



Management's Discussion and Analysis
and Financial Statements
June 30, 2015 and 2014

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, 2015 and 2014

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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 statements of net position as of June 30, 2015 and 2014; 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 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 net position of Tahlequah Hospital Authority as of June 30, 2015 and 2014, and the changes in its net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 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.



Oklahoma City, Oklahoma
December 17, 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, 2015, 2014 and 2013. 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 \$10,019,390 or 21% increase in 2015 and a \$3,830,324 or 9% increase in 2014.
- The Authority reported operating income in both 2015 of \$8,521,145 and 2014 of \$3,438,364. Operating income increased \$5,082,781 or 148% in 2015 over 2014. Operating income decreased \$2,869,656 or 45% in 2014 over 2013.
- The Authority's total assets increased \$9,941,797 or 12% in 2015 compared to 2014. Total assets increased \$123,528 or 0.2% in 2014 compared to 2013.

Using This Annual Report

The Authority's financial consist of four statements – a statement of net position; 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 Statements of Net Position 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 Statements of Net Position 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 Statement of Net Position. The Authority's net position increased by \$10,019,390 or 21% in 2015 and increased \$3,830,324 or 9% in 2014, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2015	2014	2013
Assets			
Current assets	\$ 39,136,438	\$ 31,240,797	\$ 41,668,386
Capital assets	29,167,213	28,597,468	30,570,287
Other noncurrent assets	23,024,661	21,548,250	9,024,314
Total assets	\$ 91,328,312	\$ 81,386,515	\$ 81,262,987
Liabilities			
Current liabilities	\$ 12,095,739	\$ 10,509,059	\$ 12,241,378
Long-term liabilities	21,343,003	23,007,276	24,981,753
Total liabilities	33,438,742	33,516,335	37,223,131
Net Position			
Invested in capital assets, net of related debt	6,993,993	4,003,314	3,456,637
Unrestricted	49,362,850	42,403,062	38,353,555
Noncontrolling interest in joint venture	1,532,727	1,463,804	2,229,664
Total net position	57,889,570	47,870,180	44,039,856
Total liabilities and net position	\$ 91,328,312	\$ 81,386,515	\$ 81,262,987

A significant component of the change in the Authority's assets is the increase in current assets. Current assets increased in 2015 by \$7,895,641 or 25% and decreased in 2014 by \$10,427,589 or 25%. The primary increases and decreases between 2014 and 2015 are as follows:

- Cash increased \$4,383,580 or 31% in 2015 compared to 2014 which decreased \$10,275,077 or 42% from 2013. The increase in 2015 is attributed to the increased services provided by the Authority. The decrease in 2014 is attributed to the purchase of investments.
- Patient receivables increased \$3,198,454 or 34% in 2015 compared to 2014 which decreased \$996,669 or 10% when compared to 2013. The increase in 2015 is attributed to the increased services provided by the Authority. The decrease in 2014 is attributed to increased collection efforts.

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

Table 2: Operating Results

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 91,069,474	\$ 76,516,712	\$ 73,386,840
Other revenue	5,283,443	6,382,246	4,357,297
Total operating revenues	<u>96,352,917</u>	<u>82,898,958</u>	<u>77,744,137</u>
Expenses			
Nursing services	19,874,405	24,490,134	23,671,012
Other professional services	42,454,014	25,684,364	22,413,247
General services	6,558,922	5,993,045	5,765,420
Administrative services	15,277,790	18,835,863	15,384,030
Other expenses	698,725	1,178,983	1,039,163
Depreciation	2,967,916	3,278,205	3,163,245
Total expenses	<u>87,831,772</u>	<u>79,460,594</u>	<u>71,436,117</u>
Operating Income	<u>8,521,145</u>	<u>3,438,364</u>	<u>6,308,020</u>
Nonoperating Revenue (Expense)			
Investment income	410,487	678,856	175,695
Income from joint ventures	1,535,770	1,898,130	1,164,705
Interest expense	(1,309,056)	(1,354,976)	(1,523,843)
Gain (loss) on disposal	970,827	(20,683)	(56,834)
Other	-	-	338
Nonoperating expense, net	<u>1,608,028</u>	<u>1,201,327</u>	<u>(239,939)</u>
Revenues in Excess of Expenses	10,129,173	4,639,691	6,068,081
Noncontrolling Interest in Joint Ventures	<u>(178,706)</u>	<u>(43,507)</u>	<u>(473,103)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	<u>\$ 9,950,467</u>	<u>\$ 4,596,184</u>	<u>\$ 5,594,978</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 \$8,521,145 in 2015 compared to an operating income of \$3,438,364 in 2014 and an operating income of \$6,308,020 in 2013.

The primary components of the operating income are:

- Net patient service revenue increased \$14,552,762 or 19% in 2015 and increased \$3,129,872 or 4% in 2014. The increase in 2015 is attributed to increased services offered by the Authority. The increase in 2014 is attributed to new services offered by the Authority.
- Other professional services expenses increased \$16,769,650 or 65% in 2015 and \$3,271,117 or 15% in 2014. The increase in 2015 is attributed to increased services offered by the Authority. The increase in 2014 is attributed to new services offered by the Authority.
- Administrative services expense decreased \$3,558,073 or 19% in 2015 and increased \$3,451,833 or 22% in 2014. The decrease in 2015 is attributed to the sale of Northeast Oklahoma Heart Center, LLC. The increase in 2014 is attributed to an increase in benefits and SHOPP payments.
- Nursing services expenses decreased \$4,615,729 or 19% in 2015 and increased \$819,122 or 3% in 2014. The decrease in 2015 is attributed to the sale of Northeast Oklahoma Heart Center, LLC. 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 \$21,709,007 or 26% from 2014 to 2015 and \$4,125,279 or 5% from 2013 to 2014. The provision for bad debts increased \$7,156,245 or 85% in 2015 and \$7,156,245 or 85% in 2014.

Total patient service revenues were \$240,015,857 and \$194,215,756 for the years ended June 30, 2015 and 2014. Factors impacting total patient service revenues in 2015 compared to 2014 and 2014 compared to 2013 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 decreased \$362,360 or 19% in 2015 and increased \$733,425 or 63% in 2014. Investment income decreased \$268,369 or 40% in 2015 and increased \$503,161 or 286% in 2014.

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 increased in 2015 by \$4,029,793 and decreased by \$5,189,879 in 2014.
- Net cash used in financing activities increased in 2015 by \$2,107,179 and decreased by \$926,340 in 2014.
- Net cash used in investing activities decreased in 2015 by \$12,604,032 and increased by \$10,831,849 in 2014.

Capital Assets

At the end of 2015, the Authority had \$29,167,213 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2015, the Authority purchased new capital assets costing \$3,853,018.

Debt

At June 30, 2015, the Authority had \$22,173,220 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 2015 and 2014. 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 \$87,000,000. 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>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 18,700,087	\$ 14,316,507
Board designated cash	470,582	532,147
Receivables		
Patients, net of estimated uncollectibles of \$11,261,000 in 2015 and \$5,055,000 in 2014	14,333,739	9,469,964
Other	824,552	3,086,220
Current portion of lease receivable	26,443	26,452
Related parties	1,381,745	264,738
Supplies	2,087,090	2,237,795
Prepaid expenses	1,312,200	1,306,974
Total current assets	<u>39,136,438</u>	<u>31,240,797</u>
Capital Assets, Net		
Non-depreciable capital assets	2,963,006	2,509,184
Depreciable capital assets, net	26,204,207	26,088,284
Total capital assets, net	<u>29,167,213</u>	<u>28,597,468</u>
Other Assets		
Investments in joint ventures	6,336,023	6,082,534
Assets held under deferred compensation agreement	1,023,167	680,264
Investments	13,380,200	13,091,491
Investment in captive insurance	323,824	323,824
Lease receivable, net of current portion	767,888	796,214
Other	1,193,559	573,923
Total other assets	<u>23,024,661</u>	<u>21,548,250</u>
Total assets	<u>\$ 91,328,312</u>	<u>\$ 81,386,515</u>

See Notes to Financial Statements

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,853,384	\$ 2,267,142
Accounts payable	4,437,457	3,603,242
Estimated third-party payor settlements	1,539,422	338,696
Accrued expenses		
Salaries and benefits payable	1,794,437	1,495,402
Vacation	1,481,545	1,268,549
Payroll taxes and other	905,553	1,433,955
Due to related parties	83,941	102,073
Total current liabilities	12,095,739	10,509,059
Deferred Compensation	1,023,167	680,264
Long-Term Debt, Less Current Maturities	20,319,836	22,327,012
Total liabilities	33,438,742	33,516,335
Net Position		
Invested in capital assets, net of related debt	6,993,993	4,003,314
Unrestricted	49,362,850	42,403,062
Noncontrolling interest in joint ventures	1,532,727	1,463,804
Total net position	57,889,570	47,870,180
Total liabilities and net position	\$ 91,328,312	\$ 81,386,515

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Revenues and Expenses
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$15,537,749 in 2015 and \$8,381,504 in 2014)	\$ 91,069,474	\$ 76,516,712
Other revenue	5,283,443	6,382,246
Total operating revenue	96,352,917	82,898,958
Expenses		
Nursing services	19,874,405	24,490,134
Other professional services	42,454,014	25,684,364
General services	6,558,922	5,993,045
Administrative services	15,277,790	18,835,863
Other expenses	698,725	1,178,983
Depreciation	2,967,916	3,278,205
Total expenses	87,831,772	79,460,594
Operating Income	8,521,145	3,438,364
Nonoperating Revenues (Expenses)		
Investment income	410,487	678,856
Income from joint venture	1,535,770	1,898,130
Interest expense	(1,309,056)	(1,354,976)
Gain (Loss) on disposal	970,827	(20,683)
Nonoperating revenues (expenses), net	1,608,028	1,201,327
Revenues in Excess of Expenses	10,129,173	4,639,691
Noncontrolling Interest in Joint Ventures	(178,706)	(43,507)
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	\$ 9,950,467	\$ 4,596,184

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Changes in Net Position
Years Ended June 30, 2015 and 2014

	Noncontrolling Interest	Controlling Interest	Total
Net Position, June 30, 2013	\$ 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	43,507	4,596,184	4,639,691
Net Position, June 30, 2014	1,463,804	46,406,376	47,870,180
Member Distributions	(109,196)	-	(109,196)
Controlling Interest Sold	103,736	-	103,736
Controlling Interest Purchase	(104,323)	-	(104,323)
Change in Net Position	178,706	9,950,467	10,129,173
Net Position, June 30, 2015	\$ 1,532,727	\$ 56,356,843	\$ 57,889,570

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Cash received from patient services	\$ 87,406,425	\$ 76,727,795
Other operating receipts	6,530,914	5,578,765
Cash payments to suppliers for goods and services	(53,039,872)	(50,381,299)
Cash payments to employees for services	(31,155,526)	(26,213,113)
Net Cash from Operating Activities	9,741,941	5,712,148
Capital and Capital Related Financing Activities		
Payments on long-term debt	(2,420,934)	(2,519,496)
Payment of interest on long-term debt	(1,309,056)	(1,354,976)
Purchase of property and equipment	(3,853,018)	(1,326,069)
Proceeds from sale of capital assets	275,288	-
Net Cash Used for Capital and Capital Related Financing Activities	(7,307,720)	(5,200,541)
Investing Activities		
Sale of joint venture	908,086	1,443,689
Distribution to and purchase of noncontrolling interest in joint ventures	(109,783)	(809,367)
Distributions received from joint ventures	1,282,281	1,376,459
Payments received on lease receivable	28,335	49,405
Investment income	410,487	678,856
Purchase of investments	(631,612)	(13,455,280)
Net Cash From (Used for) Investing Activities	1,887,794	(10,716,238)
Net Increase (Decrease) in Cash and Cash Equivalents	4,322,015	(10,204,631)
Cash and Cash Equivalents, Beginning of Year	14,848,654	25,053,285
Cash and Cash Equivalents, End of Year	\$ 19,170,669	\$ 14,848,654
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 18,700,087	\$ 14,316,507
Board designated cash	470,582	532,147
Total Cash and Cash Equivalents	\$ 19,170,669	\$ 14,848,654

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating income	\$ 8,521,145	\$ 3,438,364
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	2,967,916	3,278,205
Provision for bad debts	15,537,749	8,381,504
Changes in assets and liabilities		
Patient receivables	(20,401,524)	(7,384,835)
Other receivables	2,261,668	(1,238,996)
Due from related parties	(1,014,197)	435,515
Supplies	150,705	151,250
Prepays	(5,226)	(119,730)
Other assets	(619,636)	(41,829)
Accounts payable	834,215	(856,191)
Accrued expenses	(16,371)	365,753
Deferred compensation	342,903	303,666
Estimated third-party payor settlement	1,200,726	(785,586)
Due to related parties	(18,132)	(214,942)
Net Cash from Operating Activities	\$ 9,741,941	\$ 5,712,148
Supplemental Disclosure of Cash Flow Information		
Income from joint venture	\$ 1,535,770	\$ 1,898,130
Joint venture sale in related party	\$ 102,810	\$ -
Vested in other investments	\$ 76,147	\$ -
Vested in captive insurance	\$ -	\$ 60,123

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

Reporting Entity

The 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.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority.

Blended Component Units

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. During 2015, the Authority sold their ownership to Cherokee Health Partners, LLC (CHP).

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.

Measurement Focus and Basis of Accounting

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

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

Basis of Presentation

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

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

Restricted net position:

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

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

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, 2015 and 2014, notes receivable from physicians and employees totaled \$1,347,714 and \$925,129 and are included in other receivables and other assets on the statements of net position.

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.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

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

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

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 statement of net position. 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 statement of net position date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Estimated Health Claims Payable

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 statements of net position, 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.

Operating Revenues and Expenses

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

Net Patient 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.

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 \$2,676,000 and \$3,627,000 for the years ended June 30, 2015 and 2014. Total direct and indirect cost related to those forgone charges were approximately \$952,000 and \$1,401,000 at June 30, 2015 and 2014, based on average ratios of cost to gross charges.

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.

Electronic Health Record (EHR) Incentives

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

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

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

The Authority recognized revenue of \$845,018 and \$1,278,063 for the years ended June 30, 2015 and 2014 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

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 \$2,272,507 and \$1,941,160 included in administrative services, for the years ended June 30, 2015 and 2014. In return, the Authority received \$4,836,546 and \$4,206,451 included in net patient service revenue, for the years ended June 30, 2015 and 2014.

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

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.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended June 30, 2015 and 2014:

	2015	2014
Medicare	38%	42%
Medicaid	12%	15%
Blue Cross and other commercial payors	44%	38%
Self pay and other	6%	5%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2015 and 2014 increased approximately \$933,000 and \$501,000, 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims 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 a receivable in the amount of \$340,220 included in estimated third-party settlements and a payable in the amount of \$215,000 included in accounts payable for the years ending June 30, 2015 and 2014. The estimate is based on historical payments paid back for overpayments.

Note 3 - Deposits, Investments and Investment Income

The carrying amounts of deposits and investments as of June 30, 2015 and 2014 are as follows:

	2015	2014
Carry amount		
Deposits	\$ 19,170,669	\$ 14,848,654

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

	2015	2014
Cash and cash equivalents	\$ 18,700,087	\$ 14,316,507
Board designated cash	470,582	532,147
Total	\$ 19,170,669	\$ 14,848,654

Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. 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.

As of June 30, 2015 and 2014, \$17,868,722 of the Authority's bank balance of \$19,324,225 and \$14,035,035 of the Authority's bank balance of \$15,564,681 was exposed to custodial credit risk as follows:

	2015	2014
Uninsured and uncollateralized	\$ 2,123,865	\$ 1,061,536
Uninsured and collateral held by pledging bank's trust department in the Authority's name	15,744,857	12,973,499
Total	\$ 17,868,722	\$ 14,035,035

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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The Authority had the following investments and maturities at June 30, 2015 and 2014:

June 30, 2015		Investment Maturities (in Years)			
Type	Fair Value	Ratings	Less than 1	1 - 5	6-10
Domestic fixed income	\$ 2,609,887	Baa2 - A1	\$ 341,592	\$ 1,248,830	\$ 1,019,465
International fixed income	768,287	Baa2 - A1	101,262	318,464	348,561
	3,378,174		<u>\$ 442,854</u>	<u>\$ 1,567,294</u>	<u>\$ 1,368,026</u>
Domestic equities	2,228,859				
International equities	474,827				
Bond fund	6,971,471				
Balanced fund	239,293				
Prime fund	87,576				
	<u>\$ 13,380,200</u>				
June 30, 2014		Investment Maturities (in Years)			
Type	Fair Value	Ratings	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		<u>\$ 320,772</u>	<u>\$ 1,466,764</u>	<u>\$ 1,509,238</u>
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, 2015 and 2014, the Authority did not exceed the weighted average maturity.

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, 2015 and 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, 2015 and 2014 the Authority had no concentration of credit risk as defined above.

Investment Income

Investment income, primarily interest and dividend income, for the years ended June 30, 2015 and 2014 was \$410,487 and \$678,856.

Note 4 - Lease Receivable

The terms, due dates, and securing collateral of the Authority's long-term receivables at June 30, 2015 and 2014 follow:

	2015	2014
Lease receivable, due in monthly installments of \$6,843 through June 2031, including interest at 6.9%, secured by Medical Office Building	\$ 1,312,493	\$ 1,396,491
Less amounts considered to be interest	(518,162)	(573,825)
Lease receivable, net	794,331	822,666
Less current portion	(26,443)	(26,452)
Lease receivable net of current portion	\$ 767,888	\$ 796,214

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

Year Ending June 30,	Principal	Interest
2016	\$ 26,443	\$ 53,733
2017	30,350	51,764
2018	32,501	49,614
2019	34,804	47,311
2020	37,270	44,844
2021 to 2025	229,913	180,659
2026 to 2030	323,766	86,806
2031 to 2035	79,284	3,431
Total	\$ 794,331	\$ 518,162

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Note 5 - Capital Assets

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

	Balance June 30, 2014	Additions	Transfers and Retirements	Balance June 30, 2015
Capital assets not being depreciated				
Land	\$ 2,403,142	\$ 432,906	\$ 2,009	\$ 2,838,057
Construction in progress	106,042	112,722	(93,815)	124,949
Total capital assets not being depreciated	<u>\$ 2,509,184</u>	<u>\$ 545,628</u>	<u>\$ (91,806)</u>	<u>\$ 2,963,006</u>
Capital assets being depreciated				
Land improvements	\$ 480,323	\$ 20,456	\$ -	\$ 500,779
Buildings and fixed equipment	32,089,441	490,952	105,092	32,685,485
Major movable equipment	<u>21,546,300</u>	<u>2,795,982</u>	<u>(1,505,543)</u>	<u>22,836,739</u>
Total capital assets being depreciated	<u>54,116,064</u>	<u>\$ 3,307,390</u>	<u>\$ (1,400,451)</u>	<u>56,023,003</u>
Less accumulated depreciation for				
Land and improvements	(313,522)	\$ (22,246)	\$ -	(335,768)
Buildings and fixed equipment	(12,181,455)	(993,614)	4,433	(13,170,636)
Major movable equipment	<u>(15,532,803)</u>	<u>(1,952,056)</u>	<u>1,172,467</u>	<u>(16,312,392)</u>
Total accumulated depreciation	<u>(28,027,780)</u>	<u>\$ (2,967,916)</u>	<u>\$ 1,176,900</u>	<u>(29,818,796)</u>
Net capital assets being depreciated	<u>\$ 26,088,284</u>			<u>\$ 26,204,207</u>
Capital assets, net	<u>\$ 28,597,468</u>			<u>\$ 29,167,213</u>

The majority of construction in progress at June 30, 2015, represents cost incurred for building remodel and various other smaller projects. Total expected cost to complete the projects is approximately \$1,200,000. The projects will be financed with internal funds. Completion of the building remodel is expected in fiscal year 2017.

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

	Balance June 30, 2013	Additions	Transfers and Retirements	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 2,403,142	\$ -	\$ -	\$ 2,403,142
Construction in progress	370	106,042	(370)	106,042
Total capital assets not being depreciated	<u>\$ 2,403,512</u>	<u>\$ 106,042</u>	<u>\$ (370)</u>	<u>\$ 2,509,184</u>
Capital assets being depreciated				
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
Total capital assets being depreciated	<u>53,374,954</u>	<u>\$ 1,220,027</u>	<u>\$ (478,917)</u>	<u>54,116,064</u>
Less accumulated depreciation for				
Land and 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>(28,027,780)</u>
Net capital assets being depreciated	<u>\$ 28,166,775</u>			<u>\$ 26,088,284</u>
Capital assets, net	<u>\$ 30,570,287</u>			<u>\$ 28,597,468</u>

Note 6 - Investments in Joint Ventures

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2015 and 2014, the Authority's investment in joint ventures consisted of the following:

	2015	2014
Cherokee Health Partners, LLC	\$ 1,004,226	\$ 706,756
Platte Dialysis, LLC	5,331,797	5,375,778
Total investment in joint venture	<u>\$ 6,336,023</u>	<u>\$ 6,082,534</u>

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Joint venture income, distributions, and contributions balances for the years ended June 30, 2015 and 2014 are as follow:

	Balance June 30, 2014	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2015
Cherokee Health Partners, LLC	\$ 706,756	\$ 931,346	\$ (633,876)	\$ -	\$ 1,004,226
Platte Dialysis, LLC	5,375,778	604,424	(648,405)	-	5,331,797
	<u>\$ 6,082,534</u>	<u>\$ 1,535,770</u>	<u>\$ (1,282,281)</u>	<u>\$ -</u>	<u>\$ 6,336,023</u>
	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>

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 2015 and 2014, the Authority was paid \$2,105,382 and \$2,200,222 for services and building space provided to CHP. These expenses are included in operating expenses. The Authority was owed \$187,660 and \$207,194 for the years ended June 30, 2015 and 2014. The payables are included in related party payable.

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 \$84,576 and \$526,269 for the years ended June 30, 2015 and 2014. The receivables are included in related party receivable. Platte was owed \$17,610 and \$597 for the years ended June 30, 2015 and 2014. The payables are included in related party payable.

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, 2015, the Authority purchased an additional 4% share from other members and now owns 76% 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 \$1,360,605 and \$1,174,491 at June 30, 2015 and 2014. As the Authority has majority ownership interest and management control over TDI, the balance of the investment in TDI is eliminated in the combining process as reflected in the combining statements of net position 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. The Authority sold its 60% investment in NOHC during 2015 to CHP for \$1,080,000 which resulted in a gain of approximately \$952,000. The gain is included in gain on disposal.

As the Authority had a majority ownership interest and management control over NOHC, the balance of the investment in NOHC is eliminated in the combining process as reflected in the combining statements of net position and statements of revenues and expenses and changes in net position included in the supplementary schedules. The Authority's investment in NOHC is \$124,425 at June 30, 2014. NOHC owed the Authority \$356,427 at June 30, 2015. The receivable is included in related party receivable.

The Foundation is a nonprofit corporation established in August 2001, to raise money for the Authority. The Foundation's Board of Managers is elected entirely by the Tahlequah Hospital Authority and is under its sole control.

As the Authority has control over the Foundation, the balance of the interest in the Foundation is eliminated in the combining process as reflected in the combining statements of net position and statements of operations and changes in net position included in the supplementary schedules. The Authority's interest in the Foundation at June 30, 2015 and 2014 was \$4,954,535 and \$4,374,063.

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 eliminated in the combining process as reflected in the combining statements of net position 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, 2015 and 2014 was \$496,437 and \$434,650.

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 NOMSO.

As the Authority has majority ownership interest and management control over NOMSO, the balance of the investment in NOMSO is eliminated in the combining process as reflected in the combining statements of net position 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, 2015 and 2014 was \$52,004 and \$27,156.

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Note 7 - Leases

The Authority leases certain equipment under non-cancelable long-term lease agreements, which have been recorded as operating leases. Total lease expense in June 30, 2015 and 2014 for all operating leases was approximately \$510,000 and \$381,000.

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

Year Ending June 30,	Operating Lease
2016	\$ 222,186
2017	80,028
2018	13,975
Total Minimum Lease Payments	\$ 316,189

Note 8 - Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
Debt					
Revenue notes	\$ 11,472,784	\$ -	\$ (565,537)	\$ 10,907,247	\$ 600,730
Mortgage loans	13,121,370	-	(1,855,397)	11,265,973	1,252,654
Total long-term debt	\$ 24,594,154	\$ -	\$ (2,420,934)	\$ 22,173,220	\$ 1,853,384
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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The terms, due dates, and securing collateral of the Authority's long-term debt, including capital lease obligation, at June 30, 2015 and 2014 follow:

	2015	2014
Revenue Notes		
6.8% revenue note, due in monthly installments of \$70,113 including interest, through December 2017, secured by fixed assets	\$ 7,071,797	\$ 7,419,335
4.9% revenue note, due in monthly installments of \$34,149 including interest, through December 2027, secured by fixed assets	3,835,450	4,053,449
Total revenue notes	10,907,247	11,472,784
Mortgage Loans		
6.5% note payable, due in monthly installments of \$16,867 including interest, through January 2015, secured by equipment	-	115,601
3.6% note payable, due in monthly installments of \$33,290 including interest, through November 2015, secured by accounts receivable	-	539,800
4.625% note payable, due in monthly installments of \$18,206 including interest, through August 2016, secured by equipment	247,644	449,559
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	2,265,279	2,352,479
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	3,113,520	3,708,045
4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2019, secured by property	533,998	555,718
4.1% note payable, due in monthly installments of \$4,268 including interest, through April 2024, secured by land	275,910	363,306
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	3,545,171	3,719,240
4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	610,692	643,863
Total mortgage loans	11,265,973	13,121,370
	22,173,220	24,594,154
Less current maturities	(1,853,384)	(2,267,142)
Long-term debt, less current maturities	\$ 20,319,836	\$ 22,327,012

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

Year ending June 30,	Long-term Debt	
	Principal	Interest
2016	\$ 1,853,384	\$ 1,142,607
2017	1,764,907	1,051,147
2018	10,856,270	694,915
2019	1,087,648	367,191
2020	658,609	324,426
2021 to 2025	3,681,783	1,080,479
2026 to 2030	2,270,619	182,914
Total	\$ 22,173,220	\$ 4,843,679

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, 2015, 2014, and 2013 was \$700,006, \$641,294, and \$616,483.

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, 2015 and 2014, the value of deferred compensation, totaled \$1,023,167 and \$680,264.

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, 2015 and 2014 was as follows:

	2015	2014
Medicare	14%	27%
Medicaid	5%	8%
Other third-party payors	66%	55%
Patients	15%	10%
	100%	100%

Note 12 - Contingencies

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.

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.

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.

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 \$400,300 and \$865,000 is included in other accrued expenses at June 30, 2015 and 2014. In addition, a receivable from reinsurance of \$87,478 and \$811,492 is included in other receivables at June 30, 2015 and 2014.

Note 13 - Condensed Combining Information

The following summarized combining information for the Authority, TDI, NOHC, Foundation, NOCC, and NOMSO, which has been presented as a blended component unit, as of and for the year ended June 30, 2015.

Tahlequah Hospital Authority
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Statement of net position as of June 30, 2015:

	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	\$ 34,258,320	\$ 2,080,472	\$ -	\$ 1,934,909	\$ 920,603	\$ 59,599	\$ (117,465)	\$ 39,136,438
Capital assets, net	23,453,406	628,905	-	5,040,768	44,134	-	-	29,167,213
Other noncurrent assets	29,873,363	-	-	88,076	14,879	-	(6,951,657)	23,024,661
Total assets	\$ 87,585,089	\$ 2,709,377	\$ -	\$ 7,063,753	\$ 979,616	\$ 59,599	\$ (7,069,122)	\$ 91,328,312
Liabilities								
Current liabilities	\$ 11,729,746	\$ 162,242	\$ -	\$ 170,518	\$ 143,102	\$ 7,596	\$ (117,465)	\$ 12,095,739
Deferred Compensation	1,023,167	-	-	-	-	-	-	1,023,167
Long-term debt, less current maturities	18,461,990	-	-	1,945,922	-	-	(88,076)	20,319,836
Total liabilities	31,214,903	162,242	-	2,116,440	143,102	7,596	(205,541)	33,438,742
Net Position								
Invested in capital assets, net of related debt	3,374,545	628,905	-	2,946,409	44,134	-	-	6,993,993
Unrestricted	52,995,641	1,918,230	-	2,000,904	792,380	52,003	(8,396,308)	49,362,850
Noncontrolling interest in joint ventures	-	-	-	-	-	-	1,532,727	1,532,727
Total net position	56,370,186	2,547,135	-	4,947,313	836,514	52,003	(6,863,581)	57,889,570
Total liabilities and net position	\$ 87,585,089	\$ 2,709,377	\$ -	\$ 7,063,753	\$ 979,616	\$ 59,599	\$ (7,069,122)	\$ 91,328,312

Tahlequah Hospital Authority
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Operating results and changes in net position for the year ended June 30, 2015:

	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 Revenues								
Net patient service revenue	\$ 88,622,045	\$ 1,607,395	\$ -	\$ -	\$ 2,447,429	\$ -	\$ (1,607,395)	\$ 91,069,474
Other revenue	4,891,827	-	-	1,171,442	11,010	140,717	(931,553)	5,283,443
Total operating revenues	<u>93,513,872</u>	<u>1,607,395</u>	<u>-</u>	<u>1,171,442</u>	<u>2,458,439</u>	<u>140,717</u>	<u>(2,538,948)</u>	<u>96,352,917</u>
Operating expenses								
Depreciation	2,158,483	370,465	-	117,788	321,180	-	-	2,967,916
Other operating expenses	83,700,051	668,625	-	387,937	2,030,321	115,870	(2,038,948)	84,863,856
Total operating expenses	<u>85,858,534</u>	<u>1,039,090</u>	<u>-</u>	<u>505,725</u>	<u>2,351,501</u>	<u>115,870</u>	<u>(2,038,948)</u>	<u>87,831,772</u>
Operating income (loss)	7,655,338	568,305	-	665,717	106,938	24,847	(500,000)	8,521,145
Nonoperating revenues (expenses)	2,343,797	4,670	-	(85,245)	(3,959)	-	(651,235)	1,608,028
Revenues in excess of (less than) expenses	9,999,135	572,975	-	580,472	102,979	24,847	(1,151,235)	10,129,173
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(178,706)	(178,706)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	9,999,135	572,975	-	580,472	102,979	24,847	(1,329,941)	9,950,467
Net position, beginning of year	46,371,051	2,429,143	192,840	4,366,841	733,535	27,156	(7,714,190)	46,406,376
Members' Distributions	-	(454,983)	(192,840)	-	-	-	647,823	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	1,532,727	1,532,727
Net position, end of year	<u>\$ 56,370,186</u>	<u>\$ 2,547,135</u>	<u>\$ -</u>	<u>\$ 4,947,313</u>	<u>\$ 836,514</u>	<u>\$ 52,003</u>	<u>\$ (6,863,581)</u>	<u>\$ 57,889,570</u>

Tahlequah Hospital Authority
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June 30, 2015 and 2014

Cash flows for the year ended June 30, 2015:

	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
Net cash used for operating activities	\$ 8,015,265	\$ 1,000,096	\$ 34,158	\$ 748,908	\$ 417,490	\$ 26,024	\$ (500,000)	\$ 9,741,941
Net cash used for capital and related financing activities	(6,468,086)	(117,914)	6,000	(673,023)	(554,697)	-	500,000	(7,307,720)
Net cash from investing activities	2,401,107	(448,000)	(83,239)	10,849	7,077	-	-	1,887,794
Net change in cash and cash equivalents	3,948,286	434,182	(43,081)	86,734	(130,130)	26,024	-	4,322,015
Cash and cash equivalents, beginning of year	10,811,168	1,490,670	43,081	1,811,261	668,734	23,740	-	14,848,654
Cash and cash equivalents, end of year	<u>\$ 14,759,454</u>	<u>\$ 1,924,852</u>	<u>\$ -</u>	<u>\$ 1,897,995</u>	<u>\$ 538,604</u>	<u>\$ 49,764</u>	<u>\$ -</u>	<u>\$19,170,669</u>

Tahlequah Hospital Authority
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June 30, 2015 and 2014

The following summarized combining information for the Authority, TDI, NOHC, Foundation, NOCC and NOMSO, which has been presented as a blended component unit, as of and for the year ended June 30, 2014.

Statement of net position as of 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	\$ 26,672,483	\$ 1,642,528	\$ 592,325	\$ 1,838,630	\$ 1,040,316	\$ 34,670	\$ (580,155)	\$ 31,240,797
Capital assets, net	22,516,801	999,370	-	4,719,844	361,453	-	-	28,597,468
Other noncurrent assets	27,668,156	-	115,600	92,311	14,879	-	(6,342,696)	21,548,250
Total assets	\$ 76,857,440	\$ 2,641,898	\$ 707,925	\$ 6,650,785	\$ 1,416,648	\$ 34,670	\$ (6,922,851)	\$ 81,386,515
Liabilities								
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

Tahlequah Hospital Authority
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Operating results and changes in net position for the 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 Revenues								
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 revenues	<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>
Operating expenses								
Depreciation	2,193,797	617,900	-	117,453	349,055	-	-	3,278,205
Other operating expenses	74,711,541	649,397	9,942,966	320,048	1,997,722	58,709	(11,497,994)	76,182,389
Total operating 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)	3,107,303	340,098	(245,282)	621,674	136,026	2,156	(523,611)	3,438,364
Nonoperating revenues (expenses)	1,470,070	(11,588)	6,704	(91,269)	(18,639)	-	(153,951)	1,201,327
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>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2015 and 2014

Cash flows for the year ended June 30, 2014:

	<u>Tahlequah Hospital Authority</u>	<u>Tahlequah Diagnostic Imaging</u>	<u>Northeast Oklahoma Heart Center</u>	<u>Tahlequah Hospital Foundation</u>	<u>Northeast Oklahoma Cancer Center</u>	<u>Northeast Oklahoma Management Service Organization</u>	<u>Reclassifications or Eliminations</u>	<u>Combined</u>
Net cash from operating activities	\$ 3,364,826	\$ 945,334	\$ 699,109	\$ 725,764	\$ 476,986	\$ 23,740	\$ (523,611)	\$ 5,712,148
Net cash used for capital and related financing activities	(4,470,620)	(202,401)	(3,808)	(626,746)	(420,577)	-	523,611	(5,200,541)
Net cash from (used for) investing activities	<u>(9,206,026)</u>	<u>(255,935)</u>	<u>(894,733)</u>	<u>6,944</u>	<u>(366,488)</u>	<u>-</u>	<u>-</u>	<u>(10,716,238)</u>
Net change in cash and cash equivalents	(10,311,820)	486,998	(199,432)	105,962	(310,079)	23,740	-	(10,204,631)
Cash and cash equivalents, beginning of year	<u>21,122,988</u>	<u>1,003,672</u>	<u>242,513</u>	<u>1,705,299</u>	<u>978,813</u>	<u>-</u>	<u>-</u>	<u>25,053,285</u>
Cash and cash equivalents, end of year	<u>\$ 10,811,168</u>	<u>\$ 1,490,670</u>	<u>\$ 43,081</u>	<u>\$ 1,811,261</u>	<u>\$ 668,734</u>	<u>\$ 23,740</u>	<u>\$ -</u>	<u>\$ 14,848,654</u>

Note 14 - Subsequent Events

The Authority has evaluated subsequent events through December 17, 2015, that date which the financial statements were available to be issued.



Supplementary Information
June 30, 2015 and 2014

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 as of and for the years then ended June 30, 2015 and 2014 and our report thereon dated December 17, 2015, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining schedules of statement of net position 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 is 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 audits 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.

Eide Bailly LLP

Oklahoma City, Oklahoma
December 17, 2015

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Statement of Net Position Information
June 30, 2015

	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	\$ 14,288,872	\$ 1,924,852	\$ -	\$ 1,897,995	\$ 538,604	\$ 49,764	\$ -	\$ 18,700,087
Board designated cash	470,582	-	-	-	-	-	-	470,582
Receivables								
Patient, net	14,110,478	-	-	-	223,261	-	-	14,333,739
Other	803,587	-	-	11,597	-	9,368	-	824,552
Current portion of lease receivable	26,443	-	-	4,234	-	-	(4,234)	26,443
Due from related parties	1,361,026	133,950	-	-	-	-	(113,231)	1,381,745
Supplies	2,083,726	-	-	-	3,364	-	-	2,087,090
Prepaid expenses	1,113,606	21,670	-	21,083	155,374	467	-	1,312,200
Total current assets	<u>34,258,320</u>	<u>2,080,472</u>	<u>-</u>	<u>1,934,909</u>	<u>920,603</u>	<u>59,599</u>	<u>(117,465)</u>	<u>39,136,438</u>
Capital Assets, Net	<u>23,453,406</u>	<u>628,905</u>	<u>-</u>	<u>5,040,768</u>	<u>44,134</u>	<u>-</u>	<u>-</u>	<u>29,167,213</u>
Other Assets								
Investment in Diagnostic Imaging (TDI)	1,360,605	-	-	-	-	-	(1,360,605)	-
Interest in Foundation	4,954,535	-	-	-	-	-	(4,954,535)	-
Investment in NOMSO	52,004	-	-	-	-	-	(52,004)	-
Investment in Cherokee Health Partners (CHP)	1,004,226	-	-	-	-	-	-	1,004,226
Investment in Cancer Center (NOCC)	496,437	-	-	-	-	-	(496,437)	-
Investment in Platte Dialysis	5,331,797	-	-	-	-	-	-	5,331,797
Total investments in joint ventures	<u>13,199,604</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,863,581)</u>	<u>6,336,023</u>
Assets held under deferred compensation agreement	1,023,167	-	-	-	-	-	-	1,023,167
Investments	13,380,200	-	-	-	-	-	-	13,380,200
Investment in captive insurance	323,824	-	-	-	-	-	-	323,824
Lease receivable, net of current portion	767,888	-	-	88,076	-	-	(88,076)	767,888
Other	1,178,680	-	-	-	14,879	-	-	1,193,559
Total other assets	<u>29,873,363</u>	<u>-</u>	<u>-</u>	<u>88,076</u>	<u>14,879</u>	<u>-</u>	<u>(6,951,657)</u>	<u>23,024,661</u>
Total assets	<u>\$ 87,585,089</u>	<u>\$ 2,709,377</u>	<u>\$ -</u>	<u>\$ 7,063,753</u>	<u>\$ 979,616</u>	<u>\$ 59,599</u>	<u>\$ (7,069,122)</u>	<u>\$ 91,328,312</u>

	<u>Tahlequah Hospital Authority</u>	<u>Tahlequah Diagnostic Imaging</u>	<u>Northeast Oklahoma Heart Center</u>	<u>Tahlequah Hospital Foundation</u>	<u>Northeast Oklahoma Cancer Center</u>	<u>Northeast Oklahoma Management Service Organization</u>	<u>Reclassifications or Eliminations</u>	<u>Combined</u>
Liabilities and Net Position								
Current Liabilities								
Current maturities of long-term debt	\$ 1,709,181	\$ -	\$ -	\$ 148,437	\$ -	\$ -	\$ (4,234)	\$ 1,853,384
Accounts payable	4,242,629	162,242	-	-	138,221	7,596	(113,231)	4,437,457
Estimated third-party payor settlements	1,539,422	-	-	-	-	-	-	1,539,422
Accrued expenses								
Salaries and benefits payable	1,794,437	-	-	-	-	-	-	1,794,437
Vacation	1,481,545	-	-	-	-	-	-	1,481,545
Payroll taxes and other	900,672	-	-	-	4,881	-	-	905,553
Due to related parties	61,860	-	-	22,081	-	-	-	83,941
Total current liabilities	11,729,746	162,242	-	170,518	143,102	7,596	(117,465)	12,095,739
Deferred Compensation	1,023,167	-	-	-	-	-	-	1,023,167
Long-Term Debt, Less Current Maturities	18,461,990	-	-	1,945,922	-	-	(88,076)	20,319,836
Total liabilities	31,214,903	162,242	-	2,116,440	143,102	7,596	(205,541)	33,438,742
Net Position								
Invested in capital assets, net of related debt	3,374,545	628,905	-	2,946,409	44,134	-	-	6,993,993
Unrestricted	52,995,641	1,918,230	-	2,000,904	792,380	52,003	(8,396,308)	49,362,850
Noncontrolling interest in joint ventures	-	-	-	-	-	-	1,532,727	1,532,727
Total net position	56,370,186	2,547,135	-	4,947,313	836,514	52,003	(6,863,581)	57,889,570
Total liabilities and net position	\$ 87,585,089	\$ 2,709,377	\$ -	\$ 7,063,753	\$ 979,616	\$ 59,599	\$ (7,069,122)	\$ 91,328,312

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Statement of Net Position 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
	<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>
Total current assets								
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
	<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 other assets								
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 payor 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 – Operations and Changes in Net Position Information
Year Ended June 30, 2015

	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	\$ 88,622,045	1,607,395	\$ -	\$ -	\$ 2,447,429	\$ -	\$ (1,607,395)	\$ 91,069,474
Other revenue	4,891,827	-	-	1,171,442	11,010	140,717	(931,553)	5,283,443
Total operating revenue	93,513,872	1,607,395	-	1,171,442	2,458,439	140,717	(2,538,948)	96,352,917
Expenses								
Nursing services	21,481,800	-	-	-	-	-	(1,607,395)	19,874,405
Other professional services	42,181,026	21,091	-	1,162	483,499	-	(232,764)	42,454,014
General services	4,980,046	-	-	-	1,463,006	115,870	-	6,558,922
Administrative services	15,057,179	129,399	-	7,396	83,816	-	-	15,277,790
Other expenses	-	518,135	-	379,379	-	-	(198,789)	698,725
Depreciation	2,158,483	370,465	-	117,788	321,180	-	-	2,967,916
Total expenses	85,858,534	1,039,090	-	505,725	2,351,501	115,870	(2,038,948)	87,831,772
Operating Income (Loss)	7,655,338	568,305	-	665,717	106,938	24,847	(500,000)	8,521,145

	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	\$ 389,648	6,983	\$ -	\$ 6,779	\$ 7,077	\$ -	\$ -	\$ 410,487
Income from TDI	427,578	-	-	-	-	-	(427,578)	-
Income from Foundation	580,471	-	-	-	-	-	(580,471)	-
Income from NOMSO	24,848	-	-	-	-	-	(24,848)	-
Income from CHP	931,346	-	-	-	-	-	-	931,346
Income from NOCC	61,787	-	-	-	-	-	(61,787)	-
Income from Platte	604,424	-	-	-	-	-	-	604,424
Interest expense	(1,147,132)	(2,313)	-	(92,024)	(11,036)	-	(56,551)	(1,309,056)
Gain on disposal	970,827	-	-	-	-	-	-	970,827
Contributions expense	(500,000)	-	-	-	-	-	500,000	-
Total non operating revenue (expense), net	<u>2,343,797</u>	<u>4,670</u>	<u>-</u>	<u>(85,245)</u>	<u>(3,959)</u>	<u>-</u>	<u>(651,235)</u>	<u>1,608,028</u>
Revenues in Excess of (Less Than) Expenses	9,999,135	572,975	-	580,472	102,979	24,847	(1,151,235)	10,129,173
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(178,706)	(178,706)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	9,999,135	572,975	-	580,472	102,979	24,847	(1,329,941)	9,950,467
Net Position, Beginning of Year	46,371,051	2,429,143	192,840	4,366,841	733,535	27,156	(7,714,190)	46,406,376
Members' Distributions	-	(454,983)	(192,840)	-	-	-	647,823	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	1,532,727	1,532,727
Net Position, End of Year	<u>\$ 56,370,186</u>	<u>\$ 2,547,135</u>	<u>\$ -</u>	<u>\$ 4,947,313</u>	<u>\$ 836,514</u>	<u>\$ 52,003</u>	<u>\$ (6,863,581)</u>	<u>\$ 57,889,570</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, 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	80,012,641	1,607,395	9,697,684	1,059,175	2,482,803	60,865	(12,021,605)	82,898,958
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	2,193,797	617,900	-	117,453	349,055	-	-	3,278,205
Total expenses	76,905,338	1,267,297	9,942,966	437,501	2,346,777	58,709	(11,497,994)	79,460,594
Operating Income (Loss)	3,107,303	340,098	(245,282)	621,674	136,026	2,156	(523,611)	3,438,364

	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	(20,683)	-	-	-	-	-	-	(20,683)
Contributions expense	(523,611)	-	-	-	-	-	523,611	-
Total non operating revenue (expense), net	<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 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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	2015		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 3,499,712	\$ -	\$ 3,499,712
Intensive care unit	10,193,101	-	10,193,101
Nursery	814,648	-	814,648
	<u>14,507,461</u>	<u>-</u>	<u>14,507,461</u>
Other nursing services			
Central service supplies	89,907	39,157	129,064
Emergency room	3,147,325	17,581,974	20,729,299
Wound Care	-	128,763	128,763
Observation	-	1,502,750	1,502,750
Operating room	11,289,155	22,776,902	34,066,057
	<u>14,526,387</u>	<u>42,029,546</u>	<u>56,555,933</u>
Other professional services			
Ambulance	-	3,393,218	3,393,218
Anesthesiology	522,200	6,116,401	6,638,601
Cardiac cath lab	4,519,047	7,638,432	12,157,479
Complex Lab	15,268	37,414,204	37,429,472
Electrocardiography	981,217	1,670,743	2,651,960
Geriatric psychology	2,837,038	-	2,837,038
Hyperbaric	3,845	301,220	305,065
Laboratory	5,146,281	10,721,696	15,867,977
Nephrology	-	206,554	206,554
Obstetrics	2,113,079	429,238	2,542,317
Oncology	2,600	12,207,690	12,210,290
Pharmacy	6,176,474	3,757,126	9,933,600
Physical therapy	401,334	739,722	1,141,056
Physician	-	10,148,034	10,148,034
Radiology	2,486,311	27,188,332	29,674,643
Rehabilitation	2,772,994	166,901	2,939,895
Respiratory therapy	5,830,053	3,517,936	9,347,989
Speech therapy	60,604	333,023	393,627
Specialty clinics	-	52	52
Wellness Center	-	1,512	1,512
	<u>33,868,345</u>	<u>125,952,034</u>	<u>159,820,379</u>
	<u>\$ 62,902,193</u>	<u>\$ 167,981,580</u>	<u>230,883,773</u>
Charity care			<u>(2,676,477)</u>
Total patient service revenue			<u>228,207,296</u>
Deductions from Revenue			
Contractual Adjustments			(124,087,052)
Provision for Bad Debts			<u>(15,498,199)</u>
Total reductions from revenue			<u>(139,585,251)</u>
Net Patient Service Revenue			<u>\$ 88,622,045</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Net Patient Service Revenue
Years Ended June 30, 2015 and 2014

2014		
Inpatient	Outpatient	Total
\$ 3,380,318	\$ -	\$ 3,380,318
7,368,216	-	7,368,216
1,119,325	-	1,119,325
<u>11,867,859</u>	<u>-</u>	<u>11,867,859</u>
90,057	39,702	129,759
2,417,758	15,050,734	17,468,492
-	331,203	331,203
-	1,877,437	1,877,437
<u>12,079,782</u>	<u>19,543,427</u>	<u>31,623,209</u>
<u>14,587,597</u>	<u>36,842,503</u>	<u>51,430,100</u>
-	3,231,457	3,231,457
515,750	5,674,253	6,190,003
5,829,849	7,093,582	12,923,431
4,488	10,136,000	10,140,488
913,492	1,510,437	2,423,929
2,661,260	-	2,661,260
630	324,995	325,625
4,833,216	10,465,259	15,298,475
-	259,307	259,307
2,938,003	505,712	3,443,715
16,402	7,602,188	7,618,590
6,181,720	3,871,729	10,053,449
378,471	811,579	1,190,050
-	9,014,635	9,014,635
2,337,923	25,266,794	27,604,717
2,736,014	229,687	2,965,701
4,618,466	2,647,312	7,265,778
33,951	240,936	274,887
-	171,861	171,861
<u>-</u>	<u>1,764</u>	<u>1,764</u>
<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>	186,357,081
		<u>(3,627,206)</u>
		<u>182,729,875</u>
		(100,805,588)
		<u>(7,703,986)</u>
		<u>(108,509,574)</u>
		<u>\$ 74,220,301</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Other Revenue
Years Ended June 30, 2015 and 2014

	2015	2014
Other Revenue		
Government incentive for electronic health records	\$ 845,018	\$ 1,278,063
Rental income	939,251	1,277,564
Service contract billing	1,847,162	2,173,315
Cafeteria	295,919	283,817
Kiosk (The Coffee House)	464,222	425,472
Miscellaneous	500,255	354,109
Total Other Revenue	\$ 4,891,827	\$ 5,792,340

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	2015		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Central service supplies	\$ 204,477	\$ 111,236	\$ 315,713
Emergency room	1,486,940	1,116,788	2,603,728
Wound care	-	56,568	56,568
Intensive care unit	1,571,296	551,276	2,122,572
Labor and delivery	818,722	267,802	1,086,524
Medical and surgical	2,688,007	348,736	3,036,743
Nursery	-	2,797	2,797
Nursing administration	837,272	72,742	910,014
Operating room	2,134,876	9,212,265	11,347,141
	<u>9,741,590</u>	<u>11,740,210</u>	<u>21,481,800</u>
Other Professional Services			
Ambulance	910,057	159,941	1,069,998
Anesthesiology	-	1,397,500	1,397,500
Bio Med	105,435	8,399	113,834
Cardiology	36,680	2,285	38,965
Cath lab	-	6,159,244	6,159,244
Complex lab	44,338	5,230,473	5,274,811
Electrocardiography	222,404	23,402	245,806
Geriatric psychology	1,058,897	125,742	1,184,639
Health education	220,939	24,986	245,925
Hyperbarics	882	25,683	26,565
Laboratory	1,089,272	2,150,819	3,240,091
Nephrology	-	114,125	114,125
Occupational therapy	177,052	1,965	179,017
Oncology	277,780	3,215,059	3,492,839
Pharmacy	796,344	1,700,451	2,496,795
Physical therapy	319,916	64,252	384,168
Physician	6,576,214	2,792,454	9,368,668
Radiology	1,617,292	2,071,688	3,688,980
Rehabilitation inpatient	731,322	1,037,557	1,768,879
Respiratory therapy	1,234,085	289,026	1,523,111
Social services	154,631	6,386	161,017
Speech therapy	3,837	2,177	6,014
Specialty clinics	-	35	35
	<u>15,577,377</u>	<u>26,603,649</u>	<u>42,181,026</u>
General Services			
Dietary	632,622	633,139	1,265,761
Housekeeping	515,393	138,601	653,994
Laundry and linen	-	255,260	255,260
Medical records	569,304	530,006	1,099,310
Plant operations	625,518	1,080,203	1,705,721
	<u>2,342,837</u>	<u>2,637,209</u>	<u>4,980,046</u>
Administrative Services			
Administration and office	3,820,254	5,933,318	9,753,572
Employee benefits	-	5,303,607	5,303,607
	<u>3,820,254</u>	<u>11,236,925</u>	<u>15,057,179</u>
Depreciation	<u>-</u>	<u>2,158,483</u>	<u>2,158,483</u>
	<u>\$ 31,482,058</u>	<u>\$ 54,376,476</u>	<u>\$ 85,858,534</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Expenses
Years Ended June 30, 2015 and 2014

2014		
Salaries	Supplies & Expenses	Total
\$ 189,562	\$ 80,783	\$ 270,345
1,550,240	2,443,787	3,994,027
-	112,950	112,950
1,110,432	566,637	1,677,069
1,012,998	275,546	1,288,544
2,692,454	255,053	2,947,507
-	4,028	4,028
764,069	73,246	837,315
<u>1,985,113</u>	<u>8,409,439</u>	<u>10,394,552</u>
<u>9,304,868</u>	<u>12,221,469</u>	<u>21,526,337</u>
855,563	143,641	999,204
-	1,436,372	1,436,372
99,509	4,461	103,970
31,797	1,414	33,211
10,041	6,557,928	6,567,969
5,536	1,016,320	1,021,856
183,411	16,641	200,052
1,014,951	117,716	1,132,667
133,956	19,915	153,871
457	33,807	34,264
1,088,945	2,187,358	3,276,303
-	127,520	127,520
153,661	1,958	155,619
210,011	2,188,605	2,398,616
869,521	1,645,604	2,515,125
341,523	61,707	403,230
4,220,076	2,632,000	6,852,076
1,363,098	2,424,837	3,787,935
695,726	992,279	1,688,005
1,079,436	178,742	1,258,178
103,139	4,851	107,990
(256)	1,710	1,454
<u>23,349</u>	<u>57,478</u>	<u>80,827</u>
<u>12,483,450</u>	<u>21,852,864</u>	<u>34,336,314</u>
581,045	594,787	1,175,832
513,172	145,202	658,374
-	233,180	233,180
441,251	505,656	946,907
<u>496,231</u>	<u>971,150</u>	<u>1,467,381</u>
<u>2,031,699</u>	<u>2,449,975</u>	<u>4,481,674</u>
3,062,515	4,778,394	7,840,909
-	6,526,307	6,526,307
<u>3,062,515</u>	<u>11,304,701</u>	<u>14,367,216</u>
-	2,193,797	2,193,797
<u>\$ 26,882,532</u>	<u>\$ 50,022,806</u>	<u>\$ 76,905,338</u>



CPAs & BUSINESS ADVISORS

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

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 statement of net position as of June 30, 2015, 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 December 17, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 deficiencies described in the accompanying Schedule of Findings and Responses to be a material weakness: 2015-A and 2015-B.

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 deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency: 2015-C.

Compliance and Other Matters

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

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. Accordingly, this communication is not suitable for any other purpose.

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

Oklahoma City, Oklahoma
December 17, 2015

Material Weakness In Internal Control Over Financial Reporting:

2015-A Cost Report Estimate

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

Condition – During the current year, the 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 current year cost report settlement was not properly estimated at year-end which resulted in a material journal entry to the financial statements.

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

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

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

2015-B Material Audit Entry

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

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

Cause – Material misstatements was not identified and corrected in a timely manner.

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

Recommendation – It is recommended the Authority implement a system that provides adequate controls over recording transactions and identifying misstatements.

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

Significant Deficiency In Internal Control Over Financial Reporting:

2015-C Preparation of Financial Statements

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

Condition – The Authority does have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. However, during the year, the policies and procedures in place to provide proper checks and balances over account reconciliations within the internal control system failed, and as a result, several adjusting journal entries were necessary at year end to fairly state the financial statements. As a result, interim financial statements were not accurate. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

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

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

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

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.