1,336,663</u>	<u>\$ 3,836,436</u>	<u>\$ 991,358</u>	<u>\$ (6,277,465)</u>	<u>\$ 44,302,528</u>

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Operations and Changes in Net Position Information
Year Ended June 30, 2012

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications or Eliminations	Combined
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	<u>73,227,248</u>	<u>1,200,138</u>	<u>9,359,903</u>	<u>900,727</u>	<u>2,709,468</u>	<u>(11,309,370)</u>	<u>76,088,114</u>
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	2,316,608	362,554	-	49,043	332,623	-	3,060,828
Total expenses	<u>68,821,659</u>	<u>782,241</u>	<u>8,723,168</u>	<u>355,842</u>	<u>2,166,476</u>	<u>(10,833,654)</u>	<u>70,015,732</u>
Operating Income	<u>4,405,589</u>	<u>417,897</u>	<u>636,735</u>	<u>544,885</u>	<u>542,992</u>	<u>(475,716)</u>	<u>6,072,382</u>

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Reclassifications or Eliminations	Combined
Non Operating 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)	-
Interest in Foundation	474,443	-	-	-	-	(474,443)	-
Income from CHP	645,752	-	-	-	-	-	645,752
Loss from NOCC	151,139	-	-	-	-	(151,139)	-
Loss from OCCR	(470,517)	-	-	-	-	-	(470,517)
Income from Platte	404,458	-	-	-	-	-	404,458
Investment in HHRRRRG	-	-	-	-	-	-	-
Interest expense	(1,364,154)	(36,631)	-	(77,081)	(91,058)	-	(1,568,924)
Gain 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)
	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)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	4,406,984	389,167	638,689	474,444	447,799	(1,925,137)	4,431,946
Net Position, 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 Position, 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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	2013		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 3,899,165	\$ -	\$ 3,899,165
Intensive care unit	6,754,598	-	6,754,598
Nursery	1,304,325	-	1,304,325
	<u>11,958,088</u>	<u>-</u>	<u>11,958,088</u>
Other nursing services			
Central service supplies	103,194	50,764	153,958
Emergency room	2,654,745	15,429,631	18,084,376
Home health	-	243,636	243,636
Infection Control	52	1,470	1,522
Observation	-	1,525,922	1,525,922
Operating room	12,032,812	18,404,361	30,437,173
	<u>14,790,803</u>	<u>35,655,784</u>	<u>50,446,587</u>
Other professional services			
Ambulance	-	3,285,384	3,285,384
Anesthesiology	506,243	5,470,088	5,976,331
Cardiac cath lab	6,120,791	6,947,970	13,068,761
Electrocardiography	1,033,919	1,491,012	2,524,931
Geriatric psychology	2,683,908	-	2,683,908
Hyperbaric	4,245	420,330	424,575
Laboratory	4,876,964	10,839,744	15,716,708
Nephrology	-	244,447	244,447
Obstetrics	3,160,986	682,368	3,843,354
Pharmacy	6,364,191	3,414,357	9,778,548
Physical therapy	440,028	683,382	1,123,410
Physician	-	8,214,611	8,214,611
Radiology	2,407,746	25,070,508	27,478,254
Rehabilitation	2,776,589	158,858	2,935,447
Respiratory therapy	4,333,731	1,699,399	6,033,130
Speech therapy	39,770	189,315	229,085
Specialty clinics	-	200,806	200,806
	<u>34,749,111</u>	<u>69,012,579</u>	<u>103,761,690</u>
	<u>\$ 61,498,002</u>	<u>\$ 104,668,363</u>	<u>166,166,365</u>
Charity care			<u>(3,846,255)</u>
Total patient service revenue			<u>162,320,110</u>
Contractual Adjustments			
Medicare			39,092,088
Medicaid			18,639,593
Other			26,927,562
Total contractual adjustments			<u>84,659,243</u>
Provision for Bad Debts			<u>6,680,716</u>
Net Patient Service Revenue			<u>\$ 70,980,151</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Net Patient Service Revenue
Years Ended June 30, 2013 and 2012

2012		
Inpatient	Outpatient	Total
\$ 4,479,522	\$ -	\$ 4,479,522
6,700,070	-	6,700,070
946,231	-	946,231
<u>12,125,823</u>	<u>-</u>	<u>12,125,823</u>
149,071	40,967	190,038
2,731,879	13,874,743	16,606,622
-	263,392	263,392
52	1,680	1,732
-	1,032,075	1,032,075
<u>12,402,280</u>	<u>15,419,172</u>	<u>27,821,452</u>
<u>15,283,282</u>	<u>30,632,029</u>	<u>45,915,311</u>
-	3,055,169	3,055,169
483,000	5,272,706	5,755,706
5,590,185	5,469,017	11,059,202
958,926	1,253,344	2,212,270
3,093,230	-	3,093,230
1,055	150,620	151,675
5,017,974	9,682,678	14,700,652
-	263,022	263,022
2,853,826	620,977	3,474,803
6,629,919	2,640,508	9,270,427
347,294	726,929	1,074,223
-	9,001,380	9,001,380
2,306,309	21,927,961	24,234,270
2,860,603	88,272	2,948,875
4,631,674	1,509,692	6,141,366
34,156	125,958	160,114
-	270,696	270,696
<u>34,808,151</u>	<u>62,058,929</u>	<u>96,867,080</u>
<u>\$ 62,217,256</u>	<u>\$ 92,690,958</u>	154,908,214
		<u>(3,448,455)</u>
		<u>151,459,759</u>
		35,168,889
		15,551,832
		<u>26,693,328</u>
		<u>77,414,049</u>
		<u>5,156,902</u>
		<u>\$ 68,888,808</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Other Revenue
Years Ended June 30, 2013 and 2012

	2013	2012
Other Revenue		
Government incentive for electronic health records	\$ 1,147,592	\$ 2,040,164
Rental income	1,291,634	1,226,189
Service contract billing	612,301	-
Cafeteria	297,190	362,797
Kiosk (The Coffee House)	388,613	233,369
Miscellaneous	263,427	475,921
Total Other Revenue	\$ 4,000,757	\$ 4,338,440

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	2013		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Central service supplies	\$ 191,281	\$ 104,198	\$ 295,479
Emergency room	1,424,209	2,464,519	3,888,728
Home health	-	112,019	112,019
Intensive care unit	1,096,721	473,705	1,570,426
Labor and delivery	1,026,748	301,839	1,328,587
Medical and surgical	2,822,621	379,491	3,202,112
Nursery	-	4,787	4,787
Nursing administration	756,869	34,964	791,833
Operating room	1,944,699	7,683,783	9,628,482
	<u>9,263,148</u>	<u>11,559,305</u>	<u>20,822,453</u>
Other Professional Services			
Ambulance	801,242	149,092	950,334
Anesthesiology	-	1,500,476	1,500,476
Bio Med	93,964	5,127	99,091
Cardiology	27,221	1,716	28,937
Cath lab	1,055	6,633,104	6,634,159
Electrocardiography	221,183	24,010	245,193
Geriatric psychology	910,514	129,571	1,040,085
Health education	98,430	17,658	116,088
Hyperbarics	1,639	34,533	36,172
Laboratory	1,155,350	2,421,038	3,576,388
Nephrology	-	99,780	99,780
Occupational therapy	125,366	1,848	127,214
Pharmacy	929,571	1,308,911	2,238,482
Physical therapy	254,590	97,911	352,501
Physician	4,850,144	2,439,342	7,289,486
Radiology	1,672,663	1,665,934	3,338,597
Rehabilitation inpatient	641,249	937,985	1,579,234
Respiratory therapy	1,324,365	(243,847)	1,080,518
Social services	82,150	4,917	87,067
Speech therapy	(863)	651	(212)
Specialty clinics	35,949	73,434	109,383
	<u>13,225,782</u>	<u>17,303,191</u>	<u>30,528,973</u>
General Services			
Dietary	559,604	570,413	1,130,017
Housekeeping	423,887	137,651	561,538
Laundry and linen	-	256,165	256,165
Medical records	414,399	479,713	894,112
Plant operations	455,346	918,150	1,373,496
	<u>1,853,236</u>	<u>2,362,092</u>	<u>4,215,328</u>
Administrative Services			
Administration and office	2,886,047	3,907,426	6,793,473
Employee benefits	-	5,556,028	5,556,028
	<u>2,886,047</u>	<u>9,463,454</u>	<u>12,349,501</u>
Depreciation	<u>-</u>	<u>2,185,289</u>	<u>2,185,289</u>
	<u>\$ 27,228,213</u>	<u>\$ 42,873,331</u>	<u>\$ 70,101,544</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Expenses
Years Ended June 30, 2013 and 2012

2012		
Salaries	Supplies & Expenses	Total
\$ 193,767	\$ 65,639	\$ 259,406
1,387,477	2,359,826	3,747,303
-	114,337	114,337
858,106	353,841	1,211,947
1,049,206	215,114	1,264,320
2,840,564	567,707	3,408,271
-	4,490	4,490
684,134	38,794	722,928
1,783,088	8,581,778	10,364,866
<u>8,796,342</u>	<u>12,301,526</u>	<u>21,097,868</u>
726,991	118,821	845,812
-	1,463,046	1,463,046
81,154	15,131	96,285
24,789	1,719	26,508
430	6,674,284	6,674,714
173,706	12,816	186,522
904,501	215,669	1,120,170
99,447	19,350	118,797
679	18,768	19,447
1,108,006	1,970,477	3,078,483
-	123,358	123,358
106,113	(5,316)	100,797
871,258	1,179,318	2,050,576
300,606	66,947	367,553
4,891,412	2,142,722	7,034,134
1,708,317	1,330,626	3,038,943
577,851	1,010,523	1,588,374
1,034,056	128,087	1,162,143
63,156	3,421	66,577
(1,103)	1,472	369
-	37,449	37,449
<u>12,671,369</u>	<u>16,528,688</u>	<u>29,200,057</u>
599,353	781,932	1,381,285
404,460	135,996	540,456
-	264,600	264,600
399,170	306,947	706,117
447,196	934,768	1,381,964
<u>1,850,179</u>	<u>2,424,243</u>	<u>4,274,422</u>
2,430,796	3,850,381	6,281,177
-	5,651,527	5,651,527
<u>2,430,796</u>	<u>9,501,908</u>	<u>11,932,704</u>
<u>-</u>	<u>2,316,608</u>	<u>2,316,608</u>
<u>\$ 25,748,686</u>	<u>\$ 43,072,973</u>	<u>\$ 68,821,659</u>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of Tahlequah Hospital Authority (Authority) which comprise the combined balance sheets as of June 30, 2013, and the related combined statements of revenues and expenses, changes in net position, and cash flows for the year then ended and the related notes to the combined financial statements and have issued our report thereon dated November 22, 2013.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control as described in the accompanying Schedule of Findings and Responses, that we consider to be a significant deficiency: 2013-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's combined 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as items 2013-001.

Authority's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. According, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma
November 22, 2013

Significant Deficiency In Internal Control Over Financial Reporting:

2013-A Preparation of Financial Statements

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

Condition – 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.

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 has. 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.

Significant Deficiency In Internal Control Over Compliance:

2013-001 Deposits Exposed to Custodial Risk

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

Condition – At June 30, 2013 the Authority had \$458,139 exposed to custodial risk.

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

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

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

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