



Management's Discussion and Analysis
and Financial Statements
June 30, 2016 and 2015

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, 2016 and 2015

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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 statements of net position of Tahlequah Hospital Authority (Authority), as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic 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, 2016 and 2015, 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 November 7, 2016 on our consideration of Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Oklahoma City, Oklahoma
November 7, 2016

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, 2016, 2015 and 2014. 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 \$1,493,944 or 3% increase in 2016 and a \$10,019,390 or 21% increase in 2015.
- The Authority reported operating income in 2016 of \$308,968 and 2015 of \$8,521,145. Operating income decreased \$8,212,177 or 80% in 2016 over 2015. Operating income increased \$5,082,781 or 148% in 2015 over 2014.
- The Authority's total assets decreased \$751,455 or 0.8% in 2016 compared to 2015. Total assets increased \$9,941,797 or 12% in 2015 compared to 2014.

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 \$1,493,944 or 3% in 2016 and increased \$10,019,390 or 21% in 2015, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets	\$ 35,269,329	\$ 39,136,438	\$ 31,240,797
Capital assets	31,025,886	29,167,213	28,597,468
Other noncurrent assets	<u>24,281,642</u>	<u>23,024,661</u>	<u>21,548,250</u>
Total assets	<u>\$ 90,576,857</u>	<u>\$ 91,328,312</u>	<u>\$ 81,386,515</u>
Liabilities			
Current liabilities	\$ 11,384,728	\$ 12,095,739	\$ 10,509,059
Long-term liabilities	<u>19,808,615</u>	<u>21,343,003</u>	<u>23,007,276</u>
Total liabilities	<u>31,193,343</u>	<u>33,438,742</u>	<u>33,516,335</u>
Net Position			
Invested in capital assets, net of related debt	10,706,052	6,993,993	4,003,314
Unrestricted	47,089,143	49,362,850	42,403,062
Noncontrolling interest in joint venture	<u>1,588,319</u>	<u>1,532,727</u>	<u>1,463,804</u>
Total net position	<u>59,383,514</u>	<u>57,889,570</u>	<u>47,870,180</u>
Total liabilities and net position	<u>\$ 90,576,857</u>	<u>\$ 91,328,312</u>	<u>\$ 81,386,515</u>

A significant component of the change in the Authority's assets is the increase in current assets. Current assets decreased in 2016 by \$3,867,109 or 10% and increased in 2015 by \$7,895,641 or 25%. The primary increases and decreases between 2015 and 2016 are as follows:

- Cash decreased \$2,227,100 or 12% in 2016 compared to 2015 which increased \$4,322,015 or 29% from 2014. The decrease in 2016 is attributed to a decrease in complex lab services provided by the Authority. The increase in 2015 is attributed to the increased services provided by the Authority.
- Patient receivables decreased \$1,989,286 or 14% in 2016 compared to 2015 which increased \$4,863,775 or 31% when compared to 2014. The decrease in 2016 is attributed to a decrease in complex lab services provided by the Authority. The increase in 2015 is attributed to the increased services provided by the Authority.

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

Table 2: Operating Results

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues			
Net patient service revenue	\$ 89,226,296	\$ 91,069,474	\$ 76,516,712
Other revenue	4,820,996	5,283,443	6,382,246
Total operating revenues	<u>94,047,292</u>	<u>96,352,917</u>	<u>82,898,958</u>
Expenses			
Nursing services	22,271,710	19,874,405	24,490,134
Other professional services	43,383,518	42,454,014	25,684,364
General services	6,932,533	6,558,922	5,993,045
Administrative services	17,603,909	15,277,790	18,835,863
Other expenses	712,748	698,725	1,178,983
Depreciation	2,833,906	2,967,916	3,278,205
Total expenses	<u>93,738,324</u>	<u>87,831,772</u>	<u>79,460,594</u>
Operating Income	<u>308,968</u>	<u>8,521,145</u>	<u>3,438,364</u>
Nonoperating Revenue (Expense)			
Investment income	652,140	410,487	678,856
Income from joint ventures	1,972,027	1,535,770	1,898,130
Interest expense	(1,146,738)	(1,309,056)	(1,354,976)
Gain (loss) on disposal	(11,752)	970,827	(20,683)
Contributions expense	(19,994)	-	-
Nonoperating expense, net	<u>1,445,683</u>	<u>1,608,028</u>	<u>1,201,327</u>
Revenues in Excess of Expenses	1,754,651	10,129,173	4,639,691
Noncontrolling Interest in Joint Ventures	<u>(316,299)</u>	<u>(178,706)</u>	<u>(43,507)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	<u>\$ 1,438,352</u>	<u>\$ 9,950,467</u>	<u>\$ 4,596,184</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 \$308,968 in 2016 compared to an operating income of \$8,521,145 in 2015 and an operating income of \$3,438,364 in 2014.

The primary components of the operating income are:

- Net patient service revenue decreased \$1,843,178 or 2% in 2016 and increased \$14,552,762 or 19% in 2015. The decrease in 2016 is attributed to a decrease in complex lab services provided by the Authority. The increase in 2015 is attributed to the increased services provided by the Authority.
- Other professional services expenses increased \$929,504 or 2% in 2016 and \$16,769,650 or 65% in 2015. The increase in 2016 is attributed to the Authority hiring additional employees. The increase in 2015 is attributed to increased services offered by the Authority.
- Administrative services expense increased \$2,326,119 or 15% in 2016 and decreased \$3,558,073 or 19% in 2015. The increase in 2015 is attributed the Authority hiring additional employees. The decrease in 2015 is attributed to the sale of Northeast Oklahoma Heart Center, LLC.
- Nursing services expenses increased \$2,397,305 or 12% in 2016 and decreased \$4,615,729 or 19% in 2015. The increase in 2015 is attributed increased cost of supplies and purchased services. The decrease in 2015 is attributed to the sale of Northeast Oklahoma Heart Center, LLC.

Net patient service revenue before provision for bad debts decreased \$3,402,282 or 3% from 2015 to 2016 and increased \$21,709,007 or 26% from 2014 to 2015. The provision for bad debts decreased \$1,559,104 or 10% in 2016 and \$7,156,245 or 85% in 2015.

Total patient service revenues were \$242,078,025 and \$240,015,857 for the years ended June 30, 2016 and 2015. Factors impacting total patient service revenues in 2016 compared to 2015 and 2015 compared to 2014 include increased services and improved charge capture procedures.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, income from joint ventures and interest expense. Income from joint ventures increased \$436,257 or 28% in 2016 and decreased \$362,360 or 19% in 2015. Investment income increased \$241,653 or 59% in 2016 and decreased \$268,369 or 40% in 2015. Interest expense decreased \$162,318 or 12% in 2016 and decreased \$45,920 or 3% in 2015.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. The principal changes in the Authority's nonoperating cash flows were as follows:

- Net cash provided by operating activities decreased in 2016 by \$5,469,527 and increased by \$4,029,793 in 2015.
- Net cash used in financing activities increased in 2016 by \$416,729 and increased by \$2,107,179 in 2015.
- Net cash provided by investing activities decreased in 2016 by \$662,859 and increased by \$12,604,032 in 2015.

Capital Assets

At the end of 2016, the Authority had \$31,025,886 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2016, the Authority purchased new capital assets costing \$4,704,331. At the end of 2015, the Authority had 29,167,213 invested in capital assets, net of accumulated depreciation. In 2015, the Authority purchased new capital assets costing \$3,853,018.

Debt

At June 30, 2016 and 2015, the Authority had \$20,319,834 and \$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 2016 and 2015. 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 2017 fiscal year operating budget indicates conservative net revenue of approximately \$97,000,000. 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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	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 16,500,256	\$ 18,700,087
Board designated cash	425,163	470,582
Receivables		
Patients, net of estimated uncollectibles of \$8,981,000 in 2016 and \$11,261,000 in 2015	12,344,453	14,333,739
Other	985,583	824,552
Current portion of lease receivable	30,334	26,443
Related parties	1,256,984	1,381,745
Supplies	2,463,861	2,087,090
Prepaid expenses	1,262,695	1,312,200
Total current assets	<u>35,269,329</u>	<u>39,136,438</u>
Capital Assets, Net		
Non-depreciable capital assets	3,538,820	2,963,006
Depreciable capital assets, net	<u>27,487,066</u>	<u>26,204,207</u>
Total capital assets, net	<u>31,025,886</u>	<u>29,167,213</u>
Other Assets		
Investments in joint ventures	6,684,494	6,336,023
Assets held under deferred compensation agreement	1,250,495	1,023,167
Investments	13,987,519	13,380,200
Investment in captive insurance	323,824	323,824
Lease receivable, net of current portion	737,554	767,888
Other	1,297,756	1,193,559
Total other assets	<u>24,281,642</u>	<u>23,024,661</u>
Total assets	<u>\$ 90,576,857</u>	<u>\$ 91,328,312</u>

See Notes to Financial Statements

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,761,714	\$ 1,853,384
Accounts payable	4,108,505	4,437,457
Estimated third-party payor settlements	556,222	1,539,422
Accrued expenses		
Salaries and benefits payable	2,200,800	1,794,437
Vacation	1,701,938	1,481,545
Payroll taxes and other	1,036,349	905,553
Related party payable	19,200	83,941
Total current liabilities	11,384,728	12,095,739
Deferred Compensation	1,250,495	1,023,167
Long-Term Debt, Less Current Maturities	18,558,120	20,319,836
Total liabilities	31,193,343	33,438,742
Net Position		
Invested in capital assets, net of related debt	10,706,052	6,993,993
Unrestricted	47,089,143	49,362,850
Noncontrolling interest in joint ventures	1,588,319	1,532,727
Total net position	59,383,514	57,889,570
Total liabilities and net position	\$ 90,576,857	\$ 91,328,312

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Revenues and Expenses
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$13,978,645 in 2016 and \$15,537,749 in 2015)	\$ 89,226,296	\$ 91,069,474
Other revenue	4,820,996	5,283,443
Total operating revenue	94,047,292	96,352,917
Expenses		
Nursing services	22,271,710	19,874,405
Other professional services	43,383,518	42,454,014
General services	6,932,533	6,558,922
Administrative services	17,603,909	15,277,790
Other expenses	712,748	698,725
Depreciation	2,833,906	2,967,916
Total expenses	93,738,324	87,831,772
Operating Income	308,968	8,521,145
Nonoperating Revenues (Expenses)		
Investment income	652,140	410,487
Income from joint venture	1,972,027	1,535,770
Interest expense	(1,146,738)	(1,309,056)
Gain (loss) on disposal of capital assets	(11,752)	970,827
Contributions expense	(19,994)	-
Nonoperating revenues (expenses), net	1,445,683	1,608,028
Revenues in Excess of Expenses	1,754,651	10,129,173
Noncontrolling Interest in Joint Ventures	(316,299)	(178,706)
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	\$ 1,438,352	\$ 9,950,467

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>Noncontrolling Interest</u>	<u>Controlling Interest</u>	<u>Total</u>
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	<u>178,706</u>	<u>9,950,467</u>	<u>10,129,173</u>
Net Position, June 30, 2015	1,532,727	56,356,843	57,889,570
Member Distributions	(469,387)	-	(469,387)
Controlling Interest Sold	208,680	-	208,680
Change in Net Position	<u>316,299</u>	<u>1,438,352</u>	<u>1,754,651</u>
Net Position, June 30, 2016	<u><u>\$ 1,588,319</u></u>	<u><u>\$ 57,795,195</u></u>	<u><u>\$ 59,383,514</u></u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Cash received from patient services	\$ 90,232,382	\$ 87,406,425
Other operating receipts	4,784,726	6,530,914
Cash payments to suppliers for goods and services	(56,271,206)	(53,031,629)
Cash payments to employees for services	(34,473,488)	(31,163,769)
Net Cash from Operating Activities	4,272,414	9,741,941
Capital and Capital Related Financing Activities		
Payments on long-term debt	(1,853,386)	(2,420,934)
Payment of interest on long-term debt	(1,146,738)	(1,309,056)
Purchase of property and equipment	(4,704,331)	(3,853,018)
Proceeds from sale of capital assets	-	275,288
Net Cash used for Capital and Capital Related Financing Activities	(7,704,455)	(7,307,720)
Noncapital Financing Activities		
Contributions	(19,994)	-
Investing Activities		
Sale of joint venture	-	908,086
Distribution to and purchase of noncontrolling interest in joint ventures	(260,707)	(109,783)
Distributions received from joint ventures	1,623,556	1,282,281
Payments received on lease receivable	26,443	28,335
Investment income	652,140	410,487
Purchase of investments	(834,647)	(631,612)
Net Cash from Investing Activities	1,206,785	1,887,794
Net Increase (Decrease) in Cash and Cash Equivalents	(2,245,250)	4,322,015
Cash and Cash Equivalents, Beginning of Year	19,170,669	14,848,654
Cash and Cash Equivalents, End of Year	\$ 16,925,419	\$ 19,170,669
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 16,500,256	\$ 18,700,087
Board designated cash	425,163	470,582
Total Cash and Cash Equivalents	\$ 16,925,419	\$ 19,170,669

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating income	\$ 308,968	\$ 8,521,145
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	2,833,906	2,967,916
Provision for bad debts	13,978,645	15,537,749
Changes in assets and liabilities		
Patient receivables	(11,989,359)	(20,401,524)
Other receivables	(161,031)	2,261,668
Due from related parties	124,761	(1,014,197)
Supplies	(376,771)	150,705
Prepays	49,505	(5,226)
Other assets	(104,197)	(619,636)
Accounts payable	(328,952)	834,215
Accrued expenses	757,552	(16,371)
Deferred compensation	227,328	342,903
Estimated third-party payor settlement	(983,200)	1,200,726
Due to related parties	(64,741)	(18,132)
	\$ 4,272,414	\$ 9,741,941
Supplemental Disclosure of Cash Flow Information		
Income from joint venture	\$ 1,972,027	\$ 1,535,770
Joint venture sale in related party	\$ -	\$ 102,810
Vested in other investments	\$ -	\$ 76,147

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 Northeast Oklahoma Diagnostics, LLC (NOD), formally Tahlequah Diagnostic Imaging, LLC, which was incorporated as a limited liability company in December 2002. NOD 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.

The Authority has a controlling interest in Northeastern Wound Management (NWM), which was established as a limited liability company in November 2015. NWM provides wound management services to the residents of Cherokee County, Oklahoma and surrounding areas

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. The Authority does maintain a material allowance for doubtful accounts from Third Party Payors, the methodology has not changed from the previous year. 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, 2016 and 2015, notes receivable from physicians and employees totaled \$1,286,571 and \$1,347,714 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 medical office 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 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 \$4,019,000 and \$2,676,000 for the years ended June 30, 2016 and 2015. Total direct and indirect cost related to those forgone charges were approximately \$1,523,000 and \$962,000 at June 30, 2016 and 2015, 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 \$376,697 and \$845,018 for the years ended June 30, 2016 and 2015 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 \$2,033,824 and \$2,272,507 included in administrative services, for the years ended June 30, 2016 and 2015. In return, the Authority received \$4,092,135 and \$4,836,546 included in net patient service revenue, for the years ended June 30, 2016 and 2015.

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, 2013.

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, 2016 and 2015:

	2016	2015
Medicare	43%	38%
Medicaid	13%	12%
Blue Cross and other commercial payors	37%	44%
Self pay and other	7%	6%
	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, 2016 and 2015 increased approximately \$87,000 and \$933,000, due to removal of allowances previously estimated that are no longer necessary as a result of for Medicaid program payments, commercial payors, and 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 \$23,500 and \$340,220 included in estimated third-party settlements for the years ending June 30, 2016 and 2015. 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, 2016 and 2015 are as follows:

	2016	2015
Carry amount		
Deposits	\$ 16,925,419	\$ 19,170,669

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

	2016	2015
Cash and cash equivalents	\$ 16,500,256	\$ 18,700,087
Board designated cash	425,163	470,582
Total	\$ 16,925,419	\$ 19,170,669

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, 2016 and 2015, \$15,658,640 of the Authority's bank balance of \$17,244,181 and \$17,868,722 of the Authority's bank balance of \$19,324,225 was exposed to custodial credit risk as follows:

	2016	2015
Uninsured and uncollateralized	\$ 2,982,114	\$ 2,123,865
Uninsured and collateral held by pledging bank's trust department in the Authority's name	12,676,526	15,744,857
Total	\$ 15,658,640	\$ 17,868,722

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.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

The Authority had the following investments and maturities at June 30, 2016 and 2015:

<u>June 30, 2016</u>		<u>Investment Maturities (in Years)</u>			
Type	Fair Value	Ratings	Less than 1	1 - 5	6-10
Domestic fixed income	\$ 2,787,148	Baa1 - Aa2	\$ 283,441	\$ 1,100,159	\$ 1,403,548
International fixed income	<u>772,354</u>	Baa1 - Aa3	<u>50,211</u>	<u>530,666</u>	<u>191,477</u>
	3,559,502		<u>\$ 333,652</u>	<u>\$ 1,630,825</u>	<u>\$ 1,595,025</u>
Domestic equities	2,338,472				
International equities	993,856				
Bond fund	6,775,964				
Balanced fund	253,349				
Prime fund	<u>66,376</u>				
	<u>\$ 13,987,519</u>				
<u>June 30, 2015</u>		<u>Investment Maturities (in Years)</u>			
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	<u>768,287</u>	Baa2 - A1	<u>101,262</u>	<u>318,464</u>	<u>348,561</u>
	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	<u>87,576</u>				
	<u>\$ 13,380,200</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, 2016 and 2015, 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, 2016 and 2015 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, 2016 and 2015 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, 2016 and 2015 was \$652,140 and \$410,487.

Note 4 - Lease Receivable

The terms, due dates, and securing collateral of the Authority’s long-term receivables at June 30, 2016 and 2015 follow:

	2016	2015
Lease receivable, due in monthly installments of \$6,843 through June 2031, including interest at 6.9%, secured by Medical Office Building	\$ 1,232,263	\$ 1,312,493
Less amounts considered to be interest	(464,375)	(518,162)
Lease receivable, net	767,888	794,331
Less current portion	(30,334)	(26,443)
Lease receivable net of current portion	\$ 737,554	\$ 767,888

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 30,334	\$ 51,764
2018	32,501	49,614
2019	34,804	47,311
2020	37,270	44,844
2021	36,911	42,203
2022 to 2026	246,205	164,367
2027 to 2031	349,863	64,272
Total	<u>\$ 767,888</u>	<u>\$ 464,375</u>

Note 5 - Capital Assets

Capital assets additions, retirements, and balances for the year ended June 30, 2016 are as follows:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated				
Land	\$ 2,838,057	\$ -	\$ -	\$ 2,838,057
Construction in progress	124,949	751,257	(175,443)	700,763
Total capital assets not being depreciated	<u>\$ 2,963,006</u>	<u>\$ 751,257</u>	<u>\$ (175,443)</u>	<u>\$ 3,538,820</u>
Capital assets being depreciated				
Land improvements	\$ 500,779	\$ 117,421	\$ 6,250	\$ 624,450
Buildings and fixed equipment	32,685,485	1,600,508	(129,067)	34,156,926
Major movable equipment	22,836,739	2,235,145	(368,953)	24,702,931
Total capital assets being depreciated	<u>56,023,003</u>	<u>\$ 3,953,074</u>	<u>\$ (491,770)</u>	<u>59,484,307</u>

Tahlequah Hospital Authority
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Notes to Financial Statements
June 30, 2016 and 2015

	Balance June 30, 2015	Additions	Transfers and Retirements	Balance June 30, 2016
Less accumulated depreciation for				
Land and improvements	\$ (335,768)	\$ (31,221)	\$ -	\$ (366,989)
Buildings and fixed equipment	(13,170,636)	(931,602)	129,524	(13,972,714)
Major movable equipment	(16,312,392)	(1,871,083)	525,937	(17,657,538)
Total accumulated depreciation	<u>(29,818,796)</u>	<u>\$ (2,833,906)</u>	<u>\$ 655,461</u>	<u>(31,997,241)</u>
Net capital assets being depreciated	<u>\$ 26,204,207</u>			<u>\$ 27,487,066</u>
Capital assets, net	<u>\$ 29,167,213</u>			<u>\$ 31,025,886</u>

The majority of construction in progress at June 30, 2016, represents cost incurred for construction of building and various other smaller projects. Total expected cost to complete the projects is approximately \$9,820,000. The projects will be financed with internal and external funds. Completion of the construction of the building is expected in fiscal year 2017.

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	21,546,300	2,795,982	(1,505,543)	22,836,739
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>

Tahlequah Hospital Authority
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Notes to Financial Statements
June 30, 2016 and 2015

	Balance June 30, 2014	Additions	Transfers and Retirements	Balance June 30, 2015
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	(15,532,803)	(1,952,056)	1,172,467	(16,312,392)
Total accumulated depreciation	(28,027,780)	\$ (2,967,916)	\$ 1,176,900	(29,818,796)
Net capital assets being depreciated	\$ 26,088,284			\$ 26,204,207
Capital assets, net	\$ 28,597,468			\$ 29,167,213

Note 6 - Investments in Joint Ventures

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2016 and 2015, the Authority's investment in joint ventures consisted of the following:

	2016	2015
Cherokee Health Partners, LLC	\$ 1,110,572	\$ 1,004,226
Platte Dialysis, LLC	5,573,922	5,331,797
Total investment in joint venture	\$ 6,684,494	\$ 6,336,023

Joint venture income, distributions, and contributions balances for the years ended June 30, 2016 and 2015 are as follow:

	Balance June 30, 2015	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2016
Cherokee Health Partners, LLC	\$ 1,004,226	\$ 634,801	\$ (528,455)	\$ -	\$ 1,110,572
Platte Dialysis, LLC	5,331,797	1,337,226	(1,095,101)	-	5,573,922
	\$ 6,336,023	\$ 1,972,027	\$ (1,623,556)	\$ -	\$ 6,684,494
	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
	\$ 6,082,534	\$ 1,535,770	\$ (1,282,281)	\$ -	\$ 6,336,023

Cherokee Health Partners, LLC

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 2016 and 2015, the Authority was paid \$2,287,701 and \$2,200,222 for services and building space provided to CHP. These expenses are included in operating revenues. The Authority was owed \$464,494 and \$187,660 for the years ended June 30, 2016 and 2015. The receivable are included in related party payable.

Platte Dialysis, LLC

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 \$4,556 and \$84,576 for services provided during the years ended June 30, 2016 and 2015. The receivables are included in related party receivable. The Authority owed Platte \$13,970 and \$17,610 for services provided during the years ended June 30, 2016 and 2015. The payables are included in related party payable.

Blended Component Units

Northeast Oklahoma Diagnostics, LLC

NOD, a limited liability company, formerly Tahlequah Diagnostic Imaging, LLC, was established in December 2002, to provide MRI, CT, hyperbarics, and other imaging equipment previously provided by Tahlequah City Hospital. NOD'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, 2016, the Authority sold 4% share to other members and now owns 70% of the outstanding units of NOD. Therefore, the Authority members elect the majority of the Board of Managers and have significant control over NOD. In its general appeal to capture all the business formerly provided by the Authority, NOD solicits to serve everyone in the community.

As the Authority has majority ownership interest and management control over NOD, the balance of the investment in NOD 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.

Northeast Oklahoma Heart Center, LLC

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 owned 60% of the outstanding units. Therefore, the Authority members elected the majority of the Board of Managers and had 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. The Authority was owed \$787,085 and \$356,427 at June 30, 2016 and 2015. The receivable is included in related party receivable.

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.

Tahlequah Hospital Foundation

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.

Northeast Oklahoma Cancer Center, LLC

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.

Northeast Oklahoma Management Service Organization, LLC

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, 2016 and 2015, 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.

Northwestern Wound Management, LLC

NWM, a limited liability company, was established in November 2015, to provide wound management services. During the years ended June 30, 2016, the Authority owns a 60% share NWM.

As the Authority has majority ownership interest and management control over NWM, the balance of the investment in NWM 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.

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, 2016 and 2015 for all operating leases was approximately \$797,000 and \$510,000.

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

Year Ending June 30,	Operating Lease
2017	\$ 193,439
2018	19,075
2019	5,100
2020	1,275
Total Minimum Lease Payments	\$ 218,889

Note 8 - Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Debt					
Revenue notes	\$ 10,907,247	\$ -	\$ (600,730)	\$ 10,306,517	\$ 638,171
Mortgage loans	11,265,973	-	(1,252,656)	10,013,317	1,123,543
Total long-term debt	\$ 22,173,220	\$ -	\$ (1,853,386)	\$ 20,319,834	\$ 1,761,714
	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

Tahlequah Hospital Authority
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Notes to Financial Statements
June 30, 2016 and 2015

The terms, due dates, and securing collateral of the Authority's long-term debt, including capital lease obligation, at June 30, 2016 and 2015 follow:

	2016	2015
Revenue Notes		
6.8% revenue note, due in monthly installments of \$70,113 including interest, through December 2017, secured by fixed assets	\$ 6,699,877	\$ 7,071,797
4.9% revenue note, due in monthly installments of \$34,149 including interest, through December 2027, secured by fixed assets	3,606,640	3,835,450
Total revenue notes	10,306,517	10,907,247
Mortgage Loans		
4.625% note payable, due in monthly installments of \$18,206 including interest, through August 2016, secured by equipment	36,202	247,644
3.9% note payable, due in monthly installments of \$14,791 including interest, with an estimated balloon payment of \$2,040,000 due December 2017, secured by property and equipment	2,174,852	2,265,279
3.9% notes payable, due in monthly installments of \$60,730 including interest, with an estimated balloon payment of \$1,578,000 due December 2017, secured by property and equipment	2,495,666	3,113,520
4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2019, secured by property	511,247	533,998
4.1% note payable, due in monthly installments of \$4,268 including interest, through April 2024, secured by land	184,853	275,910
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	3,360,675	3,545,171
4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	576,063	610,692
Total mortgage loans	10,013,317	11,265,973
	20,319,834	22,173,220
Less current maturities	(1,761,714)	(1,853,384)
Long-term debt, less current maturities	\$ 18,558,120	\$ 20,319,836

Tahlequah Hospital Authority
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Notes to Financial Statements
June 30, 2016 and 2015

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

<u>Year Ending June 30,</u>	Long-term Debt	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,761,714	\$ 1,052,320
2018	10,856,270	694,915
2019	1,088,762	367,211
2020	658,609	324,426
2021	692,472	290,553
2022 to 2026	3,415,512	835,165
2027 to 2029	1,846,495	139,039
Total	<u>\$ 20,319,834</u>	<u>\$ 3,703,629</u>

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 the Authority 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, 2016, 2015, and 2014 was \$895,058, \$700,006, and \$641,294.

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, 2016 and 2015, the value of deferred compensation, totaled \$1,250,495 and \$1,023,167.

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, 2016 and 2015 was as follows:

	2016	2015
Medicare	24%	14%
Medicaid	10%	5%
Other third-party payors	43%	66%
Patients	23%	15%
	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-funded for health benefits for eligible employees and their dependents. The Hospital, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred by not reported claims that will be paid by the Authority. The Authority has stop loss insurance to cover catastrophic claims in excess of \$50,000 per claim and an annual aggregate limit of \$2,100,000 for the plan year ended December 31, 2016.

The Authority expenses amounts representing the employer’s portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accrued expenses in the financial statements. These amounts have been estimated based on historical trends and actuarial analysis. Changes in the balance of claims liabilities during the past two years are as follows:

Year	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2016	\$ 400,300	\$ 2,541,670	\$ (2,453,970)	\$ 488,000
2015	865,000	2,222,709	(2,687,409)	400,300

Note 13 - Condensed Combining Information

The following summarized combining information for the Authority, NOD, NWM, Foundation, NOCC, and NOMSO, which has been presented as a blended component unit, as of and for the year ended June 30, 2016.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Statement of net position as of June 30, 2016:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Assets								
Current Assets	\$ 31,691,583	\$ 1,218,522	\$ 40,811	\$ 1,461,721	\$ 1,248,511	\$ 103,480	\$ (495,299)	\$ 35,269,329
Capital assets, net	23,638,246	590,645	-	6,766,448	30,547	-	-	31,025,886
Other noncurrent assets	31,653,959	-	-	83,669	14,879	-	(7,470,865)	24,281,642
Total assets	\$ 86,983,788	\$ 1,809,167	\$ 40,811	\$ 8,311,838	\$ 1,293,937	\$ 103,480	\$ (7,966,164)	\$ 90,576,857
Liabilities								
Current liabilities	\$ 11,026,638	\$ 196,238	\$ 43,310	\$ 443,822	\$ 144,924	\$ 25,095	\$ (495,299)	\$ 11,384,728
Deferred Compensation	1,250,495	-	-	-	-	-	-	1,250,495
Long-term debt, less current maturities	16,850,696	-	-	1,791,093	-	-	(83,669)	18,558,120
Total liabilities	29,127,829	196,238	43,310	2,234,915	144,924	25,095	(578,968)	31,193,343
Net Position								
Invested in capital assets, net of related debt	5,264,334	590,645	-	4,820,526	30,547	-	-	10,706,052
Unrestricted	52,591,625	1,022,284	(2,499)	1,256,397	1,118,466	78,385	(8,975,515)	47,089,143
Noncontrolling interest in joint ventures	-	-	-	-	-	-	1,588,319	1,588,319
Total net position	57,855,959	1,612,929	(2,499)	6,076,923	1,149,013	78,385	(7,387,196)	59,383,514
Total liabilities and net position	\$ 86,983,788	\$ 1,809,167	\$ 40,811	\$ 8,311,838	\$ 1,293,937	\$ 103,480	\$ (7,966,164)	\$ 90,576,857

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Operating results and changes in net position for the year ended June 30, 2016:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Operating Revenues								
Net patient service revenue	\$ 86,943,805	\$ 1,607,395	\$ -	\$ -	\$ 2,282,491	\$ -	\$ (1,607,395)	\$ 89,226,296
Other revenue	4,351,443	-	48,566	1,628,937	-	169,965	(1,377,915)	4,820,996
Total operating revenues	<u>91,295,248</u>	<u>1,607,395</u>	<u>48,566</u>	<u>1,628,937</u>	<u>2,282,491</u>	<u>169,965</u>	<u>(2,985,310)</u>	<u>94,047,292</u>
Operating expenses								
Depreciation	2,369,146	301,840	-	149,333	13,587	-	-	2,833,906
Other operating expenses	89,777,548	677,565	51,065	272,960	1,967,007	143,583	(1,985,310)	90,904,418
Total operating expenses	<u>92,146,694</u>	<u>979,405</u>	<u>51,065</u>	<u>422,293</u>	<u>1,980,594</u>	<u>143,583</u>	<u>(1,985,310)</u>	<u>93,738,324</u>
Operating income (loss)	(851,446)	627,990	(2,499)	1,206,644	301,897	26,382	(1,000,000)	308,968
Nonoperating revenues (expenses)	2,337,219	6,339	-	(77,034)	10,602	-	(831,443)	1,445,683
Revenues in excess of (less than) expenses	1,485,773	634,329	(2,499)	1,129,610	312,499	26,382	(1,831,443)	1,754,651
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(316,299)	(316,299)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	1,485,773	634,329	(2,499)	1,129,610	312,499	26,382	(2,147,742)	1,438,352
Net position, beginning of year	56,370,186	2,547,135	-	4,947,313	836,514	52,003	(8,396,308)	56,356,843
Sale of Membership Unites	-	52,170	-	-	-	-	(52,170)	-
Members' Distributions	-	(1,620,705)	-	-	-	-	1,620,705	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	1,588,319	1,588,319
Net position, end of year	<u>\$ 57,855,959</u>	<u>\$ 1,612,929</u>	<u>\$ (2,499)</u>	<u>\$ 6,076,923</u>	<u>\$ 1,149,013</u>	<u>\$ 78,385</u>	<u>\$ (7,387,196)</u>	<u>\$ 59,383,514</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Cash flows for the year ended June 30, 2016:

Table 3: Cash Flows

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Net cash from operating activities	\$ 2,562,082	\$ 911,849	\$ -	\$ 1,470,203	\$ 292,502	\$ 35,778	\$ (1,000,000)	\$ 4,272,414
Net cash used for capital and related financing activities	(6,498,242)	(263,580)	-	(1,942,633)	-	-	1,000,000	(7,704,455)
Net cash used for noncapital financing activities	(19,994)	-	-	-	-	-	-	(19,994)
Net cash from (used for) investing activities	<u>2,745,304</u>	<u>(1,562,196)</u>	<u>-</u>	<u>13,075</u>	<u>10,602</u>	<u>-</u>	<u>-</u>	<u>1,206,785</u>
Net change in cash and cash equivalents	(1,210,850)	(913,927)	-	(459,355)	303,104	35,778	-	(2,245,250)
Cash and cash equivalents, beginning 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>
Cash and cash equivalents, end of year	<u>\$ 13,548,604</u>	<u>\$ 1,010,925</u>	<u>\$ -</u>	<u>\$ 1,438,640</u>	<u>\$ 841,708</u>	<u>\$ 85,542</u>	<u>\$ -</u>	<u>\$ 16,925,419</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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

Statement of net position as of June 30, 2015:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	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
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

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

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	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	7,655,338	568,305	-	665,717	106,938	24,847	(500,000)	8,521,145
Nonoperating revenues (expenses)	<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 expenses	9,999,135	572,975	-	580,472	102,979	24,847	(1,151,235)	10,129,173
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(178,706)</u>	<u>(178,706)</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,532,727</u>	<u>1,532,727</u>
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
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2016 and 2015

Cash flows for the year ended June 30, 2015:

Table 3: Cash Flows

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeast Oklahoma Heart Center	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Net cash from operating activities	\$ 8,015,265	\$ 1,000,096	\$ 34,158	\$ 748,908	\$ 417,490	\$ 26,024	\$ (500,000)	\$ 9,741,941
Net cash from (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 (used for) investing activities	<u>2,401,107</u>	<u>(448,000)</u>	<u>(83,239)</u>	<u>10,849</u>	<u>7,077</u>	<u>-</u>	<u>-</u>	<u>1,887,794</u>
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	<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>
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>

Note 14 - Subsequent Events

The Authority has evaluated subsequent events through November 7, 2016, that date which the financial statements were available to be issued.

NWM signed a note payable in the amount of \$300,000 at 3.2%. Due in 60 monthly payments of \$5,426. Maturing in July 2021. Guaranteed by the owners of NWM.

NOD signed a note payable in the amount of \$782,930 at 2.75%. Due in 84 monthly payments of \$10,258. Maturing in July 2023. Secured by equipment.



Supplementary Information
June 30, 2016 and 2015

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 ended June 30, 2016 and 2015 and our report thereon dated November 7, 2016, 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 are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.



Oklahoma City, Oklahoma
November 7, 2016

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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, 2016

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Assets								
Current Assets								
Cash and cash equivalents	\$ 13,123,441	\$ 1,010,925	\$ -	\$ 1,438,640	\$ 841,708	\$ 85,542	\$ -	\$ 16,500,256
Board designated cash	425,163	-	-	-	-	-	-	425,163
Receivables								
Patient, net	12,095,182	-	-	-	249,271	-	-	12,344,453
Other	930,335	-	37,796	-	-	17,452	-	985,583
Current portion of lease receivable	30,334	-	-	4,407	-	-	(4,407)	30,334
Due from related parties	1,561,756	186,120	-	-	-	-	(490,892)	1,256,984
Supplies	2,459,224	-	2,860	-	1,777	-	-	2,463,861
Prepaid expenses	1,066,148	21,477	155	18,674	155,755	486	-	1,262,695
Total current assets	<u>31,691,583</u>	<u>1,218,522</u>	<u>40,811</u>	<u>1,461,721</u>	<u>1,248,511</u>	<u>103,480</u>	<u>(495,299)</u>	<u>35,269,329</u>
Capital Assets, Net	<u>23,638,246</u>	<u>590,645</u>	<u>-</u>	<u>6,766,448</u>	<u>30,547</u>	<u>-</u>	<u>-</u>	<u>31,025,886</u>
Other Assets								
Investment in NOD	521,528	-	-	-	-	-	(521,528)	-
Interest in Foundation	6,103,346	-	-	-	-	-	(6,103,346)	-
Investment in NOMSO	78,386	-	-	-	-	-	(78,386)	-
Investment in CHP	1,110,572	-	-	-	-	-	-	1,110,572
Investment in NOCC	683,936	-	-	-	-	-	(683,936)	-
Investment in Platte Dialysis	5,573,922	-	-	-	-	-	-	5,573,922
Total investments in joint ventures	<u>14,071,690</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,387,196)</u>	<u>6,684,494</u>
Assets held under deferred compensation agreement	1,250,495	-	-	-	-	-	-	1,250,495
Investments	13,987,519	-	-	-	-	-	-	13,987,519
Investment in captive insurance	323,824	-	-	-	-	-	-	323,824
Lease receivable, net of current portion	737,554	-	-	83,669	-	-	(83,669)	737,554
Other	1,282,877	-	-	-	14,879	-	-	1,297,756
Total other assets	<u>31,653,959</u>	<u>-</u>	<u>-</u>	<u>83,669</u>	<u>14,879</u>	<u>-</u>	<u>(7,470,865)</u>	<u>24,281,642</u>
Total assets	<u>\$ 86,983,788</u>	<u>\$ 1,809,167</u>	<u>\$ 40,811</u>	<u>\$ 8,311,838</u>	<u>\$ 1,293,937</u>	<u>\$ 103,480</u>	<u>\$ (7,966,164)</u>	<u>\$ 90,576,857</u>

	<u>Tahlequah Hospital Authority</u>	<u>Northeast Oklahoma Diagnostics</u>	<u>Northeastern Wound Management</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	\$ 1,611,292	\$ -	\$ -	\$ 154,829	\$ -	\$ -	\$ (4,407)	\$ 1,761,714
Accounts payable	3,900,531	196,238	43,310	-	137,383	25,095	(194,052)	4,108,505
Estimated third-party payor settlements	556,222	-	-	-	-	-	-	556,222
Accrued expenses								
Salaries and benefits payable	2,200,800	-	-	-	-	-	-	2,200,800
Vacation	1,701,938	-	-	-	-	-	-	1,701,938
Payroll taxes and other	1,028,808	-	-	-	7,541	-	-	1,036,349
Due to related parties	27,047	-	-	288,993	-	-	(296,840)	19,200
Total current liabilities	11,026,638	196,238	43,310	443,822	144,924	25,095	(495,299)	11,384,728
Deferred Compensation	1,250,495	-	-	-	-	-	-	1,250,495
Long-Term Debt, Less Current Maturities	16,850,696	-	-	1,791,093	-	-	(83,669)	18,558,120
Total liabilities	29,127,829	196,238	43,310	2,234,915	144,924	25,095	(578,968)	31,193,343
Net Position								
Invested in capital assets, net of related debt	5,264,334	590,645	-	4,820,526	30,547	-	-	10,706,052
Unrestricted	52,591,625	1,022,284	(2,499)	1,256,397	1,118,466	78,385	(8,975,515)	47,089,143
Noncontrolling interest in joint ventures	-	-	-	-	-	-	1,588,319	1,588,319
Total net position	57,855,959	1,612,929	(2,499)	6,076,923	1,149,013	78,385	(7,387,196)	59,383,514
Total liabilities and net position	\$ 86,983,788	\$ 1,809,167	\$ 40,811	\$ 8,311,838	\$ 1,293,937	\$ 103,480	\$ (7,966,164)	\$ 90,576,857

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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	Northeast Oklahoma Diagnostics	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 NOD	1,360,605	-	-	-	-	-	(1,360,605)	-
Interest in Foundation	4,954,535	-	-	-	-	-	(4,954,535)	-
Investment in NOMSO	52,004	-	-	-	-	-	(52,004)	-
Investment in CHP	1,004,226	-	-	-	-	-	-	1,004,226
Investment in 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>

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	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	\$ 1,709,181	\$ -	\$ -	\$ 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 – Operations and Changes in Net Position Information
Year Ended June 30, 2016

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Operating Revenue								
Net patient service revenue	\$ 86,943,805	\$ 1,607,395	\$ -	\$ -	\$ 2,282,491	\$ -	\$ (1,607,395)	\$ 89,226,296
Other revenue	4,351,443	-	48,566	1,628,937	-	169,965	(1,377,915)	4,820,996
Total operating revenue	<u>91,295,248</u>	<u>1,607,395</u>	<u>48,566</u>	<u>1,628,937</u>	<u>2,282,491</u>	<u>169,965</u>	<u>(2,985,310)</u>	<u>94,047,292</u>
Expenses								
Nursing services	23,879,105	-	-	-	-	-	(1,607,395)	22,271,710
Other professional services	43,179,466	21,890	-	10,368	468,313	-	(296,519)	43,383,518
General services	5,318,860	-	51,065	-	1,419,025	143,583	-	6,932,533
Administrative services	17,400,117	117,105	-	7,018	79,669	-	-	17,603,909
Other expenses	-	538,570	-	255,574	-	-	(81,396)	712,748
Depreciation	2,369,146	301,840	-	149,333	13,587	-	-	2,833,906
Total expenses	<u>92,146,694</u>	<u>979,405</u>	<u>51,065</u>	<u>422,293</u>	<u>1,980,594</u>	<u>143,583</u>	<u>(1,985,310)</u>	<u>93,738,324</u>
Operating Income (Loss)	<u>(851,446)</u>	<u>627,990</u>	<u>(2,499)</u>	<u>1,206,644</u>	<u>301,897</u>	<u>26,382</u>	<u>(1,000,000)</u>	<u>308,968</u>

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Reclassifications or Eliminations	Combined
Nonoperating Revenues (Expenses)								
Investment income	\$ 626,358	\$ 6,339	\$ -	\$ 8,841	\$ 10,602	\$ -	\$ -	\$ 652,140
Income from TDI	468,751	-	-	-	-	-	(468,751)	-
Income from Foundation	1,148,811	-	-	-	-	-	(1,148,811)	-
Income from NOMSO	26,382	-	-	-	-	-	(26,382)	-
Income from CHP	634,801	-	-	-	-	-	-	634,801
Income from NOCC	187,499	-	-	-	-	-	(187,499)	-
Income from Platte	1,337,226	-	-	-	-	-	-	1,337,226
Interest expense	(1,060,863)	-	-	(85,875)	-	-	-	(1,146,738)
Loss on disposal	(11,752)	-	-	-	-	-	-	(11,752)
Contributions expense	(1,019,994)	-	-	-	-	-	1,000,000	(19,994)
Total non operating revenue (expense), net	<u>2,337,219</u>	<u>6,339</u>	<u>-</u>	<u>(77,034)</u>	<u>10,602</u>	<u>-</u>	<u>(831,443)</u>	<u>1,445,683</u>
Revenues in Excess of (Less Than) Expenses	1,485,773	634,329	(2,499)	1,129,610	312,499	26,382	(1,831,443)	1,754,651
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(316,299)	(316,299)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	1,485,773	634,329	(2,499)	1,129,610	312,499	26,382	(2,147,742)	1,438,352
Net Position, Beginning of Year	56,370,186	2,547,135	-	4,947,313	836,514	52,003	(8,396,308)	56,356,843
Sale of Membership Unites	-	52,170	-	-	-	-	(52,170)	-
Members' Distributions	-	(1,620,705)	-	-	-	-	1,620,705	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	1,588,319	1,588,319
Net Position, End of Year	<u>\$ 57,855,959</u>	<u>\$ 1,612,929</u>	<u>\$ (2,499)</u>	<u>\$ 6,076,923</u>	<u>\$ 1,149,013</u>	<u>\$ 78,385</u>	<u>\$ (7,387,196)</u>	<u>\$ 59,383,514</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, 2015

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	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	7,655,338	568,305	-	665,717	106,938	24,847	(500,000)	8,521,145

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	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)
Loss 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 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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	2016		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 5,102,856	\$ -	\$ 5,102,856
Intensive care unit	12,090,927	-	12,090,927
Nursery	761,957	-	761,957
	<u>17,955,740</u>	<u>-</u>	<u>17,955,740</u>
Other nursing services			
Central service supplies	76,010	29,111	105,121
Emergency room	4,025,379	19,470,008	23,495,387
Wound Care	-	164,881	164,881
Observation	-	1,702,747	1,702,747
Operating room	15,974,213	23,315,685	39,289,898
	<u>20,075,602</u>	<u>44,682,432</u>	<u>64,758,034</u>
Other professional services			
Ambulance	-	3,429,187	3,429,187
Anesthesiology	655,304	6,780,333	7,435,637
Cardiac cath lab	5,601,383	7,075,457	12,676,840
Complex Lab	10,739	21,143,906	21,154,645
Electrocardiography	808,641	2,117,830	2,926,471
Geriatric psychology	2,861,814	-	2,861,814
Hyperbaric	1,071	353,669	354,740
Laboratory	5,795,026	12,006,329	17,801,355
Nephrology	-	199,867	199,867
Obstetrics	2,282,680	309,887	2,592,567
Oncology	1,375	12,689,814	12,691,189
Pharmacy	6,875,609	4,503,554	11,379,163
Physical therapy	417,314	671,672	1,088,986
Physician	-	13,583,758	13,583,758
Radiology	2,353,244	27,007,317	29,360,561
Rehabilitation	2,132,882	234,949	2,367,831
Respiratory therapy	6,105,482	3,799,312	9,904,794
Speech therapy	98,756	334,145	432,901
Specialty clinics	-	-	-
Wellness Center	-	567	567
	<u>36,001,320</u>	<u>116,241,553</u>	<u>152,242,873</u>
	<u>\$ 74,032,662</u>	<u>\$ 160,923,985</u>	<u>234,956,647</u>
Charity care			<u>(4,019,428)</u>
Total patient service revenue			<u>230,937,219</u>
Deductions from Revenue			
Contractual Adjustments			(129,950,485)
Provision for Bad Debts			<u>(14,042,929)</u>
Total reductions from revenue			<u>(143,993,414)</u>
Net Patient Service Revenue			<u>\$ 86,943,805</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Net Patient Service Revenue
Years Ended June 30, 2016 and 2015

2015		
Inpatient	Outpatient	Total
\$ 3,499,712	\$ -	\$ 3,499,712
10,193,101	-	10,193,101
814,648	-	814,648
<u>14,507,461</u>	<u>-</u>	<u>14,507,461</u>
89,907	39,157	129,064
3,147,325	17,581,974	20,729,299
-	128,763	128,763
-	1,502,750	1,502,750
<u>11,289,155</u>	<u>22,776,902</u>	<u>34,066,057</u>
<u>14,526,387</u>	<u>42,029,546</u>	<u>56,555,933</u>
-	3,393,218	3,393,218
522,200	6,116,401	6,638,601
4,519,047	7,638,432	12,157,479
15,268	37,414,204	37,429,472
981,217	1,670,743	2,651,960
2,837,038	-	2,837,038
3,845	301,220	305,065
5,146,281	10,721,696	15,867,977
-	206,554	206,554
2,113,079	429,238	2,542,317
2,600	12,207,690	12,210,290
6,176,474	3,757,126	9,933,600
401,334	739,722	1,141,056
-	10,148,034	10,148,034
2,486,311	27,188,332	29,674,643
2,772,994	166,901	2,939,895
5,830,053	3,517,936	9,347,989
60,604	333,023	393,627
-	52	52
<u>-</u>	<u>1,512</u>	<u>1,512</u>
<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>	230,883,773
		<u>(2,676,477)</u>
		<u>228,207,296</u>
		(124,087,052)
		<u>(15,498,199)</u>
		<u>(139,585,251)</u>
		<u>\$ 88,622,045</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Other Revenue
Years Ended June 30, 2016 and 2015

	2016	2015
Other Revenue		
Government incentive for electronic health records	\$ 376,697	\$ 845,018
Rental income	762,325	939,251
Service contract billing	2,150,818	1,847,162
Cafeteria	285,857	295,919
Kiosk (The Coffee House)	468,251	464,222
Miscellaneous	307,495	500,255
Total Other Revenue	\$ 4,351,443	\$ 4,891,827

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	2016		
	Salaries	Supplies & Expenses	Total
Nursing Services			
Central service supplies	\$ 235,215	\$ 177,676	\$ 412,891
Emergency room	1,456,352	1,007,321	2,463,673
Wound care	5,089	42,998	48,087
Intensive care unit	1,725,555	761,333	2,486,888
Labor and delivery	858,773	258,235	1,117,008
Medical and surgical	2,614,671	678,209	3,292,880
Nursery	-	1,965	1,965
Nursing administration	1,076,994	58,014	1,135,008
Operating room	2,407,362	10,513,343	12,920,705
	<u>10,380,011</u>	<u>13,499,094</u>	<u>23,879,105</u>
Other Professional Services			
Ambulance	1,031,060	147,272	1,178,332
Anesthesiology	-	1,330,050	1,330,050
Bio Med	118,854	5,704	124,558
Cardiology	40,426	1,108	41,534
Cath lab	6,081	6,714,072	6,720,153
Complex lab	73,886	3,579,515	3,653,401
Electrocardiography	95,765	13,545	109,310
Geriatric psychology	1,078,227	141,347	1,219,574
Health education	63,488	17,653	81,141
Hyperbarics	33,411	50,450	83,861
Laboratory	1,123,277	2,453,579	3,576,856
Nephrology	-	97,265	97,265
Occupational therapy	58,604	4,921	63,525
Oncology	276,165	2,975,223	3,251,388
Pharmacy	928,858	1,924,990	2,853,848
Physical therapy	269,551	217,568	487,119
Physician	8,383,825	2,802,860	11,186,685
Radiology	1,627,746	2,125,981	3,753,727
Rehabilitation inpatient	663,961	773,133	1,437,094
Respiratory therapy	1,258,493	252,734	1,511,227
Social services	266,183	10,248	276,431
Speech therapy	138,135	2,471	140,606
Specialty clinics	88	1,693	1,781
	<u>17,536,084</u>	<u>25,643,382</u>	<u>43,179,466</u>
General Services			
Dietary	693,953	588,472	1,282,425
Housekeeping	550,198	160,137	710,335
Laundry and linen	-	296,886	296,886
Medical records	820,196	421,072	1,241,268
Plant operations	698,450	1,089,496	1,787,946
	<u>2,762,797</u>	<u>2,556,063</u>	<u>5,318,860</u>
Administrative Services			
Administration and office	4,779,476	6,472,836	11,252,312
Employee benefits	-	6,147,805	6,147,805
	<u>4,779,476</u>	<u>12,620,641</u>	<u>17,400,117</u>
Depreciation	-	2,369,146	2,369,146
	<u>\$ 35,458,368</u>	<u>\$ 56,688,326</u>	<u>\$ 92,146,694</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Expenses
Years Ended June 30, 2016 and 2015

2015		
Salaries	Supplies & Expenses	Total
\$ 204,477	\$ 111,236	\$ 315,713
1,486,940	1,116,788	2,603,728
-	56,568	56,568
1,571,296	551,276	2,122,572
818,722	267,802	1,086,524
2,688,007	348,736	3,036,743
-	2,797	2,797
837,272	72,742	910,014
2,134,876	9,212,265	11,347,141
<u>9,741,590</u>	<u>11,740,210</u>	<u>21,481,800</u>
910,057	159,941	1,069,998
-	1,397,500	1,397,500
105,435	8,399	113,834
36,680	2,285	38,965
-	6,159,244	6,159,244
44,338	5,230,473	5,274,811
222,404	23,402	245,806
1,058,897	125,742	1,184,639
220,939	24,986	245,925
882	25,683	26,565
1,089,272	2,150,819	3,240,091
-	114,125	114,125
177,052	1,965	179,017
277,780	3,215,059	3,492,839
796,344	1,700,451	2,496,795
319,916	64,252	384,168
6,576,214	2,792,454	9,368,668
1,617,292	2,071,688	3,688,980
731,322	1,037,557	1,768,879
1,234,085	289,026	1,523,111
154,631	6,386	161,017
3,837	2,177	6,014
-	35	35
<u>15,577,377</u>	<u>26,603,649</u>	<u>42,181,026</u>
632,622	633,139	1,265,761
515,393	138,601	653,994
-	255,260	255,260
569,304	530,006	1,099,310
625,518	1,080,203	1,705,721
<u>2,342,837</u>	<u>2,637,209</u>	<u>4,980,046</u>
3,820,254	5,933,318	9,753,572
-	5,303,607	5,303,607
<u>3,820,254</u>	<u>11,236,925</u>	<u>15,057,179</u>
-	2,158,483	2,158,483
<u>\$ 31,482,058</u>	<u>\$ 54,376,476</u>	<u>\$ 85,858,534</u>



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Tahlequah Hospital Authority (Authority) which comprise the statement of net position as of June 30, 2016, 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 November 7, 2016.

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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency: 2016-A.

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.

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

Oklahoma City, Oklahoma
November 7, 2016

2016-A Preparation of Financial Statements

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

Condition – The Authority does have an internal control system designed to provide for the preparation of the financial statements being audited, which include the accompanying footnote disclosures.

Cause – This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints.

Effect – The deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation – This circumstance is not unusual in an organization of your size. It is the responsibility of 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.

Views of Responsible Officials – 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.