

NORTHEASTERN TRIBAL HEALTH SYSTEM

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2011

Northeastern Tribal Health System
Annual Financial Report
For The Year Ended September 30, 2011

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Financial Section

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**HUDSON ANDERSON, CPA
FRANK MARX, III, CPA
DORI BOHL, CPA& CFE**

Independent Auditors' Report on Financial Statements

Governing Board
Northeastern Tribal Health System
P.O. Box 1498
Miami, Oklahoma 74355

Members of the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Tribal Health System as of and for the year ended September 30, 2011, which collectively comprise the Clinic's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northeastern Tribal Health System's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Tribal Health System as of September 30, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2012, on our consideration of Northeastern Tribal Health System's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

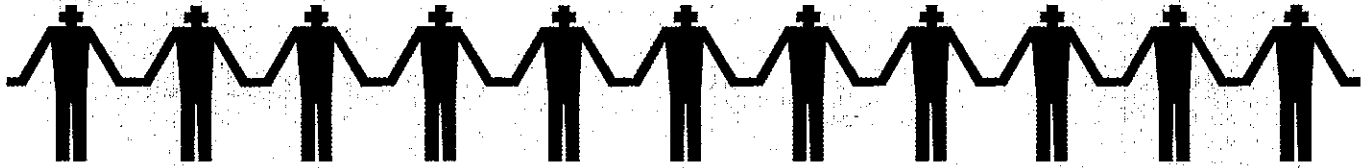
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northeastern Tribal Health System's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

January 24, 2012



NORTHEASTERN TRIBAL HEALTH SYSTEM

P.O. BOX 1498
 MIAMI, OKLAHOMA 74355
 (918) 542-1655

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Northeastern Tribal Health System's annual financial report presents our discussion and analysis of the System's financial performance during the year ended September 30, 2011. Please read it in conjunction with the System's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The System's total combined net assets on the statement of net assets were \$18,057,051.
- During the year, the System's primary government expenses on the statement of activities were \$1,376,512 more than the \$12,387,891 generated in revenues for all activities.
- The total cost of the System's programs on the statement of activities increased \$1,032,213 from last year. This was mainly due to an increase in contracts expense, expansion, and new facility costs during the current year.
- The primary operating fund reported a fund balance this year on the governmental funds balance sheet of \$15,407,475. The System began the current year with a fund balance in the amount of \$14,006,851.

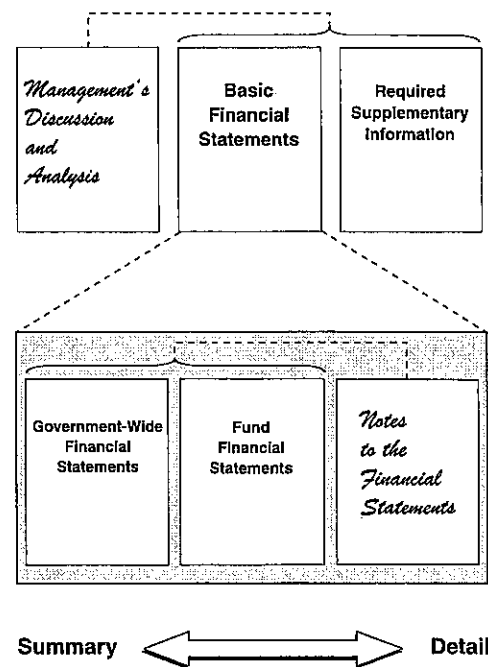
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the System:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the System's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the System's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements provide information about for profit activities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the System's Annual Financial Report



Government-wide Statements

The government-wide statements report information about the System as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the System's net assets and how they have changed. Net assets—the difference between the System's assets and liabilities—is one way to measure the System's financial health or *position*.

- Over time, increases or decreases in the System's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the System, one needs to consider additional nonfinancial factors.

The government-wide financial statements of the System include the *Governmental activities*. Most of the System's basic services are included here, such as the provision of health care services. An annual funding agreement with DHHS finances most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the System's most significant *funds*—not the System as a whole. Funds are accounting devices that the System uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds may be required by law.
- The governing board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain grants.

The System has the following kinds of funds:

- *Governmental funds*—Most of the System's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the System's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE SYSTEM AS A WHOLE

Net assets. The System's combined net assets were \$16.1 million at September 30, 2011. (See Table A-1).

Table A-1
Northeastern Tribal Health System's Net Assets
(In million dollars)

	<u>2011</u>	<u>2010</u>	<u>Total Percentage Change</u> <u>2011-2010</u>
Current assets:			
Cash and cash equivalents	15.1	12.9	15
Due from other governments	.1	.1	-
Receivables, net	.3	.6	-50
Inventory	.1	.1	-
Other	1.8	1.0	45
Total current assets:	<u>17.4</u>	<u>14.6</u>	16
Noncurrent assets:			
Building improvements and equipment	2.7	2.8	-4
Less accumulated depreciation	<u>(2.0)</u>	<u>(2.0)</u>	-
Total noncurrent assets	<u>.7</u>	<u>.8</u>	-12
Total Assets	<u>18.1</u>	<u>15.4</u>	15
Current liabilities:			
Accounts payable and accrued liabilities	2.0	.7	65
Total Liabilities	<u>2.0</u>	<u>.7</u>	65
Net Assets:			
Invested in capital assets, net of debt	.8	.8	-
Restricted	1.0	1.0	-
Unrestricted	14.3	12.9	10
Total Net Assets	<u>16.1</u>	<u>14.7</u>	9

The System has \$1,035,475 of net assets restricted for building a new facility, and \$14,291,391 of unrestricted net assets that represent resources to be available to fund the programs of the System next year.

Changes in net assets. The System's total revenues were \$12,387,891. A significant portion, 83 percent, of the System's revenue comes from grants and a DHHS funding agreement, while 15 percent relates to charges for services.

The total cost of all programs and services was \$11,011,379 all of these costs are for governmental activities.

Governmental Activities

- Charges for services increased \$259,802 in the current year.

Table A-2
Changes in Northeastern Tribal Health System's Net Assets
(In million dollars)

	<u>2011</u>	<u>2010</u>	<u>% Ch</u>
Program Revenues:			
Charges for Services	2.0	1.8	10
Operating Grants and Contributions	9.2	9.2	-
Capital Grants and Contributions	1.0	.2	80
General Revenues			
Investment Earnings	.1	.1	-
Total Revenues	<u>12.3</u>	<u>11.3</u>	8
Health and Welfare	11.0	10.0	9
Total Expenses	<u>11.0</u>	<u>10.0</u>	9
Transfers In (Out)	0	0	-
Increase (Decrease) in Net Assets	<u>1.3</u>	<u>1.3</u>	-

FINANCIAL ANALYSIS OF THE SYSTEM'S FUNDS

Revenues from governmental fund types totaled \$10.3 million, while the previous year it was \$9.5 million. The percentage in local revenues increased due to current year collections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the System had invested \$3,093,143 in a broad range of capital assets, including equipment and building improvements. (See Table A-4.) This amount represents a net increase (including additions and deductions) of fifteen percent over last year.

Table A-4
System's Capital Assets
(In millions of dollars)

	<u>2011</u>	<u>2010</u>	<u>Total Percentage Change 2011-2010</u>
Building improvements	.1	.1	-
Equipment	3.0	2.9	3
Totals at historical cost	3.1	3.0	3
Total accumulated depreciation	(2.3)	(2.2)	-4
Net capital assets	<u>.8</u>	<u>.8</u>	-

The System's fiscal year 2011 capital project spending includes the building of a new facility. More detailed information about the System's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end the System had no debt outstanding. More detailed information is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The System's primary operating fund fund balance is expected to decrease by the close of fiscal year 2012, due mainly to the construction of a new facility and associated re-location costs.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Northeastern Tribal Health System's Finance Department at P. O. Box 1498, Miami, Oklahoma 74355 or phone number 918-542-1655.

Basic Financial Statements

NORTHEASTERN TRIBAL HEALTH SYSTEM

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Governmental Activities
ASSETS	
<i>Cash and Cash Equivalents</i>	\$ 15,120,887
<i>Receivables (net of allowances for uncollectibles)</i>	570,566
<i>Intergovernmental Receivables</i>	361,927
<i>Inventories</i>	139,982
<i>Prepaid items</i>	37,392
Restricted Assets:	
<i>Cash and Cash Equivalents</i>	1,035,475
Capital Assets (net of accumulated depreciation):	
<i>Buildings and System</i>	5,380
<i>Machinery and Equipment</i>	785,442
Total Assets	<u>18,057,051</u>
LIABILITIES	
<i>Accounts Payable and Other Current Liabilities</i>	1,115,380
<i>Grants Payable</i>	823,983
Total Liabilities	<u>1,939,363</u>
NET ASSETS	
Invested in Capital Assets	790,822
Restricted For:	
Capital Projects	1,035,475
Unrestricted	14,291,391
Total Net Assets	<u>\$ 16,117,688</u>

The accompanying notes are an integral part of this statement.

NORTHEASTERN TRIBAL HEALTH SYSTEM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
Governmental Activities:					
<i>Health and Welfare</i>	\$ 11,011,379	\$ 2,020,388	\$ 9,263,297	\$ 992,877	\$ 1,265,183
Total Governmental Activities	<u>11,011,379</u>	<u>2,020,388</u>	<u>9,263,297</u>	<u>992,877</u>	<u>1,265,183</u>
Total Primary Government	<u>\$ 11,011,379</u>	<u>\$ 2,020,388</u>	<u>\$ 9,263,297</u>	<u>\$ 992,877</u>	<u>1,265,183</u>
General Revenues:					
<i>Unrestricted Investment Earnings</i>					111,329
Total General Revenues					<u>111,329</u>
Change in Net Assets					<u>1,376,512</u>
Net Assets - Beginning					<u>14,741,176</u>
Net Assets - Ending					<u>\$ 16,117,688</u>

The accompanying notes are an integral part of this statement.

NORTHEASTERN TRIBAL HEALTH SYSTEM

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	<u>General Fund</u>
ASSETS	
Assets:	
<i>Cash and Cash Equivalents</i>	\$ 15,120,887
<i>Receivables (net of allowances for uncollectibles)</i>	570,566
<i>Intergovernmental Receivables</i>	361,927
<i>Inventories</i>	139,982
<i>Prepaid items</i>	37,392
Restricted Assets:	
<i>Cash and Cash Equivalents</i>	1,035,475
Total Assets:	\$ 17,266,229
LIABILITIES AND FUND BALANCES	
Liabilities:	
<i>Accounts Payable</i>	\$ 938,610
<i>Grants Payable</i>	823,983
<i>Accrued Liabilities</i>	96,161
Total Liabilities	1,858,754
Fund Balances:	
Committed for Construction	1,035,475
Unassigned	14,372,000
Total Fund Balance	15,407,475
Total Liabilities and Fund Balance	\$ 17,266,229

The accompanying notes are an integral part of this statement.

NORTHEASTERN TRIBAL HEALTH SYSTEM
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011*

Total fund balances - governmental funds balance sheet	\$ 15,407,475
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	790,822
Payables for compensated absences which are not due in the current period are not reported in the funds.	<u>(80,609)</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 16,117,688</u>

The accompanying notes are an integral part of this statement.

NORTHEASTERN TRIBAL HEALTH SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund
Revenue:	
<i>Intergovernmental</i>	\$ 10,256,174
<i>Charges for Services</i>	2,020,388
<i>Investment Earnings</i>	111,329
Total revenues	<u>12,387,891</u>
Expenditures:	
Current:	
<i>Health and Welfare</i>	10,860,562
Capital Outlay:	
<i>Health and Welfare</i>	126,705
Total Expenditures	<u>10,987,267</u>
Net Change in Fund Balances	1,400,624
Fund Balances - Beginning	14,006,851
Fund Balances - Ending	<u>\$ 15,407,475</u>

The accompanying notes are an integral part of this statement.

NORTHEASTERN TRIBAL HEALTH SYSTEM

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011*

Net change in fund balances - total governmental funds	\$ 1,400,624
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	126,705
The depreciation of capital assets used in governmental activities is not reported in the funds.	(152,818)
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>2,001</u>
Change in net assets of governmental activities - Statement of Activities	<u>\$ 1,376,512</u>

The accompanying notes are an integral part of this statement.

NORTHEASTERN TRIBAL HEALTH SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Significant Accounting Policies

The combined financial statements of Northeastern Tribal Health System (the "Clinic") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted 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.

1. Reporting Entity

The Clinic's basic financial statements include the accounts of all its operations. The Clinic evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the Clinic's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the Clinic holds the corporate powers of the organization
- the Clinic appoints a voting majority of the organization's board
- the Clinic is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Clinic
- there is fiscal dependency by the organization on the Clinic
- the exclusion of the organization would result in misleading or incomplete financial statements

The Clinic also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the Clinic to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the Clinic, its component units or its constituents; and 2) The Clinic or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the Clinic.

Based on these criteria, the Clinic has no component units. Additionally, the Clinic is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Clinic's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Clinic does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Clinic's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

NORTHEASTERN TRIBAL HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

The Clinic reports the following major governmental funds:

General Fund. This is the Clinic's primary operating fund. It accounts for all financial resources of the Clinic except those required to be accounted for in another fund.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Clinic gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Clinic considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of charges for services provided. These revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the Clinic incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Clinic's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Inventories and Prepaid Items

Inventories on the balance sheet are stated at cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

b. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

NORTHEASTERN TRIBAL HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building Improvements	10
Equipment	10

c. Receivable and Payable Balances

The Clinic believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. Management deems all accounts receivable as collectible. Consequently, the allowance for doubtful accounts is valued at zero.

There are no significant receivables which are not scheduled for collection within one year of year end.

d. Compensated Absences

The Clinic's policy allows employees to earn twelve hours each month, to be available for use after thirty days of employment. The fiscal year is to be used as the basis for time used or lost. Employees are allowed to carry over up to 224 hours of accumulated leave time. Upon separation from employment with the Clinic, an employee will be paid for the unused portion of the accrued annual leave time at a rate based on the present earnings per hour. Employees are not paid for unused sick days upon termination of employment. Accordingly, sick pay is charged to expenditures when taken.

The liability for compensated absences is recorded as a liability in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources. As of September 30, 2011, the total balance of compensated absences in the government-wide statements was \$115,156.

e. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

f. Income Taxes

The Clinic is exempt from income taxes. Therefore, income taxes are not reflected in the financial statements.

g. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

NORTHEASTERN TRIBAL HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the Clinic's Governing Board. Committed amounts cannot be used for any other purpose unless the Governing Board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Governing Board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the Clinic intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Governing Board or by an official or body to which the Governing Board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Clinic itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Clinic considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Clinic considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

3. Budgetary Information

Budgets are not required to be adopted for the Clinic's fund types. Therefore, the budgetary comparison information has not been included in the financial statements.

NORTHEASTERN TRIBAL HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

C. Deposits and Investments

The Clinic's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Clinic's agent bank approved pledged securities in an amount sufficient to protect Clinic funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2011, the carrying amount of the Clinic's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$16,156,362 and the bank balance was \$16,375,280. The Clinic's cash deposits at September 30, 2011 and during the year ended September 30, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the Clinic's agent bank in the Clinic's name.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the Clinic was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the Clinic was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Clinic's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Clinic's name.

At year end, the Clinic was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the Clinic was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the Clinic was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the Clinic was not exposed to foreign currency risk.

NORTHEASTERN TRIBAL HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

D. Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets being depreciated:</i>				
Buildings and improvements	\$ 53,800	\$ --	\$ --	\$ 53,800
Equipment	2,912,639	126,704	--	3,039,343
Total capital assets being depreciated	<u>2,966,439</u>	<u>126,704</u>	<u>--</u>	<u>3,093,143</u>
Less accumulated depreciation for:				
Buildings and improvements	(43,040)	(5,380)	--	(48,420)
Equipment	(2,106,463)	(147,438)	--	(2,253,901)
Total accumulated depreciation	<u>(2,149,503)</u>	<u>(152,818)</u>	<u>--</u>	<u>(2,302,321)</u>
Total capital assets being depreciated, net	816,936	(26,114)	--	790,822
Governmental activities capital assets, net	<u>\$ 816,936</u>	<u>\$ (26,114)</u>	<u>\$ --</u>	<u>\$ 790,822</u>

Depreciation was charged to functions as follows:

Health and Welfare	\$ 152,818
	<u>\$ 152,818</u>

E. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of September 30, 2011, as follows:

Year Ending September 30,	
2012	\$ 261,040
2013	39,085
2014	39,085
2015	39,085
2016	39,085
2017-2021	153,082
Total Minimum Rentals	<u>\$ 570,462</u>
Rental Expenditures in 2011	<u>\$ 261,040</u>

As of September 30, 2011, each of the three building leases has an escape clause allowing the clinic to discontinue the lease if desired as a result of the construction in progress toward a new facility.

F. Risk Management

The Clinic is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2011, the Clinic purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

G. Health Care Coverage

During the year ended September 30, 2011, employees of the Clinic were covered by a health insurance plan (the Plan). The Clinic paid premiums of 100% per pay period per employee and 50% per dependents to the Plan. All premiums were paid to a licensed insurer.

NORTHEASTERN TRIBAL HEALTH SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

The contract between the Clinic and the licensed insurer is renewable November 1, 2011, and terms of coverage and premium costs are included in the contractual provisions.

H. Commitments and Contingencies

The Clinic participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Clinic has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the Clinic, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

I. Deferred Contribution Plan

The Clinic offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 401. The plan is administered by the Northeastern Tribal Health System Consortium. The plan, available to all Clinic employees over the age of twenty one, permits them to defer a portion of their salary until future years. Eligible employees can defer from one percent to fifteen percent of their wages each plan year. The Clinic will make a matching contribution of up to three percent. During the fiscal year employees contributed \$168,860 and the Clinic contributed \$137,297 to the plan.

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA

FRANK MARX, III, CPA

DORI BOHL, CPA & CFE

Independent Auditors' Report

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

Governing Board
Northeastern Tribal Health System
P.O. Box 1498
Miami, Oklahoma 74355

Members of the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Tribal Health System as of and for the year ended September 30, 2011, which collectively comprise the Northeastern Tribal Health System's basic financial statements and have issued our report thereon dated January 24, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeastern Tribal Health System's internal control over financial reporting as a basis for designing our auditing procedures 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 Northeastern Tribal Health System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northeastern Tribal Health System's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the entity, the Governing Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

January 24, 2012

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA

FRANK MARX, III, CPA

DORI BOHL, CPA & CFE

Independent Auditors' Report

Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

Governing Board
Northeastern Tribal Health System
P.O. Box 1498
Miami, Oklahoma 74355

Members of the Governing Board:

Compliance

We have audited Northeastern Tribal Health System's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Northeastern Tribal Health System's major federal program for the year ended September 30, 2011. Northeastern Tribal Health System's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Northeastern Tribal Health System's management. Our responsibility is to express an opinion on Northeastern Tribal Health System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeastern Tribal Health System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Northeastern Tribal Health System's compliance with those requirements.

In our opinion, Northeastern Tribal Health System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2011.

Internal Control Over Compliance

Management of Northeastern Tribal Health System is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northeastern Tribal Health System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeastern Tribal Health System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Governing Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

January 24, 2012

NORTHEASTERN TRIBAL HEALTH SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.210	Tribal Self Governance
93.237	Special Diabetes Program for Indians
14.862	Dental & Optometry Health Facility Project
14.862	Construction of the Northeastern Tribal Health System Health Programs Administration Building
14.862	Construction of the Northeastern Tribal Health System Diabetes Education & Physical Therapy Building
14.862	Construction of Community Health Services Facilities & Improvements
14.862	Design & Construction of a Pharmacy & Behavioral Health Facility

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

NORTHEASTERN TRIBAL HEALTH SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

NORTHEASTERN TRIBAL HEALTH SYSTEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None reported		

NORTHEASTERN TRIBAL HEALTH SYSTEM

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2011

No findings were reported for the current year. No corrective action plan is required.

NORTHEASTERN TRIBAL HEALTH SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

EXHIBIT C-1

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT</u>			
Passed Through Miami Tribe of Oklahoma:			
Dental & Optometry Health Facility Project *	14.862	--	\$ 237,978
Passed Through Modoc Tribe of Oklahoma:			
Construction of the Northeastern Tribal Health System Health Program	14.862	--	183,376
Passed Through Ottawa Tribe of Oklahoma:			
Construction of the Northeastern Tribal Health System Diabetes Educa	14.862	--	197,780
Passed Through Peoria Tribe of Oklahoma:			
Construction of Community Health Services Facilities & Improvements	14.862	--	210,725
Passed Through Quapaw Tribe of Oklahoma:			
Design & Construction of a Pharmacy & Behavioral Health Facility *	14.862	--	163,018
Total U. S. Department of Housing & Urban Development			<u>992,877</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Programs:			
Tribal Self Governance	93.210	--	9,447,851
Special Diabetes Program for Indians	93.237	--	342,070
NTHS CHIPRA Project	93.767	--	87,694
Total Direct Programs			<u>9,877,615</u>
Passed Through Indian Health Care Resource Center of Tulsa, Inc.:			
Special Diabetes Program for Indians	93.237	--	109,655
Passed Through Oklahoma City Area Inter-Tribal Health Board:			
Oral HP/DP Mini-Grant	93.991	DSC-5	2,500
Passed Through Oklahoma State Department of Health:			
Southern Plains American Indian CEED REACH US Project	93.283	--	4,620
Total U. S. Department of Health and Human Services			<u>9,994,390</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 10,987,267</u></u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

NORTHEASTERN TRIBAL HEALTH SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northeastern Tribal Health System and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.