



Management's Discussion and Analysis
and Financial Statements
June 30, 2014 and 2013

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, 2014 and 2013

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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 financial statements of Tahlequah Hospital Authority (Authority) which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statement, which collectively comprise the Authority's financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tahlequah Hospital Authority as of June 30, 2014 and 2013, and the results of its operations, changes in net position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, the Authority adopted GASB Issued Statement No. 65: *Items Previously Reported as Assets and Liabilities* which requires bond financing cost to be expensed in the period incurred. Accordingly, the beginning net position had been reduced. Our opinion is not modified with respect to this matter.

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 financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2015 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
January 12, 2015

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, 2014, 2013 and 2012. 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 \$3,830,324 or 9% increase in 2014 and a \$5,485,544 or 14% increase in 2013.
- The Authority reported operating income in both 2014 of \$3,438,364 and 2013 of \$6,308,020. Operating income decreased \$2,869,656 or 485% in 2014 over 2013. Operating income increased \$216,586 or 4% in 2013 over 2012.
- The Authority's total assets increased \$123,528 or 0.2% in 2014 compared to 2013. Total assets increased \$9,414,967 or 13% in 2013 compared to 2012.

Using This Annual Report

The Authority's financial consist of four statements – a balance sheet, a statement of revenues and expenses, a statement of changes in net position, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and 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 Balance Sheet and the 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 statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. 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 \$3,830,324 or 9% in 2014 and increased \$5,485,544 or 14% in 2013, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2014	2013 (Restated)	2012 (Restated)
Assets			
Current assets	\$ 31,240,797	\$ 41,668,386	\$ 35,422,191
Capital assets	28,597,468	30,570,287	31,557,921
Other noncurrent assets	21,548,250	9,024,314	4,867,908
Total assets	\$ 81,386,515	\$ 81,262,987	\$ 71,848,020
Liabilities			
Current liabilities	\$ 10,509,059	\$ 12,241,378	\$ 10,258,335
Long-term liabilities	23,007,276	24,981,753	23,035,373
Total liabilities	33,516,335	37,223,131	33,293,708
Net Position			
Invested in capital assets, net of related debt	4,003,314	3,456,637	5,451,166
Unrestricted	42,403,062	38,353,555	30,764,047
Noncontrolling interest in joint venture	1,463,804	2,229,664	2,339,099
Total net position	47,870,180	44,039,856	38,554,312
Total liabilities and net position	\$ 81,386,515	\$ 81,262,987	\$ 71,848,020

A significant component of the change in the Authority's assets is the increase in other noncurrent assets. Other noncurrent assets increased in 2014 by \$12,523,936 or 139% and increased in 2013 by \$4,156,406 or 85%. The primary increases are as follows:

- Investments increased \$13,091,491 or 100% in 2014 compared to 2013 which had no change compared to 2012. The increase in 2014 is attributed to the Authority purchasing investments.
- Assets held under deferred compensation agreement increased \$303,666 or 81% in 2014 compared to 2013 which increased \$40,164 or 12% when compared to 2012.
- Investments in joint ventures decreased \$922,018 or 13% in 2014 compared to 2013 which increased \$4,047,633 or 137%. 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

Current assets decreased in 2014 by \$10,427,589 or 25% compared to 2012 which increased \$6,246,195 or 18% when compared to 2012. The decrease in 2014 is attributable to the purchase of investments.

Table 2: Operating Results

	2014	2013 (Restated)	2012 (Restated)
Operating Revenues			
Net patient service revenue	\$ 76,516,712	\$ 73,386,840	\$ 71,599,034
Other revenue	6,382,246	4,357,297	4,489,080
Total operating revenues	<u>82,898,958</u>	<u>77,744,137</u>	<u>76,088,114</u>
Expenses			
Nursing services	24,490,134	23,671,012	24,496,560
Other professional services	25,684,364	22,413,247	20,722,143
General services	5,993,045	5,765,420	5,664,309
Administrative services	18,835,863	15,384,030	15,042,388
Other expenses	1,178,983	1,039,163	1,029,504
Depreciation and amortization	3,278,205	3,163,245	3,041,776
Total expenses	<u>79,460,594</u>	<u>71,436,117</u>	<u>69,996,680</u>
Operating Income	<u>3,438,364</u>	<u>6,308,020</u>	<u>6,091,434</u>
Nonoperating Revenue (Expense)			
Investment income	678,856	175,695	90,341
Income from joint ventures	1,898,130	1,164,705	579,693
Interest expense	(1,354,976)	(1,523,843)	(1,568,924)
Gain (loss) on disposal of assets	(20,683)	(56,834)	(59,747)
Contributions expense	-	-	(209)
Other	-	338	17,751
Nonoperating expense, net	<u>1,201,327</u>	<u>(239,939)</u>	<u>(941,095)</u>
Revenues in Excess of Expenses	4,639,691	6,068,081	5,150,339
Noncontrolling Interest in Joint Ventures	<u>(43,507)</u>	<u>(473,103)</u>	<u>(699,341)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	<u>\$ 4,596,184</u>	<u>\$ 5,594,978</u>	<u>\$ 4,450,998</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 \$3,438,364 in 2014 compared to an operating income of \$6,308,020 in 2013 and an operating income of \$6,091,434 in 2012.

The primary components of the operating income are:

- Net patient service revenue increased \$3,129,872 or 4% in 2014 and increased \$1,787,806 or 2% in 2013. The increase in 2014 is attributed to new services offered by the Authority.
- Other professional services expenses increased \$3,271,117 or 15% in 2014 and increased \$1,691,104 or 8% in 2013. The increase in 2014 is attributed to new services offered by the Authority.
- Administrative services expense increased \$3,451,833 or 22% in 2014 and increased \$341,642 or 2% in 2013. The increase in 2014 is attributed to an increase in benefits and SHOPP payments.
- Nursing services expenses increased \$819,122 or 3% in 2014 and decreased \$825,548 or 3% in 2013. The increase in 2014 is attributed to an increase in procedures performed during the year.

Net patient service revenue before provision for bad debts increased \$4,125,279 or 5% from 2013 to 2014 and \$3,552,901 or 5% from 2012 to 2013. The provision for bad debts increased \$995,407 or 13% in 2014 and increased \$1,765,095 or 31% in 2013.

Total patient service revenues were \$194,215,756 and \$174,003,121 for the years ended June 30, 2014 and 2013. Factors impacting total patient service revenues in 2014 compared to 2013 and 2013 compared to 2012 include increased services and improved charge capture procedures.

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 \$733,425 or 63% in 2014 and increased \$585,012 or 101% in 2013. Investment income increased \$503,161 or 286% in 2014 and increased \$85,354 or 94% in 2013.

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 2014 by \$5,189,879 and decreased by \$16,353 in 2013.
- Net cash used in financing activities decreased in 2014 by \$926,340 and by \$2,281,103 in 2013.
- Net cash used in investing activities increased in 2014 by \$10,831,849 and net cash provided by investing activities decreased by \$172,512 in 2013.

Capital Assets

At the end of 2014, the Authority had \$28,597,468 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2014, the Authority purchased new capital assets costing \$1,326,069.

Debt

At June 30, 2014, the Authority had \$24,594,154 in revenue notes, mortgage loans and capital lease obligations outstanding as detailed in Note 8 to the financial statements. The Authority issued no new debt in 2014 versus \$3,968,481 of new debt in 2013. The amount of debt issued is subject to limitations that apply to the city and its component units as a whole.

Economic Factors and Next Year's Budget

The Authority continues to monitor costs throughout the year. The 2015 fiscal year operating budget indicates conservative net revenue of approximately \$82,724,000. 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>2014</u>	<u>2013</u> (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 14,316,507	\$ 24,591,584
Board designated cash	532,147	461,701
Receivables		
Patients, net of estimated uncollectibles of \$5,055,000 in 2014 and \$6,895,000 in 2013	9,469,964	10,466,633
Other	3,086,220	1,847,224
Current portion of lease receivable	26,452	24,702
Related parties	264,738	700,253
Supplies	2,237,795	2,389,045
Prepaid expenses	1,306,974	1,187,244
Total current assets	<u>31,240,797</u>	<u>41,668,386</u>
Capital Assets, Net		
Non-depreciable capital assets	2,509,184	2,403,512
Depreciable capital assets, net	26,088,284	28,166,775
Total capital assets, net	<u>28,597,468</u>	<u>30,570,287</u>
Other Assets		
Investments in joint ventures	6,082,534	7,004,552
Assets held under deferred compensation agreement	680,264	376,598
Investments	13,091,491	-
Investment in captive insurance	323,824	263,701
Lease receivable, net of current portion	796,214	847,369
Other	573,923	532,094
Total other assets	<u>21,548,250</u>	<u>9,024,314</u>
Total assets	<u>\$ 81,386,515</u>	<u>\$ 81,262,987</u>

See Notes to Financial Statements

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Balance Sheets
June 30, 2014 and 2013

	2014	2013 (Restated)
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 2,267,142	\$ 2,508,495
Accounts payable	3,603,242	4,459,433
Estimated third-party settlements	338,696	1,124,282
Accrued expenses		
Salaries and benefits payable	1,495,402	1,342,400
Vacation	1,268,549	1,312,717
Payroll taxes and other	1,433,955	1,177,036
Due to related parties	102,073	317,015
Total current liabilities	10,509,059	12,241,378
Deferred Compensation	680,264	376,598
Long-Term Debt, Less Current Maturities	22,327,012	24,605,155
Total liabilities	33,516,335	37,223,131
Net Position		
Invested in capital assets, net of related debt	4,003,314	3,456,637
Unrestricted	42,403,062	38,353,555
Noncontrolling interest in joint ventures	1,463,804	2,229,664
Total net position	47,870,180	44,039,856
Total liabilities and net position	\$ 81,386,515	\$ 81,262,987

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Revenues and Expenses
Years Ended June 30, 2014 and 2013

	2014	2013 (Restated)
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$8,381,504 in 2014 and \$7,386,097 in 2013)	\$ 76,516,712	\$ 73,386,840
Other revenue	6,382,246	4,357,297
Total operating revenue	82,898,958	77,744,137
Expenses		
Nursing services	24,490,134	23,671,012
Other professional services	25,684,364	22,413,247
General services	5,993,045	5,765,420
Administrative services	18,835,863	15,384,030
Other expenses	1,178,983	1,039,163
Depreciation and amortization	3,278,205	3,163,245
Total expenses	79,460,594	71,436,117
Operating Income	3,438,364	6,308,020
Nonoperating Revenues (Expenses)		
Investment income	678,856	175,695
Income from joint venture	1,898,130	1,164,705
Interest expense	(1,354,976)	(1,523,843)
Loss on disposal of capital assets	(20,683)	(56,834)
Other	-	338
Nonoperating expenses, net	1,201,327	(239,939)
Revenues in Excess of Expenses	4,639,691	6,068,081
Noncontrolling Interest in Joint Ventures	(43,507)	(473,103)
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	\$ 4,596,184	\$ 5,594,978

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>Noncontrolling Interest</u>	<u>Controlling Interest</u>	<u>Total</u>
Net Position, June 30, 2012 (Restated)	\$ 2,339,099	\$ 36,215,214	\$ 38,554,313
Member Distributions	(528,333)	-	(528,333)
Controlling Interest Purchase	(54,205)	-	(54,205)
Change in Net Position	<u>473,103</u>	<u>5,594,978</u>	<u>6,068,081</u>
Net Position, June 30, 2013 (Restated)	2,229,664	41,810,192	44,039,856
Member Distributions	(584,577)	-	(584,577)
Controlling Interest Purchase	(224,790)	-	(224,790)
Change in Net Position	<u>43,507</u>	<u>4,596,184</u>	<u>4,639,691</u>
Net Position, June 30, 2014	<u><u>\$ 1,463,804</u></u>	<u><u>\$ 46,406,376</u></u>	<u><u>\$ 47,870,180</u></u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Cash received from patient services	\$ 76,727,795	\$ 72,967,768
Other operating receipts	5,578,765	3,740,202
Cash payments to suppliers for goods and services	(50,381,299)	(39,485,212)
Cash payments to employees for services	(26,213,113)	(26,320,731)
	5,712,148	10,902,027
Net Cash from Operating Activities		
Capital and Capital Related Financing Activities		
Payments on long-term debt	(2,519,496)	(5,931,586)
Payment of interest on long-term debt	(1,354,976)	(1,523,843)
Purchase of property and equipment	(1,326,069)	(2,392,470)
Proceeds from issuance of long-term debt	-	3,624,993
Proceeds from sale of capital assets	-	95,687
Other non-operating payments received	-	338
	(5,200,541)	(6,126,881)
Net Cash Used for Capital and Capital Related Financing Activities		
Investing Activities		
Sale of joint venture	1,443,689	-
Distribution to and purchase of noncontrolling interest in joint ventures	(809,367)	(582,538)
Distributions received from joint ventures	1,376,459	702,881
Payments received on lease receivable	49,405	22,938
Investment income	678,856	175,695
Purchase of investments	(13,455,280)	(203,865)
	(10,716,238)	115,111
Net Cash From (Used for) Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(10,204,631)	4,890,257
Cash and Cash Equivalents, Beginning of Year	25,053,285	20,163,028
Cash and Cash Equivalents, End of Year	\$ 14,848,654	\$ 25,053,285

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

Reconciliation of Cash and Cash Equivalents
to the Balance Sheet

Cash and cash equivalents	\$ 14,316,507	\$ 24,591,584
Board designated cash	<u>532,147</u>	<u>461,701</u>

Total Cash and Cash Equivalents

	<u>\$ 14,848,654</u>	<u>\$ 25,053,285</u>
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Reconciliation of Operating Income to Net
Cash Provided by Operating Activities

Operating income	\$ 3,438,364	\$ 6,308,020
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,278,205	3,163,245
Provision for bad debts	8,381,504	7,386,097
Changes in assets and liabilities		
Patient receivables	(7,384,835)	(7,939,278)
Other receivables	(1,238,996)	(1,244,708)
Due from related parties	435,515	413,256
Supplies	151,250	(277,623)
Prepays	(119,730)	94,701
Other assets	(41,829)	75,789
Accounts payable	(856,191)	625,379
Accrued expenses	365,753	867,318
Deferred compensation	303,666	40,164
Estimated third-party payor settlement	(785,586)	1,236,343
Due to related parties	<u>(214,942)</u>	<u>153,324</u>

Net Cash from Operating Activities

	<u>\$ 5,712,148</u>	<u>\$ 10,902,027</u>
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Supplemental Disclosure of Cash Flow Information

Income from joint venture	<u>\$ 734,602</u>	<u>\$ 1,164,705</u>
Joint venture acquisition in long-term debt	<u>\$ -</u>	<u>\$ 3,313,488</u>
Vested in captive insurance	<u>\$ 60,123</u>	<u>\$ 163,701</u>
Joint venture contribution with equipment	<u>\$ -</u>	<u>\$ 272,321</u>

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. In February 2014, the Authority filed a trade name report with the Oklahoma Secretary of State to do business as Northeastern Health System.

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

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

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

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

The Authority has a controlling interest in Northeast Oklahoma Management Service Organization (NOMSO), which was established as a limited liability company in September 2013. NOMSO provides management services to the Tahlequah Hospital Authority.

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 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. 65, Items Previously Reported as Assets and Liabilities* in 2014. 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.

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, 2014 and 2013, notes receivable from physicians and employees totaled \$605,355 and \$502,929 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 are recorded as nonoperating revenues.

Investments

Investments include mutual funds, debt and equity securities. The Authority measures and reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value in its balance sheet. The net increase or decreases in fair value of investments are reported in the statements of revenues and expenses as nonoperating revenue. Investment income, primarily interest and dividends, are included in nonoperating revenue when earned. Investments classified as current and noncurrent are based on the expected use of investments in the next twelve months

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.

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 noncontrolling interest in joint ventures.

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.

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, 2014, the Authority recorded \$846,138 related to the Medicare program and \$431,925 related to the Medicaid program in other operating revenue for meaningful use incentives. 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. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

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 made SHOPP payments totaling \$1,941,160 and \$1,541,792 included in administrative services, for the years ended June 30, 2014 and 2013. In return, the Authority received \$4,206,451 and \$3,365,247 included in net patient service revenue, for the years ended June 30, 2014 and 2013.

Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

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 \$3,627,000 and \$3,846,000 for the years ended June 30, 2014 and 2013. Total direct and indirect cost related to those forgone charges were approximately \$1,401,000 and \$1,581,000 at June 30, 2014 and 2013, based on average ratios of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

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.

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.

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, 2013 financial information to make it conform to the current year presentation. The reclassification 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, 2011.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are based on a predetermined fee per visit.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 33% and 15% of the Authority's net patient service revenue for the year ended June 30, 2014 and 49% and 15% for the year ended June 30, 2013. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2014 and 2013 increased approximately \$501,000 and \$1,226,000, 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 \$215,000 and \$1,102,234 for RAC liability for the years ending June 30, 2014 and 2013 included in accounts payable. The estimate is based on historical payments paid back for overpayments.

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A summary of Authority patient service revenue and contractual adjustments for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Total patient service revenue	\$ 194,215,756	\$ 174,003,121
Contractual adjustments and provisions for bad debts		
Contractual adjustments - Hospital	(100,805,588)	(84,659,243)
Contractual adjustments - NOCC	(8,511,952)	(8,570,941)
Provision for bad debts	(8,381,504)	(7,386,097)
Total contractual adjustments	(117,699,044)	(100,616,281)
Net patient service revenue	\$ 76,516,712	\$ 73,386,840

Note 3 - Deposits, Investments 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, 2014 and 2013, Tahlequah Hospital Authority had bank balances as follows:

	2014	2013
Insured (FDIC)	\$ 1,529,646	\$ 1,730,806
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	12,973,499	24,140,323
Uncollateralized	1,061,536	1,243,214
Total	\$ 15,564,681	\$ 27,114,343
Carrying value	\$ 14,848,654	\$ 25,053,285

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, 2014 and 2013 as follows:

	2014	2013
Carry amount		
Deposits	\$ 14,848,654	\$ 25,053,285
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 14,316,507	\$ 24,591,584
Board designated cash	532,147	461,701
Total	\$ 14,848,654	\$ 25,053,285

Investments

The Authority’s investments are reported at fair value. The Authority may legally invest in direct obligations of and other guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds and equitable securities.

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June 30, 2014 and 2013

At June 30, 2014, the Authority's noncurrent cash and investments were as follows:

Type	Fair Value	Ratings	June 30, 2014		
			Maturities in Years		
			Less than 1	1 - 5	6-10
Domestic fixed income	\$ 2,530,708	Baa2 - A1	\$ 236,489	\$ 1,300,288	\$ 993,931
International fixed income	766,066	Baa2 - A1	84,283	166,476	515,307
	3,296,774		\$ 320,772	\$ 1,466,764	\$ 1,509,238
Domestic equities	2,033,139				
International equities	491,680				
Bond fund	6,883,460				
Balanced fund	230,037				
Prime fund	156,401				
	<u>\$ 13,091,491</u>				

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy requires that the weighted average maturity of shall not exceed 7 years. As of June 30, 2014, the Authority did not exceed weighted average.

Credit Risk

The Authority's investment policy limits equities not to be rated below B+ as rated by Standard & Poor's. Fixed income securities must be investment grade as determined by the major rating agencies (i.e., Moody's, Standard & Poor's and/or Fitch). As of June 30, 2014 the Authority had no credit risk as defined above.

Concentration of Credit Risk

The Authority will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The Authority's investment policy requires that equities may not exceed 40%, fixed income may not exceed 90% and cash equivalents may not exceed 20% of the total investment portfolio. As of June 30, 2014 the Authority had no concentration of credit risk as defined above.

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Investment Income

Investment income on cash equivalents and notes receivable consists of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Nonoperating income		
Interest and dividend income	\$ 678,856	\$ 175,695

Note 4 - Lease Receivable

The terms, due dates, and securing collateral of the Authority's long-term receivables at June 30, 2014 and 2013 follow:

	2014	2013
Lease receivable, due in monthly installments of \$6,843 through June 2031, including interest at 6.9%, secured by Medical Office Building	\$ 1,396,491	\$ 1,503,308
Less amounts considered to be interest	(573,825)	(631,237)
Lease receivable, net	822,666	872,071
Less current portion	(26,452)	(24,702)
Lease receivable net of current portion	\$ 796,214	\$ 847,369

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

Year Ending June 30,	Principal	Interest
2015	\$ 26,452	\$ 55,648
2016	28,342	53,733
2017	30,350	51,764
2018	32,501	59,614
2019	34,804	47,311
2020 to 2024	214,698	195,873
2025 to 2029	302,341	108,230
2030 to 2034	153,178	1,652
Total	\$ 822,666	\$ 573,825

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Note 5 - Capital Assets

Capital assets additions, retirements, and balances for the year ended June 30, 2014 are as follows:

	Balance June 30, 2013	Additions	Disposals	Transfers	Balance June 30, 2014
Non-Depreciable Cost					
Land	\$ 2,403,142	\$ -	\$ -	\$ -	\$ 2,403,142
Construction in progress	370	106,042	(370)	-	106,042
Non-depreciable capital assets	<u>\$ 2,403,512</u>	<u>\$ 106,042</u>	<u>\$ (370)</u>	<u>\$ -</u>	<u>\$ 2,509,184</u>
Depreciable Cost					
Land improvements	\$ 452,649	\$ 27,674	\$ -	\$ -	\$ 480,323
Buildings and fixed equipment	31,635,339	454,102	-	-	32,089,441
Major movable equipment	21,286,966	738,251	(478,917)	-	21,546,300
Depreciable capital assets	<u>53,374,954</u>	<u>1,220,027</u>	<u>(478,917)</u>	<u>-</u>	<u>54,116,064</u>
Accumulated depreciation					
Land improvements	294,964	18,558	-	-	313,522
Buildings and fixed equipment	11,175,507	1,005,948	-	-	12,181,455
Major movable equipment	13,737,708	2,253,699	(458,604)	-	15,532,803
Total accumulated depreciation	<u>25,208,179</u>	<u>3,278,205</u>	<u>(458,604)</u>	<u>-</u>	<u>28,027,780</u>
Depreciable capital assets, net	<u>\$ 28,166,775</u>	<u>\$ (2,058,178)</u>	<u>\$ (20,683)</u>	<u>\$ -</u>	<u>\$ 26,088,284</u>

The majority of construction in progress at June 30, 2014, represents cost incurred for building remodel and various other smaller projects. Total expected cost to complete the projects is approximately \$125,000. The projects will be financed with internal funds. Completion of the building remodel is expected in Fall 2014.

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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 and 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>

Note 6 - Investments in Joint Ventures

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2014 and 2013, the Authority's investment in joint ventures consisted of the following:

	2014	2013
Cherokee Health Partners, LLC	\$ 706,756	\$ 931,870
Platte Dialysis, LLC	5,375,778	5,792,521
Oklahoma Cancer Center Realty, LLC	-	280,161
Total investment in joint venture	<u>\$ 6,082,534</u>	<u>\$ 7,004,552</u>

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Joint venture income, distributions, and contributions balances for the years ended June 30, 2014 and 2013 are as follow:

	Balance June 30, 2013	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2014
Cherokee Health Partners, LLC	\$ 931,870	\$ 625,076	\$ (850,190)	\$ -	\$ 706,756
Platte Dialysis, LLC	5,792,521	109,526	(526,269)	-	5,375,778
Oklahoma Cancer Center Realty, LLC	280,161	1,163,528	-	(1,443,689)	-
	<u>\$ 7,004,552</u>	<u>\$ 1,898,130</u>	<u>\$ (1,376,459)</u>	<u>\$ (1,443,689)</u>	<u>\$ 6,082,534</u>
	Balance June 30, 2012	Joint Venture Income	Distributions	Contributions/ (Sales)	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>

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 2014 and 2013, the Authority was paid \$2,200,222 and \$2,316,554 for services and building space provided to CHP. The Authority was owed \$207,194 and \$791,034 for the years ended June 30, 2014 and 2013.

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 was owed \$526,269 and \$1,021 for the years ended June 30, 2014 and 2013. Platte was owed \$597 and \$0 for the years ended June 30, 2014 and 2013.

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 was a 50% owner of OCCR. The Authority sold its shares in ownership of OCCR in August of 2013 for approximately \$1,440,000. This resulted in a gain of approximately \$1,160,000. The gain is included in income from joint ventures.

Blended Component Units

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, 2014, the Authority purchased an additional 9% share from other members and now owns 72% 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 \$1,174,491 and \$917,822 at June 30, 2014 and 2013. NOHC owns 5 membership units, or 4% of the outstanding units of TDI. NOHC's investment in TDI is \$115,600 at June 30, 2014 and 2013. 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 \$124,425 and \$811,044 at June 30, 2014 and 2013.

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, 2014 and 2013 was \$4,374,063 and \$3,843,656.

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. The Authority owns 60% of the outstanding units of NOCC.

As the Authority 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, 2014 and 2013 was \$434,650 and \$589,343.

NOMSO, a limited liability company, was established in September 2013, to provide management services to other companies under the Authority. During the year ended June 30, 2014, the Authority owns a 100% share in NOMSO.

As the Authority has majority ownership interest and management control over NOMSO, the balance of the investment in NOMSO 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 NOMSO at June 30, 2014 was \$27,156. State

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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, 2014 and 2013 for all operating leases was approximately \$381,000 and \$456,000.

The capitalized leased assets consist of:

	2014	2013
Major movable equipment under capital lease obligation	\$ -	\$ 942,605
Less accumulated amortization (included as depreciation on the accompanying financial statements)	-	(884,776)
	\$ -	\$ 57,829

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

Year Ending June 30,	Operating Lease
2015	\$ 122,426
2016	27,121
2017	20,028
2018	3,975
Total Minimum Lease Payments	\$ 173,550

Note 8 - Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Debt					
Revenue notes	\$ 12,005,233	\$ -	\$ (532,449)	\$ 11,472,784	\$ 532,450
Mortgage loans	14,955,872	-	(1,834,502)	13,121,370	1,734,692
Total debt	26,961,105	-	(2,366,951)	24,594,154	2,267,142
Capital lease obligations	152,545	-	(152,545)	-	-
Total long-term debt	\$ 27,113,650	\$ -	\$ (2,519,496)	\$ 24,594,154	\$ 2,267,142

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Notes to Financial Statements
June 30, 2014 and 2013

	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	3,968,481	(5,284,083)	14,955,872	1,823,500
Total debt	25,808,055	3,968,481	(5,785,431)	26,961,105	2,355,950
Capital lease obligations	298,700	-	(146,155)	152,545	152,545
Total long-term debt	<u>\$ 26,106,755</u>	<u>\$ 3,968,481</u>	<u>\$ (5,931,586)</u>	<u>\$ 27,113,650</u>	<u>\$ 2,508,495</u>

The terms, due dates, and securing collateral of the Authority's long-term debt, including capital lease obligation, at June 30, 2014 and 2013 follow:

	2014	2013
Revenue Notes		
6.8% revenue note, due in monthly installments of \$70,113 including interest, through December 2017, secured by fixed assets	\$ 7,419,335	\$ 7,744,087
4.9% revenue note, due in monthly installments of \$34,149 including interest, through December 2027, secured by fixed assets	4,053,449	4,261,146
Total revenue notes	<u>11,472,784</u>	<u>12,005,233</u>

Mortgage Loans

6.5% note payable, due in monthly installments of \$16,867 including interest, through January 2015, secured by equipment	115,601	303,796
3.6% note payable, due in monthly installments of \$33,290 including interest, through November 2015, secured by accounts receivable	539,800	922,922
4.625% note payable, due in monthly installments of \$18,206 including interest, through August 2016, secured by equipment	449,559	642,366
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	2,352,479	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	3,708,045	4,279,847
4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2019, secured by property	555,718	576,453
4.1% note payable, due in monthly installments of \$4,268 including interest, through April 2024, secured by land	363,306	447,189
4.1% note payable, due in monthly installments of \$6,431 including interest, through April 2024, secured by land	673,759	673,759
5.8% note payable, due in monthly installments of \$32,192 including interest, through August, 2028, secured by women's center building	3,719,240	3,883,475

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2014 and 2013

	2014	2013
4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	\$ 643,863	\$ 675,864
4.4% note payable	-	113,855
Total mortgage loans	13,121,370	14,955,872
Capital lease obligations	-	152,545
	24,594,154	27,113,650
Less current maturities	(2,267,142)	(2,508,495)
Long-term debt, less current maturities	\$ 22,327,012	\$ 24,605,155

Scheduled principal and interest payments on long-term debt are as follows:

Year ending June 30,	Long-term Debt	
	Principal	Interest
2015	\$ 2,267,142	\$ 1,246,423
2016	2,007,555	1,144,114
2017	1,761,804	1,052,320
2018	10,856,270	694,915
2019	1,088,664	367,212
2020 to 2024	3,628,538	972,928
2025 to 2029	2,984,181	323,953
Total	\$ 24,594,154	\$ 5,801,865

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, 2014, 2013, and 2012 was \$641,294, \$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, 2014 and 2013, the value of deferred compensation, totaled \$680,264 and \$376,598.

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, 2014 and 2013 was as follows:

	2014	2013
Medicare	27%	27%
Medicaid	8%	8%
Other third-party payors	55%	46%
Patients	10%	19%
	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 \$865,000 and \$767,000 is included in other accrued expenses at June 30, 2014 and 2013. In addition, a receivable from reinsurance of \$811,492 and \$9,884 is included in other receivables at June 30, 2014 and 2013.

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 - Restatement

In March 2012, the GASB issued Statement No. 65: *Items Previously Reported as Assets and Liabilities*. This standard established accounting and financial reporting standards that reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, and recognizes certain items that were previously reported as assets and liabilities as expenditures or revenues. This standard was implemented by the Authority during the year ended June 30, 2014, and was applied retroactively by restating the financial statements for all periods presented.

The provisions of GASB 65 require that bond costs (deferred financing costs) be recognized as an expense in the period incurred. The implementation resulted in the removal of previously recognized bond costs totaling \$262,672 and reduction of net position of \$262,672 as of July 1, 2011 and reduction of depreciation and amortization expense and increase in operating income of \$19,052 for the year ended June 30, 2013.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2014 and 2013

	<u>Amount as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amount as Restated</u>
Balance Sheet			
Assets			
Unamortized loan origination costs	\$ 262,672	\$ (262,672)	\$ -
Total assets	<u>\$ 81,525,659</u>	<u>\$ (262,672)</u>	<u>\$ 81,262,987</u>
Liabilities and net position			
Net position unrestricted	\$ 38,616,227	\$ (262,672)	\$ 38,353,555
Total net position	<u>\$ 44,302,528</u>	<u>\$ (262,672)</u>	<u>\$ 44,039,856</u>
Total liabilities and net position	<u>\$ 81,525,659</u>	<u>\$ (262,672)</u>	<u>\$ 81,262,987</u>
Statement of Revenues and Expenses			
Depreciation and amortization	\$ 3,182,297	\$ (19,052)	\$ 3,163,245
Operating expenses	<u>\$ 71,455,169</u>	<u>\$ (19,052)</u>	<u>\$ 71,436,117</u>
Increase in net position	<u>\$ 5,575,926</u>	<u>\$ 19,052</u>	<u>\$ 5,594,978</u>
Net position, beginning of year, excluding noncontrolling interest	<u>\$ 36,496,938</u>	<u>\$ (281,724)</u>	<u>\$ 36,215,214</u>
Net position, end of year, excluding noncontrolling interest	<u>\$ 42,072,864</u>	<u>\$ (262,672)</u>	<u>\$ 41,810,192</u>

Note 14 - Subsequent Events

The Authority has evaluated subsequent events through January 12, 2015, that date which the financial statements were available to be issued.

The Authority purchased NOHC's ownership in TDI.

The Authority entered into a loan agreement for \$1,000,000. The interest rate is 3.5% and term is 5 years. The funds will be for capital assets and operating capital.

CHP signed an agreement to purchase 95% of NOHC over the next several months.



Supplementary Information
June 30, 2014 and 2013

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, 2014 and 2013 and our report thereon dated January 12, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The combining schedules of balance sheet information and combining schedules of operations and changes in net 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Oklahoma City, Oklahoma
January 12, 2015

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Balance Sheet Information
June 30, 2014

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Assets								
Current Assets								
Cash and cash equivalents	\$ 10,279,021	\$ 1,490,670	\$ 43,081	\$ 1,811,261	\$ 668,734	\$ 23,740	\$ -	\$ 14,316,507
Board designated cash	532,147	-	-	-	-	-	-	532,147
Receivables								
Patient, net	9,243,916	-	12,422	-	213,626	-	-	9,469,964
Other	2,984,290	-	91,000	-	-	10,930	-	3,086,220
Current portion of lease receivable	26,452	-	-	4,069	-	-	(4,069)	26,452
Due from related parties	706,874	133,950	-	-	-	-	(576,086)	264,738
Supplies	1,843,233	-	391,336	-	3,226	-	-	2,237,795
Prepaid expenses	1,056,550	17,908	54,486	23,300	154,730	-	-	1,306,974
Total current assets	<u>26,672,483</u>	<u>1,642,528</u>	<u>592,325</u>	<u>1,838,630</u>	<u>1,040,316</u>	<u>34,670</u>	<u>(580,155)</u>	<u>31,240,797</u>
Capital Assets, Net	<u>22,516,801</u>	<u>999,370</u>	<u>-</u>	<u>4,719,844</u>	<u>361,453</u>	<u>-</u>	<u>-</u>	<u>28,597,468</u>
Other Assets								
Investment in Diagnostic Imaging (TDI)	1,174,491	-	115,600	-	-	-	(1,290,091)	-
Investment in Heart Center (NOHC)	124,425	-	-	-	-	-	(124,425)	-
Interest in Foundation	4,374,063	-	-	-	-	-	(4,374,063)	-
Investment in NOMSO	27,156	-	-	-	-	-	(27,156)	-
Investment in Cherokee Health Partners (CHP)	706,756	-	-	-	-	-	-	706,756
Investment in Cancer Center (NOCC)	434,650	-	-	-	-	-	(434,650)	-
Investment in Platte Dialysis	5,375,778	-	-	-	-	-	-	5,375,778
Total investments in joint ventures	<u>12,217,319</u>	<u>-</u>	<u>115,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,250,385)</u>	<u>6,082,534</u>
Assets held under deferred compensation agreement	680,264	-	-	-	-	-	-	680,264
Investments	13,091,491	-	-	-	-	-	-	13,091,491
Investment in captive insurance	323,824	-	-	-	-	-	-	323,824
Lease receivable, net of current portion	796,214	-	-	92,311	-	-	(92,311)	796,214
Other	559,044	-	-	-	14,879	-	-	573,923
Total other assets	<u>27,668,156</u>	<u>-</u>	<u>115,600</u>	<u>92,311</u>	<u>14,879</u>	<u>-</u>	<u>(6,342,696)</u>	<u>21,548,250</u>
Total assets	<u>\$ 76,857,440</u>	<u>\$ 2,641,898</u>	<u>\$ 707,925</u>	<u>\$ 6,650,785</u>	<u>\$ 1,416,648</u>	<u>\$ 34,670</u>	<u>\$ (6,922,851)</u>	<u>\$ 81,386,515</u>

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Liabilities and Net Position								
Current Liabilities								
Current maturities of long-term debt	\$ 1,627,315	\$ 115,601	\$ -	\$ 142,440	\$ 385,855	\$ -	\$ (4,069)	\$ 2,267,142
Accounts payable	3,616,869	97,154	161,520	10,729	141,228	7,514	(431,772)	3,603,242
Estimated third-party payer settlements	268,697	-	69,999	-	-	-	-	338,696
Accrued expenses								
Salaries and benefits payable	1,495,402	-	-	-	-	-	-	1,495,402
Vacation	1,268,549	-	-	-	-	-	-	1,268,549
Payroll taxes and other	1,292,076	-	139,794	-	2,085	-	-	1,433,955
Due to related parties	66,045	-	143,772	36,569	-	-	(144,313)	102,073
Total current liabilities	9,634,953	212,755	515,085	189,738	529,168	7,514	(580,154)	10,509,059
Deferred Compensation	680,264	-	-	-	-	-	-	680,264
Long-Term Debt, Less Current Maturities	20,171,172	-	-	2,094,206	153,945	-	(92,311)	22,327,012
Total liabilities	30,486,389	212,755	515,085	2,283,944	683,113	7,514	(672,465)	33,516,335
Net Position								
Invested in capital assets, net of related debt	814,694	883,769	-	2,483,198	(178,347)	-	-	4,003,314
Unrestricted	45,556,357	1,545,374	192,840	1,883,643	911,882	27,156	(7,714,190)	42,403,062
Noncontrolling interest in joint ventures	-	-	-	-	-	-	1,463,804	1,463,804
Total net position	46,371,051	2,429,143	192,840	4,366,841	733,535	27,156	(6,250,386)	47,870,180
Total liabilities and net position	\$ 76,857,440	\$ 2,641,898	\$ 707,925	\$ 6,650,785	\$ 1,416,648	\$ 34,670	\$ (6,922,851)	\$ 81,386,515

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

Assets	Tahlequah Hospital Authority (Restated)	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
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	2,004,139	-	91,000	-	-	-	(247,915)	1,847,224
Current portion of lease receivable	24,702	-	-	3,909	-	-	(3,909)	24,702
Due from 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	36,456,874	1,157,539	1,313,007	2,236,777	1,459,325	-	(955,136)	41,668,386
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 NOMSO	-	-	-	-	-	-	-	-
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
Investments	-	-	-	-	-	-	-	-
Investment in captive insurance	263,701	-	-	-	-	-	-	263,701
Lease receivable, net of current portion	847,369	-	-	96,379	-	-	(96,379)	847,369
Other	517,215	-	-	-	14,879	-	-	532,094
Total other assets	15,171,300	-	115,600	96,379	14,879	-	(6,373,844)	9,024,314
Total assets	\$ 75,439,301	\$ 2,774,810	\$ 1,428,607	\$ 6,774,631	\$ 2,174,618	\$ -	\$ (7,328,980)	\$ 81,262,987

	Tahlequah Hospital Authority (Restated)	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
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	11,470,539	300,023	91,944	701,549	632,459	-	(955,136)	12,241,378
Deferred Compensation	376,598	-	-	-	-	-	-	376,598
Long-Term Debt, Less Current Maturities	21,798,486	115,601	-	2,236,646	550,801	-	(96,379)	24,605,155
Total liabilities	33,645,623	415,624	91,944	2,938,195	1,183,260	-	(1,051,515)	37,223,131
Net Position								
Invested in capital assets, net of related debt	297,460	1,313,475	-	2,068,210	(222,508)	-	-	3,456,637
Unrestricted	41,496,218	1,045,711	1,336,663	1,768,226	1,213,866	-	(8,507,129)	38,353,555
Noncontrolling interest in joint ventures	-	-	-	-	-	-	2,229,664	2,229,664
Total net position	41,793,678	2,359,186	1,336,663	3,836,436	991,358	-	(6,277,465)	44,039,856
Total liabilities and net position	\$ 75,439,301	\$ 2,774,810	\$ 1,428,607	\$ 6,774,631	\$ 2,174,618	\$ -	\$ (7,328,980)	\$ 81,262,987

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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, 2014

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Operating Revenue								
Net patient service revenue	\$ 74,220,301	1,607,395	\$ 9,332,684	\$ -	\$ 2,482,803	\$ -	\$ (11,126,471)	\$ 76,516,712
Other revenue	5,792,340	-	365,000	1,059,175	-	60,865	(895,134)	6,382,246
Total operating revenue	<u>80,012,641</u>	<u>1,607,395</u>	<u>9,697,684</u>	<u>1,059,175</u>	<u>2,482,803</u>	<u>60,865</u>	<u>(12,021,605)</u>	<u>82,898,958</u>
Expenses								
Nursing services	21,526,337	-	4,571,192	-	-	-	(1,607,395)	24,490,134
Other professional services	34,336,314	20,186	615,868	1,217	456,157	-	(9,745,378)	25,684,364
General services	4,481,674	-	31	-	1,452,631	58,709	-	5,993,045
Administrative services	14,367,216	137,720	4,238,561	3,432	88,934	-	-	18,835,863
Other expenses	-	491,491	517,314	315,399	-	-	(145,221)	1,178,983
Depreciation and amortization	2,193,797	617,900	-	117,453	349,055	-	-	3,278,205
Total expenses	<u>76,905,338</u>	<u>1,267,297</u>	<u>9,942,966</u>	<u>437,501</u>	<u>2,346,777</u>	<u>58,709</u>	<u>(11,497,994)</u>	<u>79,460,594</u>
Operating Income (Loss)	<u>3,107,303</u>	<u>340,098</u>	<u>(245,282)</u>	<u>621,674</u>	<u>136,026</u>	<u>2,156</u>	<u>(523,611)</u>	<u>3,438,364</u>

	Tahlequah Hospital Authority	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Nonoperating Revenues (Expenses)								
Investment income	\$ 650,060	\$ 2,618	\$ 10,512	\$ 6,944	\$ 8,722	\$ -	\$ -	\$ 678,856
Income from TDI	218,038	-	-	-	-	-	(218,038)	-
Loss from NOHC	(143,472)	-	-	-	-	-	143,472	-
Income from Foundation	530,407	-	-	-	-	-	(530,407)	-
Income from NOMSO	2,156	-	-	-	-	-	(2,156)	-
Income from CHP	603,239	-	-	-	-	-	-	603,239
Income from NOCC	70,433	-	-	-	-	-	(70,433)	-
Income from OCCR	1,185,364	-	-	-	-	-	-	1,185,364
Income from Platte	109,527	-	-	-	-	-	-	109,527
Interest expense	(1,211,388)	(14,206)	(3,808)	(98,213)	(27,361)	-	-	(1,354,976)
Loss on disposal of equipment	(20,683)	-	-	-	-	-	-	(20,683)
Contributions expense	(523,611)	-	-	-	-	-	523,611	-
Other	-	-	-	-	-	-	-	-
Total non operating revenue (expense)	<u>1,470,070</u>	<u>(11,588)</u>	<u>6,704</u>	<u>(91,269)</u>	<u>(18,639)</u>	<u>-</u>	<u>(153,951)</u>	<u>1,201,327</u>
Revenues in Excess of (Less Than) Expenses	4,577,373	328,510	(238,578)	530,405	117,387	2,156	(677,562)	4,639,691
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(43,507)	(43,507)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	4,577,373	328,510	(238,578)	530,405	117,387	2,156	(721,069)	4,596,184
Net Position, Beginning of Year	41,793,678	2,359,186	1,336,663	3,836,436	991,358	-	(8,507,129)	41,810,192
Contributions	-	-	-	-	-	25,000	(25,000)	-
Members' Distributions	-	(258,553)	(905,245)	-	(375,210)	-	1,539,008	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	1,463,804	1,463,804
Net Position, End of Year	<u>\$ 46,371,051</u>	<u>\$ 2,429,143</u>	<u>\$ 192,840</u>	<u>\$ 4,366,841</u>	<u>\$ 733,535</u>	<u>\$ 27,156</u>	<u>\$ (6,250,386)</u>	<u>\$ 47,870,180</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

	Tahlequah Hospital Authority (Restated)	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
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>-</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>-</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	-	-	(138,097)	1,039,163
Depreciation and amortization	<u>2,166,237</u>	<u>574,560</u>	<u>-</u>	<u>64,984</u>	<u>357,464</u>	<u>-</u>	<u>-</u>	<u>3,163,245</u>
Total expenses	<u>70,082,492</u>	<u>1,032,312</u>	<u>8,490,038</u>	<u>356,342</u>	<u>2,424,698</u>	<u>-</u>	<u>(10,949,765)</u>	<u>71,436,117</u>
Operating Income	<u>4,898,416</u>	<u>475,881</u>	<u>543,061</u>	<u>633,019</u>	<u>257,644</u>	<u>-</u>	<u>(500,001)</u>	<u>6,308,020</u>

	Tahlequah Hospital Authority (Restated)	Tahlequah Diagnostic Imaging	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	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)	-
Loss from NOHC	336,735	-	-	-	-	-	(336,735)	-
Income from Foundation	537,745	-	-	-	-	-	(537,745)	-
Income from NOMSO	-	-	-	-	-	-	-	-
Income from CHP	400,464	-	-	-	-	-	-	400,464
Income from NOCC	123,730	-	-	-	-	-	(123,730)	-
Income from OCCR	75,399	-	-	-	-	-	-	75,399
Income from Platte	688,842	-	-	-	-	-	-	688,842
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>-</u>	<u>(778,444)</u>	<u>(239,939)</u>
Revenues in Excess of Expenses	5,603,426	451,990	547,151	537,744	206,215	-	(1,278,445)	6,068,081
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(473,103)	(473,103)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	5,603,426	451,990	547,151	537,744	206,215	-	(1,751,548)	5,594,978
Net Position, Beginning of Year	36,190,252	2,261,601	1,773,660	3,298,692	785,143	-	(8,094,134)	36,215,214
Contributions	-	-	-	-	-	-	-	-
Members' Distributions	-	(354,405)	(984,148)	-	-	-	1,338,553	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	2,229,664	2,229,664
Net Position, End of Year	<u>\$ 41,793,678</u>	<u>\$ 2,359,186</u>	<u>\$ 1,336,663</u>	<u>\$ 3,836,436</u>	<u>\$ 991,358</u>	<u>\$ -</u>	<u>\$ (6,277,465)</u>	<u>\$ 44,039,856</u>

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	2014		Total
	Inpatient	Outpatient	
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 3,380,318	\$ -	\$ 3,380,318
Intensive care unit	7,368,216	-	7,368,216
Nursery	1,119,325	-	1,119,325
	<u>11,867,859</u>	<u>-</u>	<u>11,867,859</u>
Other nursing services			
Central service supplies	90,057	39,702	129,759
Emergency room	2,417,758	15,050,734	17,468,492
Wound Care	-	331,203	331,203
Infection Control	-	-	-
Observation	-	1,877,437	1,877,437
Operating room	12,079,782	19,543,427	31,623,209
	<u>14,587,597</u>	<u>36,842,503</u>	<u>51,430,100</u>
Other professional services			
Ambulance	-	3,231,457	3,231,457
Anesthesiology	515,750	5,674,253	6,190,003
Cardiac cath lab	5,829,849	7,093,582	12,923,431
Complex Lab	4,488	10,136,000	10,140,488
Electrocardiography	913,492	1,510,437	2,423,929
Geriatric psychology	2,661,260	-	2,661,260
Hyperbaric	630	324,995	325,625
Laboratory	4,833,216	10,465,259	15,298,475
Nephrology	-	259,307	259,307
Obstetrics	2,938,003	505,712	3,443,715
Oncology	16,402	7,602,188	7,618,590
Pharmacy	6,181,720	3,871,729	10,053,449
Physical therapy	378,471	811,579	1,190,050
Physician	-	9,014,635	9,014,635
Radiology	2,337,923	25,266,794	27,604,717
Rehabilitation	2,736,014	229,687	2,965,701
Respiratory therapy	4,618,466	2,647,312	7,265,778
Speech therapy	33,951	240,936	274,887
Specialty clinics	-	171,861	171,861
Wellness Center	-	1,764	1,764
	<u>33,999,635</u>	<u>89,059,487</u>	<u>123,059,122</u>
	<u>\$ 60,455,091</u>	<u>\$ 125,901,990</u>	<u>186,357,081</u>
Charity care			<u>(3,627,206)</u>
Total patient service revenue			<u>182,729,875</u>
Reductions from Revenue			
Contractual Adjustments			(100,805,588)
Provision for Bad Debts			<u>(7,703,986)</u>
Total reductions from revenue			<u>(108,509,574)</u>
Net Patient Service Revenue			<u>\$ 74,220,301</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Net Patient Service Revenue
Years Ended June 30, 2014 and 2013

2013		
Inpatient	Outpatient	Total
\$ 3,899,165	\$ -	\$ 3,899,165
6,754,598	-	6,754,598
1,304,325	-	1,304,325
<u>11,958,088</u>	<u>-</u>	<u>11,958,088</u>
103,194	50,764	153,958
2,654,745	15,429,631	18,084,376
-	243,636	243,636
52	1,470	1,522
-	1,525,922	1,525,922
12,032,812	18,404,361	30,437,173
<u>14,790,803</u>	<u>35,655,784</u>	<u>50,446,587</u>
-	3,285,384	3,285,384
506,243	5,470,088	5,976,331
6,120,791	6,947,970	13,068,761
-	-	-
1,033,919	1,491,012	2,524,931
2,683,908	-	2,683,908
4,245	420,330	424,575
4,876,964	10,839,744	15,716,708
-	244,447	244,447
3,160,986	682,368	3,843,354
-	-	-
6,364,191	3,414,357	9,778,548
440,028	683,382	1,123,410
-	8,214,611	8,214,611
2,407,746	25,070,508	27,478,254
2,776,589	158,858	2,935,447
4,333,731	1,699,399	6,033,130
39,770	189,315	229,085
-	200,292	200,292
-	514	514
<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>	166,166,365
		<u>(3,846,255)</u>
		<u>162,320,110</u>
		(84,659,243)
		<u>(6,680,716)</u>
		<u>(91,339,959)</u>
		<u>\$ 70,980,151</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Other Revenue
Years Ended June 30, 2014 and 2013

	2014	2013
Other Revenue		
Government incentive for electronic health records	\$ 1,278,063	\$ 1,147,592
Rental income	1,277,564	1,291,634
Service contract billing	2,173,315	612,301
Cafeteria	283,817	297,190
Kiosk (The Coffee House)	425,472	388,613
Miscellaneous	354,109	263,427
Total Other Revenue	\$ 5,792,340	\$ 4,000,757

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	2014		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Central service supplies	\$ 189,562	\$ 80,783	\$ 270,345
Emergency room	1,550,240	2,443,787	3,994,027
Wound care	-	112,950	112,950
Intensive care unit	1,110,432	566,637	1,677,069
Labor and delivery	1,012,998	275,546	1,288,544
Medical and surgical	2,692,454	255,053	2,947,507
Nursery	-	4,028	4,028
Nursing administration	764,069	73,246	837,315
Operating room	1,985,113	8,409,439	10,394,552
	<u>9,304,868</u>	<u>12,221,469</u>	<u>21,526,337</u>
Other Professional Services			
Ambulance	855,563	143,641	999,204
Anesthesiology	-	1,436,372	1,436,372
Bio Med	99,509	4,461	103,970
Cardiology	31,797	1,414	33,211
Cath lab	10,041	6,557,928	6,567,969
Complex lab	5,536	1,016,320	1,021,856
Electrocardiography	183,411	16,641	200,052
Geriatric psychology	1,014,951	117,716	1,132,667
Health education	133,956	19,915	153,871
Hyperbarics	457	33,807	34,264
Laboratory	1,088,945	2,187,358	3,276,303
Nephrology	-	127,520	127,520
Occupational therapy	153,661	1,958	155,619
Oncology	210,011	2,188,605	2,398,616
Pharmacy	869,521	1,645,604	2,515,125
Physical therapy	341,523	61,707	403,230
Physician	4,220,076	2,632,000	6,852,076
Radiology	1,363,098	2,424,837	3,787,935
Rehabilitation inpatient	695,726	992,279	1,688,005
Respiratory therapy	1,079,436	178,742	1,258,178
Social services	103,139	4,851	107,990
Speech therapy	(256)	1,710	1,454
Specialty clinics	23,349	57,478	80,827
	<u>12,483,450</u>	<u>21,852,864</u>	<u>34,336,314</u>
General Services			
Dietary	581,045	594,787	1,175,832
Housekeeping	513,172	145,202	658,374
Laundry and linen	-	233,180	233,180
Medical records	441,251	505,656	946,907
Plant operations	496,231	971,150	1,467,381
	<u>2,031,699</u>	<u>2,449,975</u>	<u>4,481,674</u>
Administrative Services			
Administration and office	3,062,515	4,778,394	7,840,909
Employee benefits	-	6,526,307	6,526,307
	<u>3,062,515</u>	<u>11,304,701</u>	<u>14,367,216</u>
Depreciation and amortization	-	2,193,797	2,193,797
	<u>\$ 26,882,532</u>	<u>\$ 50,022,806</u>	<u>\$ 76,905,338</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Expenses
Years Ended June 30, 2014 and 2013

2013		
Salaries	Supplies & Expenses (Restated)	Total
\$ 191,281	\$ 104,198	\$ 295,479
1,424,209	2,464,519	3,888,728
-	112,019	112,019
1,096,721	473,705	1,570,426
1,026,748	301,839	1,328,587
2,822,621	379,491	3,202,112
-	4,787	4,787
756,869	34,964	791,833
1,944,699	7,683,783	9,628,482
<u>9,263,148</u>	<u>11,559,305</u>	<u>20,822,453</u>
801,242	149,092	950,334
-	1,500,476	1,500,476
93,964	5,127	99,091
27,221	1,716	28,937
1,055	6,633,104	6,634,159
-	-	-
221,183	24,010	245,193
910,514	129,571	1,040,085
98,430	17,658	116,088
1,639	34,533	36,172
1,155,350	2,421,038	3,576,388
-	99,780	99,780
125,366	1,848	127,214
-	-	-
929,571	1,308,911	2,238,482
254,590	97,911	352,501
4,850,144	2,439,342	7,289,486
1,672,663	1,665,934	3,338,597
641,249	937,985	1,579,234
1,324,365	(243,847)	1,080,518
82,150	4,917	87,067
(863)	651	(212)
35,949	73,434	109,383
<u>13,225,782</u>	<u>17,303,191</u>	<u>30,528,973</u>
559,604	570,413	1,130,017
423,887	137,651	561,538
-	256,165	256,165
414,399	479,713	894,112
455,346	918,150	1,373,496
<u>1,853,236</u>	<u>2,362,092</u>	<u>4,215,328</u>
2,886,047	3,907,426	6,793,473
-	5,556,028	5,556,028
<u>2,886,047</u>	<u>9,463,454</u>	<u>12,349,501</u>
-	2,166,237	2,166,237
<u>\$ 27,228,213</u>	<u>\$ 42,854,279</u>	<u>\$ 70,082,492</u>



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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 financial statements of Tahlequah Hospital Authority (Authority) which comprise the balance sheet as of June 30, 2014, and the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated January 12, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the 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 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.

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

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness: 2014-A.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be a significant deficiency: 2014-B.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2014-001.

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 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
January 12, 2015

Material Weakness In Internal Control Over Financial Reporting:

2014-A Cost Report Estimate

Condition and criteria – During the current year, the Authority recorded an estimate for the Medicare cost report settlement for the current year. However, the estimate was different from the filed cost report.

Cause – The Authority’s accounting staff believed they properly reserved the estimated settlement on the information they had at the time.

Effect – This resulted in a material adjusting journal entry to properly state the current year settlement.

Auditor’s Recommendation – It is recommended that the Authority implement a system to estimate the Authority’s cost report settlement.

Management Response – Management will develop a system to estimate the Authority’s cost report settlement.

Significant Deficiency In Internal Control Over Financial Reporting:

2014-B 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.

Findings Related to the Financial Statements: (continued)

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

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:

2014-001 Deposits Exposed to Custodial Risk

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

Condition – At June 30, 2014 the Authority had \$343,930 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.