



Management's Discussion and Analysis  
and Financial Statements  
June 30, 2017 and 2016

**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, 2017 and 2016

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Tahlequah Hospital Authority (Authority), which comprise the statements of net position as of June 30, 2017 and 2016, 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 misstatement.

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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tahlequah Hospital Authority as of June 30, 2017 and 2016, and the results of its operations 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 6, 2017 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 6, 2017

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, 2017, 2016 and 2015. 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 \$2,841,356 or 5% increase in 2017 and a \$1,493,944 or 3% increase in 2016.
- The Authority reported operating income in 2017 of \$1,703,186 and 2016 of \$308,968. Operating income increased \$1,394,218 or 451% in 2017 over 2016. Operating income decreased \$8,212,177 or 96% in 2016 over 2015.
- The Authority's total assets increased \$4,600,307 or 5% in 2017 compared to 2016. Total assets decreased \$751,455 or 0.8% in 2016 compared to 2015.

### **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 \$2,841,356 or 5% in 2017 and increased \$1,493,944 or 3% in 2016, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Current assets	\$ 33,119,234	\$ 35,269,329	\$ 39,136,438
Capital assets	37,895,301	31,025,886	29,167,213
Other noncurrent assets	<u>24,162,629</u>	<u>24,281,642</u>	<u>23,024,661</u>
Total assets	<u>\$ 95,177,164</u>	<u>\$ 90,576,857</u>	<u>\$ 91,328,312</u>
<b>Liabilities</b>			
Current liabilities	\$ 8,775,310	\$ 11,384,728	\$ 12,095,739
Long-term liabilities	<u>24,176,984</u>	<u>19,808,615</u>	<u>21,343,003</u>
Total liabilities	<u>32,952,294</u>	<u>31,193,343</u>	<u>33,438,742</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	13,400,581	10,706,052	6,993,993
Unrestricted	47,021,162	47,089,143	49,362,850
Noncontrolling interest in joint venture	<u>1,803,127</u>	<u>1,588,319</u>	<u>1,532,727</u>
Total net position	<u>62,224,870</u>	<u>59,383,514</u>	<u>57,889,570</u>
Total liabilities and net position	<u>\$ 95,177,164</u>	<u>\$ 90,576,857</u>	<u>\$ 91,328,312</u>

A significant component of the change in the Authority's assets is the increase in capital assets. Capital assets increased in 2017 by \$6,869,415 or 22% and increased in 2016 by \$1,858,673 or 10%. The primary increases between 2016 and 2017 are due to the purchase of new capital assets.

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

**Table 2: Operating Results**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues			
Net patient service revenue	\$ 95,764,171	\$ 89,226,296	\$ 91,069,474
Other revenue	4,229,617	4,820,996	5,283,443
Total operating revenues	<u>99,993,788</u>	<u>94,047,292</u>	<u>96,352,917</u>
Expenses			
Nursing services	24,366,361	22,264,580	19,874,405
Other professional services	45,604,300	43,390,648	42,454,014
General services	7,352,157	6,932,533	6,558,922
Administrative services	17,238,922	17,603,909	15,277,790
Other expenses	710,516	712,748	698,725
Depreciation and amortization	3,018,346	2,833,906	2,967,916
Total expenses	<u>98,290,602</u>	<u>93,738,324</u>	<u>87,831,772</u>
Operating Income	<u>1,703,186</u>	<u>308,968</u>	<u>8,521,145</u>
Nonoperating Revenue (Expense)			
Investment income	653,005	652,140	410,487
Income from joint ventures	2,177,598	1,972,027	1,535,770
Interest expense	(1,199,147)	(1,146,738)	(1,309,056)
Gain (loss)	(293,942)	(11,752)	970,827
Contributions expense	(34,206)	(19,994)	-
Nonoperating expense, net	<u>1,303,308</u>	<u>1,445,683</u>	<u>1,608,028</u>
Revenues in Excess of Expenses	3,006,494	1,754,651	10,129,173
Noncontrolling Interest in Joint Ventures	<u>(379,946)</u>	<u>(316,299)</u>	<u>(178,706)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	<u>\$ 2,626,548</u>	<u>\$ 1,438,352</u>	<u>\$ 9,950,467</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 \$1,703,186 in 2017 compared to an operating income of \$308,968 in 2016 and an operating income of \$8,521,145 in 2015.

The primary components of the operating income are:

- Net patient service revenue increased \$6,537,875 or 7% in 2017 and decreased \$1,843,178 or 2% in 2016. The increase in 2017 is attributed to an increase in inpatient services provided by the Authority. The decrease in 2016 is attributed to a decrease in complex lab services provided by the Authority.
- Other professional services expenses increased \$2,213,652 or 5% in 2017 and \$936,634 or 2% in 2016. The increases in 2017 and 2016 is attributed to the Authority hiring additional employees and professional fees for catheterization laboratory.
- Nursing services expenses increased \$2,101,781 or 9% in 2017 and increased \$2,390,175 or 12% in 2016. The increases in 2017 and 2016 is attributed increased cost of supplies and purchased services.

Net patient service revenue before provision for bad debts increased \$3,654,816 or 4% from 2016 to 2017 and decreased \$3,402,282 or 3% from 2015 to 2016. The provision for bad debts decreased \$2,883,059 or 21% in 2017 and \$1,559,104 or 3% in 2016.

Total patient service revenues were \$270,176,438 and \$242,078,025 for the years ended June 30, 2017 and 2016. Factors impacting total patient service revenues in 2017 compared to 2016 and 2016 compared to 2015 include increased services.

### **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 \$205,571 or 10% in 2017 and increased \$436,257 or 28% in 2016. Investment income increased \$865 or 0.1% in 2017 and increased \$241,653 or 59% in 2016. Interest expense decreased \$52,409 or 5% in 2017 and decreased \$162,318 or 12% in 2016.

### **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 2017 by \$5,743,032 and decreased by \$5,469,527 in 2016.
- Net cash used in financing activities decreased in 2017 by \$1,457,799 and increased by \$416,729 in 2016.
- Net cash provided by investing activities increased in 2017 by \$837,735 and decreased by \$662,859 in 2016.

### **Capital Assets**

At the end of 2017, the Authority had \$37,895,301 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2017, the Authority purchased new capital assets costing \$9,944,861. At the end of 2016, the Authority had \$31,025,886 invested in capital assets, net of accumulated depreciation. In 2016, the Authority purchased new capital assets costing \$4,704,331.



### **Debt**

At June 30, 2017 and 2016, the Authority had \$24,743,291 and \$20,319,834 in revenue notes, mortgage loans and capital lease obligations outstanding as detailed in Note 9 to the financial statements. The Authority issued \$6,314,011 and \$0 new debt in 2017 and 2016. 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 2018 fiscal year operating budget indicates conservative net revenue of approximately \$94,000,000. The Authority's continued mission is to be a health care leader in the area, and to enhance services to customers in a fiscally responsible manner. The Authority strives to be conscientious, consumer oriented and dedicated to teamwork, leadership and education.

### **Contacting The Authority's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tahlequah Hospital Authority, 1400 East Downing, Tahlequah, Oklahoma 74465.

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	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,722,233	\$ 16,500,256
Board designated cash	530,432	425,163
Receivables		
Patients, net of estimated uncollectibles of \$8,246,000 in 2017 and \$8,981,000 in 2016	14,894,962	12,344,453
Other	1,400,684	985,583
Current portion of lease receivable	-	30,334
Related parties	1,995,323	1,256,984
Supplies	2,450,019	2,463,861
Prepaid expenses	1,125,581	1,262,695
Total current assets	<u>33,119,234</u>	<u>35,269,329</u>
Capital Assets, Net		
Non-depreciable capital assets	10,448,156	3,975,523
Depreciable capital assets, net	27,447,145	27,050,363
Total capital assets, net	<u>37,895,301</u>	<u>31,025,886</u>
Other Assets		
Investments in joint ventures	6,407,776	6,684,494
Assets held under deferred compensation agreement	1,563,896	1,250,495
Investments	14,477,675	13,987,519
Investment in captive insurance	445,655	323,824
Lease receivable, net of current portion	-	737,554
Other	1,267,627	1,297,756
Total other assets	<u>24,162,629</u>	<u>24,281,642</u>
Total assets	<u>\$ 95,177,164</u>	<u>\$ 90,576,857</u>

See Notes to Financial Statements

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Net Position  
June 30, 2017 and 2016

	2017	2016
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 2,130,203	\$ 1,761,714
Accounts payable	2,891,525	4,108,505
Estimated third-party payor settlements	60,524	556,222
Accrued expenses		
Salaries and benefits payable	748,231	2,200,800
Vacation	1,852,878	1,701,938
Payroll taxes and other	1,019,334	1,036,349
Related party payable	72,615	19,200
Total current liabilities	8,775,310	11,384,728
Deferred Compensation	1,563,896	1,250,495
Long-Term Debt, Less Current Maturities	22,613,088	18,558,120
Total liabilities	32,952,294	31,193,343
Net Position		
Net investment in capital assets	13,400,581	10,706,052
Unrestricted	47,021,162	47,089,143
Noncontrolling interest in joint ventures	1,803,127	1,588,319
Total net position	62,224,870	59,383,514
Total liabilities and net position	\$ 95,177,164	\$ 90,576,857

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Revenues and Expenses  
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$11,095,586 in 2017 and \$13,978,645 in 2016)	\$ 95,764,171	\$ 89,226,296
Other revenue	4,229,617	4,820,996
Total operating revenue	99,993,788	94,047,292
Expenses		
Nursing services	24,366,361	22,264,580
Other professional services	45,604,300	43,390,648
General services	7,352,157	6,932,533
Administrative services	17,238,922	17,603,909
Other expenses	710,516	712,748
Depreciation and amortization	3,018,346	2,833,906
Total expenses	98,290,602	93,738,324
Operating Income	1,703,186	308,968
Nonoperating Revenues (Expenses)		
Investment income	653,005	652,140
Income from joint venture	2,177,598	1,972,027
Interest expense	(1,199,147)	(1,146,738)
Gain (loss) on capital assets and lease termination	(293,942)	(11,752)
Contributions expense	(34,206)	(19,994)
Nonoperating revenues (expenses), net	1,303,308	1,445,683
Revenues in Excess of Expenses	3,006,494	1,754,651
Noncontrolling Interest in Joint Ventures	(379,946)	(316,299)
Change in Net Assets, Excluding Noncontrolling Interest in Joint Ventures	\$ 2,626,548	\$ 1,438,352

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Changes in Net Position  
Years Ended June 30, 2017 and 2016

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	<u>Noncontrolling Interest</u>	<u>Controlling Interest</u>	<u>Total</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	1,588,319	57,795,195	59,383,514
Member Distributions	(165,138)	-	(165,138)
Change in Net Position	<u>379,946</u>	<u>2,626,548</u>	<u>3,006,494</u>
Net Position, June 30, 2017	<u><u>\$ 1,803,127</u></u>	<u><u>\$ 60,421,743</u></u>	<u><u>\$ 62,224,870</u></u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Cash received from patient services	\$ 92,717,964	\$ 90,232,382
Other operating receipts	3,076,177	4,784,726
Cash payments to suppliers for goods and services	(58,032,684)	(56,264,076)
Cash payments to and on behalf of employees for services	(39,232,075)	(34,480,618)
Net Cash from (used for) Operating Activities	<u>(1,470,618)</u>	<u>4,272,414</u>
Capital and Capital Related Financing Activities		
Payments on long-term debt	(1,809,125)	(1,853,386)
Payment of interest on long-term debt	(1,191,258)	(1,146,738)
Purchase of property and equipment	(8,592,516)	(4,704,331)
Proceeds from issuance of long-term debt	5,076,809	-
Proceeds from sale of capital assets	62,958	-
Net Cash used for Capital and Capital Related Financing Activities	<u>(6,453,132)</u>	<u>(7,704,455)</u>
Noncapital Financing Activities		
Contributions	(34,206)	(19,994)
Interest paid on non capital financing arrangements	(7,889)	-
Proceeds from issuance of non capital financing arrangements	300,000	-
Principal paid on long-term debt	(51,429)	-
Net Cash from (used for) Noncapital Financing Activities	<u>206,476</u>	<u>(19,994)</u>
Investing Activities		
Distribution to and purchase of noncontrolling interest in joint ventures	(165,138)	(260,707)
Distributions received from joint ventures	2,454,316	1,623,556
Payments received on lease receivable	27,725	26,443
Investment income	531,174	652,140
Purchase of investments	(803,557)	(834,647)
Net Cash from Investing Activities	<u>2,044,520</u>	<u>1,206,785</u>
Net Change in Cash and Cash Equivalents	(5,672,754)	(2,245,250)
Cash and Cash Equivalents, Beginning of Year	<u>16,925,419</u>	<u>19,170,669</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,252,665</u>	<u>\$ 16,925,419</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 10,722,233	\$ 16,500,256
Board designated cash	530,432	425,163
Total Cash and Cash Equivalents	<u>\$ 11,252,665</u>	<u>\$ 16,925,419</u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating income	\$ 1,703,186	\$ 308,968
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,018,346	2,833,906
Provision for bad debts	11,095,586	13,978,645
Changes in assets and liabilities		
Patient receivables	(13,646,095)	(11,989,359)
Other receivables	(415,101)	(161,031)
Due from related parties	(738,339)	124,761
Supplies	13,842	(376,771)
Prepays	132,334	49,505
Other assets	30,129	(104,197)
Accounts payable	(1,216,980)	(328,952)
Accrued expenses	(1,318,644)	757,552
Deferred compensation	313,401	227,328
Estimated third-party payor settlement	(495,698)	(983,200)
Due to related parties	53,415	(64,741)
Net Cash from (used for) Operating Activities	\$ (1,470,618)	\$ 4,272,414
Supplemental Disclosure of Non-cash Capital and Capital Related Financing and Investing Activities		
Income from joint venture	\$ 2,177,598	\$ 1,972,027
Capital asset purchases financed through capital lease	\$ 106,000	\$ -
Capital asset acquired through amendment of lease receivable	\$ 445,143	\$ -
Capital asset acquired through debt assumption	\$ 801,202	\$ -
Vested in captive insurance	\$ 121,831	\$ -



## **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 98-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 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. The Authority had no restricted, expendable net position at June 30, 2017 and 2016.

*Restricted – nonexpendable net position* is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority had no restricted, nonexpendable net position at June 30, 2017 and 2016.

*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, 2017 and 2016, notes receivable from physicians and employees totaled \$1,389,866 and \$1,286,571 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.

### **Supplies**

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

### Capital Assets

Capital asset acquisitions in excess of \$1,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

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

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. Investments classified as current and noncurrent are based on the expected use of investments in the next twelve months.

### Investment Income

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

### Investments in Captive Insurance

The Authority participates in a captive insurance company to insure risks related to malpractice liability claims. The Authority is entitled to a refund of the original investment and any excess premiums paid to the captive in the event it withdraws from the insurance captive subsequent to the initial five year commitment. As of June 30, 2017 and 2016, the Hospital is entitled to a full refund of its investment.

### **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 \$4,516,000 and \$4,019,000 for the years ended June 30, 2017 and 2016. Total direct and indirect cost related to those forgone charges were approximately \$1,603,000 and \$1,523,000 at June 30, 2017 and 2016, 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. 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 \$0 and \$376,697 for the years ended June 30, 2017 and 2016 related to EHR incentive payments. These incentive payments are included in other operating 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 \$1,961,353 and \$2,033,824 included in administrative services, for the years ended June 30, 2017 and 2016. In return, the Authority received \$5,194,312 and \$4,092,135 included in net patient service revenue, for the years ended June 30, 2017 and 2016.

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

### **New Accounting Pronouncements**

The Authority adopted the provisions of GASB Statement No. 72, Fair Value Measurement and Application (GASB No. 72), during the year ended June 30, 2017. GASB No. 72 addresses the accounting and financial reporting issues related to fair value measurements. The statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB No. 72 provides guidance for determining a fair value measurement for financial reporting purposes, and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of GASB No. 72 expanded the Medical Center's investment disclosure requirements, as seen in Note 4.

### **Subsequent Events**

The Authority has evaluated subsequent events through November 6, 2017, that date which the financial statements were available to be issued.

### **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 Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC 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.

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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, 2017 and 2016:

	2017	2016
Medicare	49%	43%
Medicaid	12%	13%
Blue Cross and other commercial payors	31%	37%
Self pay and other	8%	7%
	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.

**Note 3 - Deposits, Investments and Investment Income**

The carrying amounts of deposits as of June 30, 2017 and 2016 are as follows:

	2017	2016
Carry amount Deposits	\$ 11,252,665	\$ 16,925,419

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

	2017	2016
Cash and cash equivalents	\$ 10,722,233	\$ 16,500,256
Board designated cash	530,432	425,163
Total	\$ 11,252,665	\$ 16,925,419

**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.



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As of June 30, 2017 and 2016, \$12,563,516 of the Authority's bank balance of \$14,162,037 and \$15,658,640 of the Authority's bank balance of \$17,244,181 was exposed to custodial credit risk as follows:

	2017	2016
Uninsured and uncollateralized	\$ 2,545,161	\$ 2,982,114
Uninsured and collateral held by pledging bank's trust department in the Authority's name	10,018,355	12,676,526
Total	\$ 12,563,516	\$ 15,658,640

**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.

The Authority had the following investments and maturities at June 30, 2017 and 2016:

June 30, 2017		Investment Maturities (in Years)			
Type	Fair Value	Ratings	Less than 1	1 - 5	6-10
Domestic fixed income	\$ 2,682,859	Baa1 - Aaa	\$ 448,329	\$ 767,771	\$ 1,466,759
International fixed income	865,069	Baa1 - Aa2	35,959	490,791	338,319
	3,547,928		\$ 484,288	\$ 1,258,562	\$ 1,805,078
Domestic equities	2,231,143				
International equities	951,314				
Bond fund	7,380,461				
Balanced fund	278,525				
Prime fund	88,304				
	\$ 14,477,675				

June 30, 2016		Investment Maturities (in Years)			
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	772,354	Baa2 - Aa3	50,211	530,666	191,477
	3,559,502		\$ 333,652	\$ 1,630,825	\$ 1,595,025
Domestic equities	2,338,472				
International equities	993,856				
Bond fund	6,775,964				
Balanced fund	253,349				
Prime fund	66,376				
	\$ 13,987,519				

**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 investments shall not exceed 7 years. As of June 30, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, the Authority had no concentration of credit risk as defined above.

**Investment Income**

Investment income and gains and losses on assets limited as to use, cash equivalents, and other investments consisted of the following for the years ended June 30, 2017 and 2016.

	2017	2016
Interest and dividend income	\$ 229,508	\$ 652,140
Change in unrealized gains and losses on investments	423,497	-
Total	\$ 653,005	\$ 652,140

**Note 4 - Fair Value Measurements**

The Authority has determined the fair value of certain investments in accordance with generally accepted accounting principles, which provides a framework for measuring fair value. A hierarchy of valuation classifications considers whether the inputs used in valuation techniques are observable or unobservable. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy prioritizes the valuation inputs into the following three broad levels:

Level 1 – Unadjusted quoted prices for identical instruments in active markets that the Authority has the ability to access at the measurement date.

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Level 2 – Quoted prices for similar investments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are directly or indirectly observable. Examples would be matrix pricing, market corroborated pricing and inputs such as yield curves and indices.

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable and may rely on the Authority’s own assumptions, but the market participant’s assumptions may be used in pricing the asset.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Authority defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Authority performed a detailed analysis of the assets that are subject to fair value measurement.

The following table presents fair value measurements as of June 30, 2017:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Prime fund	\$ 88,305	\$ 88,305	\$ -	\$ -
Bonds - domestic	10,063,320	-	10,063,320	-
Bonds - international	865,068	-	865,068	-
Corporate stocks	130,850	-	-	130,850
Mutual funds - domestic	2,100,293	2,100,293	-	-
Mutual funds - international	951,314	951,314	-	-
Mutual funds - balanced	278,525	278,525	-	-
Total investments by fair value level	<u>\$ 14,477,675</u>	<u>\$ 3,418,437</u>	<u>\$ 10,928,388</u>	<u>\$ 130,850</u>

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The following table presents fair value measurements as of June 30, 2016:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Prime fund	\$ 66,376	\$ 66,376	\$ -	\$ -
Bonds - domestic	9,563,113	-	9,563,113	-
Bonds - international	772,354	-	772,354	-
Corporate stocks	151,147	-	-	151,147
Mutual funds - domestic	2,187,325	2,187,325	-	-
Mutual funds - international	993,856	993,856	-	-
Mutual funds - balanced	253,348	253,348	-	-
Total investments by fair value level	<u>\$ 13,987,519</u>	<u>\$ 3,500,905</u>	<u>\$ 10,335,467</u>	<u>\$ 151,147</u>

The Authority's investments in prime funds and mutual funds are based on quoted market prices for identical investments in an active market. The Authority's investments in bonds are based on quoted market prices for identical investments in an inactive market or similar investments in markets that are either active or inactive. The Authority's investment in corporate stocks have been determined by management based on various market analyses.

**Note 5 - Lease Receivable**

During 2017, the lease purchase option of medical office space was cancelled by the Authority's tenant, resulting in an amended operating lease between the tenant and the Authority. To settle the lease the Authority paid \$376,072 to the tenant, recorded capital assets at fair market value of \$821,215, and recognized a loss of \$295,019 from the lease termination.

	2017	2016
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
Less amounts considered to be interest	-	(464,375)
Lease receivable, net	-	767,888
Less current portion	-	(30,334)
Lease receivable net of current portion	<u>\$ -</u>	<u>\$ 737,554</u>

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**Note 6 - Capital Assets**

Capital assets additions, retirements, and balances for the year ended June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Transfers and Retirements	Balance June 30, 2017
Capital assets not being depreciated				
Land	\$ 2,838,057	\$ 138,799	\$ -	\$ 2,976,856
Construction in progress	1,137,466	7,475,911	(1,142,077)	7,471,300
	<u>\$ 3,975,523</u>	<u>\$ 7,614,710</u>	<u>\$ (1,142,077)</u>	<u>\$ 10,448,156</u>
Capital assets being depreciated				
Land improvements	\$ 624,450	\$ 1,000	\$ -	\$ 625,450
Buildings and fixed equipment	34,142,787	1,378,072	-	35,520,859
Major movable equipment	24,280,367	951,079	1,044,023	26,275,469
	<u>59,047,604</u>	<u>\$ 2,330,151</u>	<u>\$ 1,044,023</u>	<u>62,421,778</u>
Less accumulated depreciation for				
Land and improvements	\$ (366,989)	\$ (35,224)	\$ -	\$ (402,213)
Buildings and fixed equipment	(13,972,714)	(1,004,538)	-	(14,977,252)
Major movable equipment	(17,657,538)	(1,976,194)	38,564	(19,595,168)
	<u>(31,997,241)</u>	<u>\$ (3,015,956)</u>	<u>\$ 38,564</u>	<u>(34,974,633)</u>
Net capital assets being depreciated				
	<u>\$ 27,050,363</u>			<u>\$ 27,447,145</u>
Capital assets, net				
	<u>\$ 31,025,886</u>			<u>\$ 37,895,301</u>

The majority of construction in progress at June 30, 2017, represents cost incurred for construction of a building and various other smaller projects. Total expected cost to complete the construction of the building is approximately \$7,400,000 which is financed with the 3.92% note payable listed in Note 9. The projects will be financed with internal and external funds. Completion of the construction of the building is expected at the end of fiscal year 2018.

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

	Balance June 30, 2015	Additions	Transfers and Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 2,838,057	\$ -	\$ -	\$ 2,838,057
Construction in progress	561,652	751,257	(175,443)	1,137,466
	<u>3,399,709</u>	<u>751,257</u>	<u>(175,443)</u>	<u>3,975,523</u>
Total capital assets not being depreciated	<u>\$ 3,399,709</u>	<u>\$ 751,257</u>	<u>\$ (175,443)</u>	<u>\$ 3,975,523</u>
Capital assets being depreciated				
Land improvements	\$ 500,779	\$ 117,421	\$ 6,250	\$ 624,450
Buildings and fixed equipment	32,671,346	1,600,508	(129,067)	34,142,787
Major movable equipment	22,414,175	2,235,145	(368,953)	24,280,367
	<u>55,586,300</u>	<u>3,953,074</u>	<u>(491,770)</u>	<u>59,047,604</u>
Total capital assets being depreciated	<u>55,586,300</u>	<u>\$ 3,953,074</u>	<u>\$ (491,770)</u>	<u>59,047,604</u>
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)
	<u>(29,818,796)</u>	<u>(2,833,906)</u>	<u>655,461</u>	<u>(31,997,241)</u>
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>\$ 25,767,504</u>			<u>\$ 27,050,363</u>
Capital assets, net	<u>\$ 29,167,213</u>			<u>\$ 31,025,886</u>

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**Note 7 - Investments in Joint Ventures**

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2017 and 2016, the Authority's investment in joint ventures consisted of the following:

	2017	2016
Cherokee Health Partners, LLC	\$ 1,529,365	\$ 1,110,572
Platte Dialysis, LLC	4,878,411	5,573,922
Total investment in joint ventures	\$ 6,407,776	\$ 6,684,494

Joint venture activity for the years ended June 30, 2017 and 2016 are as follow:

	Balance June 30, 2016	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2017
Cherokee Health Partners, LLC	\$ 1,110,572	\$ 878,274	\$ (459,481)	\$ -	\$ 1,529,365
Platte Dialysis, LLC	5,573,922	1,299,324	(1,994,835)	-	4,878,411
	\$ 6,684,494	\$ 2,177,598	\$ (2,454,316)	\$ -	\$ 6,407,776
	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

**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 2017 and 2016, the Authority was paid \$2,071,524 and \$2,287,701 for services and building space provided to CHP. These expenses are included in operating revenues. The Authority was owed \$446,590 and \$464,494 for the years ended June 30, 2017 and 2016. The receivable are included in related party payable. The Authority is being reimbursed for a \$501,486 note payable at 2.99%, located in Note 8, for the purchase of equipment.

A component unit of CHP, Northeast Oklahoma Heart Center (NOHC), provides cardiovascular management services to the Tahlequah Hospital Authority. During 2017 and 2016, the Authority was paid \$11,362,494 and \$7,929,658 for services provided to NOHC. These expenses are included in operating revenues. The Authority was owed \$1,044,047 and \$787,085 at June 30, 2017 and 2016. The receivable is included in related party receivable.

### **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 \$22,450 and \$4,556 for services provided during the years ended June 30, 2017 and 2016. The receivables are included in related party receivable. The Authority owed Platte \$0 and \$13,970 for services provided during the years ended June 30, 2017 and 2016. 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.

#### **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, 2017 and 2016, 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, 2017 and 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 8 - Leases**

The Authority leases certain equipment under non-cancelable long-term lease agreements, which have been recorded as either capital or operating leases. Total lease expense in June 30, 2017 and 2016 for all operating leases was approximately \$873,000 and \$797,000. The capitalized leases assets consist of:

	2017	2016
Major moveable equipment	\$ 106,000	\$ -
Accumulated depreciation	(5,300)	-
	\$ 100,700	\$ -

Minimum future lease payments for the leases are as follows:

Year Ending June 30,	Capital Lease	Operating Lease
2018	\$ 37,000	\$ 19,123
2019	38,250	5,100
2020	38,250	1,275
2021	34,500	-
	\$ 148,000	\$ 25,498
Total minimum lease payments		

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**Note 9 - Long-Term Debt**

Long-term debt consists of:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Debt					
Revenue notes	\$ 10,306,517	\$ -	\$ (638,170)	\$ 9,668,347	\$ 678,006
Notes payable	10,013,317	6,136,011	(1,222,384)	14,926,944	1,415,197
Capital lease	<u>-</u>	<u>178,000</u>	<u>(30,000)</u>	<u>148,000</u>	<u>37,000</u>
Total long-term debt	<u>\$ 20,319,834</u>	<u>\$ 6,314,011</u>	<u>\$ (1,890,554)</u>	<u>\$ 24,743,291</u>	<u>\$ 2,130,203</u>

  

	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	<u>11,265,973</u>	<u>-</u>	<u>(1,252,656)</u>	<u>10,013,317</u>	<u>1,123,543</u>
Total long-term debt	<u>\$ 22,173,220</u>	<u>\$ -</u>	<u>\$ (1,853,386)</u>	<u>\$ 20,319,834</u>	<u>\$ 1,761,714</u>

The terms, due dates, and securing collateral of the Authority's long-term debt, including capital lease obligation, at June 30, 2017 and 2016 follow:

	<u>2017</u>	<u>2016</u>
Revenue Notes		
6.8% revenue note, due in monthly installments of \$70,113 including interest, through December 2027, secured by fixed assets (A)	\$ 6,301,864	\$ 6,699,877
4.9% revenue note, due in monthly installments of \$34,149 including interest, through December 2027, secured by fixed assets (A)	<u>3,366,483</u>	<u>3,606,640</u>
Total revenue notes	<u>9,668,347</u>	<u>10,306,517</u>

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	2017	2016
Notes Payable/Mortgage Loans		
4.625% note payable, due in monthly installments of \$18,206 including interest, through August 2016, secured by equipment	\$ -	\$ 36,202
3.9% note payable, due in monthly installments of \$14,791 including interest, with an estimated balloon payment of \$2,040,000 due December 2027, secured by property and equipment (A)	2,080,593	2,174,852
3.9% notes payable, due in monthly installments of \$60,730 including interest, with an estimated balloon payment of \$1,578,000 due February 2020, secured by property and equipment (A)	1,852,960	2,495,666
4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2019, secured by property	487,414	511,247
4.1% note payable, due in monthly installments of \$4,268 including interest, through April 2024, secured by land	304,685	342,533
4.1% note payable, due in monthly installments of \$6,431 including interest, through April 2024, secured by land	459,056	516,079
5.8% note payable, due in monthly installments of \$32,192 including interest, through August, 2028, secured by Women's Center Building, note was refinanced with the 4.5% note payable	-	3,360,675
4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	539,938	576,063
2.99% note payable, due in monthly installments of \$9,606 including interest, through February 2022, secured by associated equipment	501,486	-
4.5% note payable, due in monthly installments of \$29,359 including interest, through December 2031, secured by property	3,731,164	-
5.00% note payable, due in monthly installments of \$5,876 including interest, through August 2033, secured by building	782,799	-
3.92% note payable up to \$7,400,000, due in monthly installments of \$44,531 including interest, through September 2021, secured by building	3,249,496	-
2.75% note payable, due in monthly installments of \$10,258 including interest, through July 2023, secured by equipment	688,783	-
3.2% note payable, due in monthly installments of \$5,426 including interest, through July 2021, secured by property and equipment	248,570	-
Total notes payable/mortgage loans	14,926,944	10,013,317
Capital Lease		
Capital lease obligation with imputed interest of 0%, with a maturity date of April 2021, collateralized by equipment	148,000	-
	24,743,291	20,319,834
Less current maturities	(2,130,203)	(1,761,714)
Long-term debt, less current maturities	\$ 22,613,088	\$ 18,558,120

(A) Subsequent to year end, the Authority obtained a letter of intent from a local financial institution to refinance the notes payable with a balloon payment in December 2017. These notes payable have been shown as long-term.

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

<u>Year Ending June 30,</u>	<u>Long-term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,130,203	\$ 1,044,185
2019	3,077,544	1,038,741
2020	2,498,694	911,411
2021	2,101,745	808,982
2022	3,557,818	660,176
2023 to 2027	7,978,689	1,939,915
2028 to 2032	3,320,248	237,554
2033 to 2036	78,350	2,391
Total	<u>\$ 24,743,291</u>	<u>\$ 6,643,355</u>

**Note 10 - 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. Discretionary contributions are based on fiscal year-end net income compared to budgeted amounts. Total pension plan expense for the years ended June 30, 2017, 2016, and 2015 was \$868,550, \$895,058, and \$700,006.

**Note 11 - 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, 2017 and 2016, the value of deferred compensation, totaled \$1,563,896 and \$1,250,495.

**Note 12 - 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, 2017 and 2016 was as follows:

	2017	2016
Medicare	29%	24%
Medicaid	6%	10%
Other third-party payors	49%	43%
Patients	16%	23%
	100%	100%

**Note 13 - 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 Hospital has malpractice insurance coverage through Tecumseh Health Reciprocal Risk Retention Group (THRRRG), formally Heartland Reciprocal Risk Retention Group, a captive insurance company. The Hospital has an investment interest in THRRRG. The Hospital pays retrospectively rated premiums for annual medical malpractice coverage. 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, 2017.

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
2017	\$ 488,000	\$ 2,348,488	\$ (2,570,488)	\$ 266,000
2016	400,300	2,541,670	(2,453,970)	488,000

**Note 14 - Condensed Combining Information**

The following summarizes combining information for the Authority, and NOD, NWM, Foundation, NOCC, and NOMSO, which have been presented as a blended component unit, as of and for the year ended June 30, 2017.

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Statement of net position as of June 30, 2017:

	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
<b>Assets</b>								
Current Assets	\$ 30,201,822	\$ 1,946,413	\$ 55,410	\$ 1,438,722	\$ 1,460,578	\$ 190,784	\$ (2,174,495)	\$ 33,119,234
Capital assets, net	24,485,215	714,099	3,294	12,674,101	18,592	-	-	37,895,301
Other noncurrent assets	<u>32,795,710</u>	<u>-</u>	<u>-</u>	<u>79,083</u>	<u>14,879</u>	<u>-</u>	<u>(8,727,043)</u>	<u>24,162,629</u>
Total assets	<u>\$ 87,482,747</u>	<u>\$ 2,660,512</u>	<u>\$ 58,704</u>	<u>\$ 14,191,906</u>	<u>\$ 1,494,049</u>	<u>\$ 190,784</u>	<u>\$ (10,901,538)</u>	<u>\$ 95,177,164</u>
<b>Liabilities</b>								
Current liabilities	\$ 8,752,916	\$ 327,495	\$ 151,810	\$ 1,500,974	\$ 189,280	\$ 27,331	\$ (2,174,496)	\$ 8,775,310
Deferred Compensation	1,563,896	-	-	-	-	-	-	1,563,896
Long-term debt, less current maturities	<u>16,290,777</u>	<u>583,308</u>	<u>190,572</u>	<u>5,627,514</u>	<u>-</u>	<u>-</u>	<u>(79,083)</u>	<u>22,613,088</u>
Total liabilities	<u>26,607,589</u>	<u>910,803</u>	<u>342,382</u>	<u>7,128,488</u>	<u>189,280</u>	<u>27,331</u>	<u>(2,253,579)</u>	<u>32,952,294</u>
<b>Net Position</b>								
Net investment in capital assets	6,502,666	25,316	3,294	6,850,713	18,592	-	-	13,400,581
Unrestricted	54,372,492	1,724,393	(286,972)	212,705	1,286,177	163,453	(10,451,086)	47,021,162
Noncontrolling interest in joint ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,803,127</u>	<u>1,803,127</u>
Total net position	<u>60,875,158</u>	<u>1,749,709</u>	<u>(283,678)</u>	<u>7,063,418</u>	<u>1,304,769</u>	<u>163,453</u>	<u>(8,647,959)</u>	<u>62,224,870</u>
Total liabilities and net position	<u>\$ 87,482,747</u>	<u>\$ 2,660,512</u>	<u>\$ 58,704</u>	<u>\$ 14,191,906</u>	<u>\$ 1,494,049</u>	<u>\$ 190,784</u>	<u>\$ (10,901,538)</u>	<u>\$ 95,177,164</u>

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Operating results and changes in net position for the year ended June 30, 2017:

	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	\$ 93,763,302	\$ 1,607,395	\$ -	\$ -	\$ 2,000,869	\$ -	\$ (1,607,395)	\$ 95,764,171
Other revenue	4,020,330	26,438	304,155	1,798,051	-	207,158	(2,126,515)	4,229,617
Total operating revenues	<u>97,783,632</u>	<u>1,633,833</u>	<u>304,155</u>	<u>1,798,051</u>	<u>2,000,869</u>	<u>207,158</u>	<u>(3,733,910)</u>	<u>99,993,788</u>
Operating expenses								
Depreciation and amortization	2,476,239	284,416	362	245,375	11,954	-	-	3,018,346
Other operating expenses	94,376,439	654,372	584,972	423,443	1,847,350	122,090	(2,736,410)	95,272,256
Total operating expenses	<u>96,852,678</u>	<u>938,788</u>	<u>585,334</u>	<u>668,818</u>	<u>1,859,304</u>	<u>122,090</u>	<u>(2,736,410)</u>	<u>98,290,602</u>
Operating income (loss)	930,954	695,045	(281,179)	1,129,233	141,565	85,068	(997,500)	1,703,186
Nonoperating revenues (expenses)	2,088,245	(11,138)	-	(142,738)	14,191	-	(645,252)	1,303,308
Revenues in excess of (less than) expenses	3,019,199	683,907	(281,179)	986,495	155,756	85,068	(1,642,752)	3,006,494
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(379,946)	(379,946)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	3,019,199	683,907	(281,179)	986,495	155,756	85,068	(2,022,698)	2,626,548
Net position, beginning of year	57,855,959	1,612,929	(2,499)	6,076,923	1,149,013	78,385	(8,975,515)	57,795,195
Members' Distributions	-	(547,127)	-	-	-	-	547,127	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	1,803,127	1,803,127
Net position, end of year	<u>\$ 60,875,158</u>	<u>\$ 1,749,709</u>	<u>\$ (283,678)</u>	<u>\$ 7,063,418</u>	<u>\$ 1,304,769</u>	<u>\$ 163,453</u>	<u>\$ (8,647,959)</u>	<u>\$ 62,224,870</u>



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Cash flows for the year ended June 30, 2017:

	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	\$ (3,653,979)	\$ 1,033,857	\$ (220,702)	\$ 1,890,696	\$ 404,855	\$ 74,655	\$ (1,000,000)	\$ (1,470,618)
Net cash from (used for) capital and related financing activities	(5,283,935)	262,223	(3,656)	(2,427,764)	-	-	1,000,000	(6,453,132)
Net cash from (used for) noncapital financing activities	(42,095)	-	248,571	-	-	-	-	206,476
Net cash from (used for) investing activities	<u>2,553,643</u>	<u>(539,575)</u>	<u>-</u>	<u>16,261</u>	<u>14,191</u>	<u>-</u>	<u>-</u>	<u>2,044,520</u>
Net change in cash and cash equivalents	(6,426,366)	756,505	24,213	(520,807)	419,046	74,655	-	(5,672,754)
Cash and cash equivalents, beginning 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>
Cash and cash equivalents, end of year	<u>\$ 7,122,238</u>	<u>\$ 1,767,430</u>	<u>\$ 24,213</u>	<u>\$ 917,833</u>	<u>\$ 1,260,754</u>	<u>\$ 160,197</u>	<u>\$ -</u>	<u>\$ 11,252,665</u>

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

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
<b>Assets</b>								
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
<b>Total assets</b>	<b>\$ 86,983,788</b>	<b>\$ 1,809,167</b>	<b>\$ 40,811</b>	<b>\$ 8,311,838</b>	<b>\$ 1,293,937</b>	<b>\$ 103,480</b>	<b>\$ (7,966,164)</b>	<b>\$ 90,576,857</b>
<b>Liabilities</b>								
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
<b>Total liabilities</b>	<b>29,127,829</b>	<b>196,238</b>	<b>43,310</b>	<b>2,234,915</b>	<b>144,924</b>	<b>25,095</b>	<b>(578,968)</b>	<b>31,193,343</b>
<b>Net Position</b>								
Net investment in capital assets	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
<b>Total net position</b>	<b>57,855,959</b>	<b>1,612,929</b>	<b>(2,499)</b>	<b>6,076,923</b>	<b>1,149,013</b>	<b>78,385</b>	<b>(7,387,196)</b>	<b>59,383,514</b>
<b>Total liabilities and net position</b>	<b>\$ 86,983,788</b>	<b>\$ 1,809,167</b>	<b>\$ 40,811</b>	<b>\$ 8,311,838</b>	<b>\$ 1,293,937</b>	<b>\$ 103,480</b>	<b>\$ (7,966,164)</b>	<b>\$ 90,576,857</b>

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Notes to Financial Statements  
June 30, 2017 and 2016

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 and amortization	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)	<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 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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(316,299)</u>	<u>(316,299)</u>
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 Units	-	52,170	-	-	-	-	(52,170)	-
Members' Distributions	-	(1,620,705)	-	-	-	-	1,620,705	-
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,588,319</u>	<u>1,588,319</u>
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, 2017 and 2016

Cash flows for the year ended June 30, 2016:

	<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>
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 from (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>



Supplementary Information  
June 30, 2017 and 2016

# 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, 2017 and 2016 and our report thereon dated November 6, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the 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.

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

Oklahoma City, Oklahoma  
November 6, 2017

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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, 2017

	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	\$ 6,591,806	\$ 1,767,430	24,213	\$ 917,833	\$ 1,260,754	\$ 160,197	\$ -	\$ 10,722,233
Board designated cash	530,432	-	-	-	-	-	-	530,432
Receivables								
Patient, net	14,707,456	-	-	-	187,506	-	-	14,894,962
Other	1,371,854	-	24,762	500,000	-	28,830	(524,762)	1,400,684
Current portion of lease receivable	-	-	-	4,586	-	-	(4,586)	-
Due from related parties	3,483,661	156,809	-	-	-	-	(1,645,147)	1,995,323
Supplies	2,443,308	-	4,246	-	2,465	-	-	2,450,019
Prepaid expenses	1,073,305	22,174	2,189	16,303	9,853	1,757	-	1,125,581
Total current assets	<u>30,201,822</u>	<u>1,946,413</u>	<u>55,410</u>	<u>1,438,722</u>	<u>1,460,578</u>	<u>190,784</u>	<u>(2,174,495)</u>	<u>33,119,234</u>
Capital Assets, Net	<u>24,485,215</u>	<u>714,099</u>	<u>3,294</u>	<u>12,674,101</u>	<u>18,592</u>	<u>-</u>	<u>-</u>	<u>37,895,301</u>
Other Assets								
Investment in NOD	617,275	-	-	-	-	-	(617,275)	-
Interest in Foundation	7,089,838	-	-	-	-	-	(7,089,838)	-
Investment in NOMSO	163,455	-	-	-	-	-	(163,455)	-
Investment in CHP	1,529,365	-	-	-	-	-	-	1,529,365
Investment in NOCC	777,392	-	-	-	-	-	(777,392)	-
Investment in NWM	-	-	-	-	-	-	-	-
Investment in Platte Dialysis	4,878,411	-	-	-	-	-	-	4,878,411
Total investments in joint ventures	<u>15,055,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,647,960)</u>	<u>6,407,776</u>
Assets held under deferred compensation agreement	1,563,896	-	-	-	-	-	-	1,563,896
Investments	14,477,675	-	-	-	-	-	-	14,477,675
Investment in captive insurance	445,655	-	-	-	-	-	-	445,655
Lease receivable, net of current portion	-	-	-	79,083	-	-	(79,083)	-
Other	1,252,748	-	-	-	14,879	-	-	1,267,627
Total other assets	<u>32,795,710</u>	<u>-</u>	<u>-</u>	<u>79,083</u>	<u>14,879</u>	<u>-</u>	<u>(8,727,043)</u>	<u>24,162,629</u>
Total assets	<u>\$ 87,482,747</u>	<u>\$ 2,660,512</u>	<u>\$ 58,704</u>	<u>\$ 14,191,906</u>	<u>\$ 1,494,049</u>	<u>\$ 190,784</u>	<u>\$ (10,901,538)</u>	<u>\$ 95,177,164</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>
<b>Liabilities and Net Position</b>								
<b>Current Liabilities</b>								
Current maturities of long-term debt	\$ 1,775,441	\$ 105,475	\$ 57,999	\$ 195,874	\$ -	\$ -	\$ (4,586)	\$ 2,130,203
Accounts payable	3,305,311	222,020	93,811	-	180,477	27,331	(937,425)	2,891,525
Estimated third-party payor settlements	60,524	-	-	-	-	-	-	60,524
Accrued expenses								
Salaries and benefits payable	748,231	-	-	-	-	-	-	748,231
Vacation	1,852,878	-	-	-	-	-	-	1,852,878
Payroll taxes and other	1,010,531	-	-	-	8,803	-	-	1,019,334
Due to related parties	-	-	-	1,305,100	-	-	(1,232,485)	72,615
Total current liabilities	<u>8,752,916</u>	<u>327,495</u>	<u>151,810</u>	<u>1,500,974</u>	<u>189,280</u>	<u>27,331</u>	<u>(2,174,496)</u>	<u>8,775,310</u>
Deferred Compensation	1,563,896	-	-	-	-	-	-	1,563,896
Long-Term Debt, Less Current Maturities	<u>16,290,777</u>	<u>583,308</u>	<u>190,572</u>	<u>5,627,514</u>	<u>-</u>	<u>-</u>	<u>(79,083)</u>	<u>22,613,088</u>
Total liabilities	<u>26,607,589</u>	<u>910,803</u>	<u>342,382</u>	<u>7,128,488</u>	<u>189,280</u>	<u>27,331</u>	<u>(2,253,579)</u>	<u>32,952,294</u>
<b>Net Position</b>								
Net investment in capital assets	6,502,666	25,316	3,294	6,850,713	18,592	-	-	13,400,581
Unrestricted	54,372,492	1,724,393	(286,972)	212,705	1,286,177	163,453	(10,451,086)	47,021,162
Noncontrolling interest in joint ventures	-	-	-	-	-	-	1,803,127	1,803,127
Total net position	<u>60,875,158</u>	<u>1,749,709</u>	<u>(283,678)</u>	<u>7,063,418</u>	<u>1,304,769</u>	<u>163,453</u>	<u>(8,647,959)</u>	<u>62,224,870</u>
Total liabilities and net position	<u>\$ 87,482,747</u>	<u>\$ 2,660,512</u>	<u>\$ 58,704</u>	<u>\$ 14,191,906</u>	<u>\$ 1,494,049</u>	<u>\$ 190,784</u>	<u>\$ (10,901,538)</u>	<u>\$ 95,177,164</u>

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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
<b>Assets</b>								
<b>Current Assets</b>								
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
<b>Total current assets</b>	<b>31,691,583</b>	<b>1,218,522</b>	<b>40,811</b>	<b>1,461,721</b>	<b>1,248,511</b>	<b>103,480</b>	<b>(495,299)</b>	<b>35,269,329</b>
<b>Capital Assets, Net</b>	<b>23,638,246</b>	<b>590,645</b>	<b>-</b>	<b>6,766,448</b>	<b>30,547</b>	<b>-</b>	<b>-</b>	<b>31,025,886</b>
<b>Other Assets</b>								
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
<b>Total investments in joint ventures</b>	<b>14,071,690</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,387,196)</b>	<b>6,684,494</b>
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
<b>Total other assets</b>	<b>31,653,959</b>	<b>-</b>	<b>-</b>	<b>83,669</b>	<b>14,879</b>	<b>-</b>	<b>(7,470,865)</b>	<b>24,281,642</b>
<b>Total assets</b>	<b>\$ 86,983,788</b>	<b>\$ 1,809,167</b>	<b>\$ 40,811</b>	<b>\$ 8,311,838</b>	<b>\$ 1,293,937</b>	<b>\$ 103,480</b>	<b>\$ (7,966,164)</b>	<b>\$ 90,576,857</b>

	<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>
<b>Liabilities and Net Position</b>								
<b>Current Liabilities</b>								
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
<b>Accrued expenses</b>								
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
<b>Total current liabilities</b>	<b>11,026,638</b>	<b>196,238</b>	<b>43,310</b>	<b>443,822</b>	<b>144,924</b>	<b>25,095</b>	<b>(495,299)</b>	<b>11,384,728</b>
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
<b>Total liabilities</b>	<b>29,127,829</b>	<b>196,238</b>	<b>43,310</b>	<b>2,234,915</b>	<b>144,924</b>	<b>25,095</b>	<b>(578,968)</b>	<b>31,193,343</b>
<b>Net Position</b>								
Net investment in capital assets	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
<b>Total net position</b>	<b>57,855,959</b>	<b>1,612,929</b>	<b>(2,499)</b>	<b>6,076,923</b>	<b>1,149,013</b>	<b>78,385</b>	<b>(7,387,196)</b>	<b>59,383,514</b>
<b>Total liabilities and net position</b>	<b>\$ 86,983,788</b>	<b>\$ 1,809,167</b>	<b>\$ 40,811</b>	<b>\$ 8,311,838</b>	<b>\$ 1,293,937</b>	<b>\$ 103,480</b>	<b>\$ (7,966,164)</b>	<b>\$ 90,576,857</b>

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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, 2017

	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	\$ 93,763,302	\$ 1,607,395	\$ -	\$ -	\$ 2,000,869	\$ -	\$ (1,607,395)	\$ 95,764,171
Other revenue	4,020,330	26,438	304,155	1,798,051	-	207,158	(2,126,515)	4,229,617
Total operating revenue	<u>97,783,632</u>	<u>1,633,833</u>	<u>304,155</u>	<u>1,798,051</u>	<u>2,000,869</u>	<u>207,158</u>	<u>(3,733,910)</u>	<u>99,993,788</u>
Expenses								
Nursing services	25,973,756	-	-	-	-	-	(1,607,395)	24,366,361
Other professional services	45,504,396	22,293	-	6,025	507,275	-	(435,689)	45,604,300
General services	5,860,281	-	584,972	-	1,267,443	122,090	(482,629)	7,352,157
Administrative services	17,038,006	114,392	-	13,892	72,632	-	-	17,238,922
Other expenses	-	517,687	-	403,526	-	-	(210,697)	710,516
Depreciation and amortization	2,476,239	284,416	362	245,375	11,954	-	-	3,018,346
Total expenses	<u>96,852,678</u>	<u>938,788</u>	<u>585,334</u>	<u>668,818</u>	<u>1,859,304</u>	<u>122,090</u>	<u>(2,736,410)</u>	<u>98,290,602</u>
Operating Income (Loss)	<u>930,954</u>	<u>695,045</u>	<u>(281,179)</u>	<u>1,129,233</u>	<u>141,565</u>	<u>85,068</u>	<u>(997,500)</u>	<u>1,703,186</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	\$ 619,408	\$ 7,552	\$ -	\$ 11,854	\$ 14,191	\$ -	\$ -	\$ 653,005
Income from NOD	478,736	-	-	-	-	-	(478,736)	-
Income from Foundation	986,492	-	-	-	-	-	(986,492)	-
Income from NOMSO	85,069	-	-	-	-	-	(85,069)	-
Income from CHP	878,274	-	-	-	-	-	-	878,274
Income from NOCC	93,456	-	-	-	-	-	(93,456)	-
Income from NWM	1,499	-	-	-	-	-	(1,499)	-
Income from Platte	1,299,324	-	-	-	-	-	-	1,299,324
Interest expense	(1,025,865)	(18,690)	-	(154,592)	-	-	-	(1,199,147)
Loss on disposal	(293,942)	-	-	-	-	-	-	(293,942)
Contributions expense	(1,034,206)	-	-	-	-	-	1,000,000	(34,206)
Total non operating revenue (expense), net	2,088,245	(11,138)	-	(142,738)	14,191	-	(645,252)	1,303,308
Revenues in Excess of (Less Than) Expenses	3,019,199	683,907	(281,179)	986,495	155,756	85,068	(1,642,752)	3,006,494
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	(379,946)	(379,946)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	3,019,199	683,907	(281,179)	986,495	155,756	85,068	(2,022,698)	2,626,548
Net Position, Beginning of Year	57,855,959	1,612,929	(2,499)	6,076,923	1,149,013	78,385	(8,975,515)	57,795,195
Sale of Membership Units	-	-	-	-	-	-	-	-
Members' Distributions	-	(547,127)	-	-	-	-	547,127	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	1,803,127	1,803,127
Net Position, End of Year	\$ 60,875,158	\$ 1,749,709	\$ (283,678)	\$ 7,063,418	\$ 1,304,769	\$ 163,453	\$ (8,647,959)	\$ 62,224,870

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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	23,871,975	-	-	-	-	-	(1,607,395)	22,264,580
Other professional services	43,186,596	21,890	-	10,368	468,313	-	(296,519)	43,390,648
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 and amortization	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 NOD	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 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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(316,299)</u>	<u>(316,299)</u>
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 Units	-	52,170	-	-	-	-	(52,170)	-
Members' Distributions	-	(1,620,705)	-	-	-	-	1,620,705	-
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,588,319</u>	<u>1,588,319</u>
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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	2017		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 10,376,288	\$ -	\$ 10,376,288
Intensive care unit	19,312,029	-	19,312,029
Nursery	817,055	-	817,055
	<u>30,505,372</u>	<u>-</u>	<u>30,505,372</u>
Other nursing services			
Central service supplies	70,136	39,245	109,381
Emergency room	4,781,849	19,241,164	24,023,013
Wound Care	-	293,172	293,172
Observation	-	1,395,038	1,395,038
Operating room	21,640,491	23,316,063	44,956,554
	<u>26,492,476</u>	<u>44,284,682</u>	<u>70,777,158</u>
Other professional services			
Ambulance	-	3,715,205	3,715,205
Anesthesiology	781,108	7,324,138	8,105,246
Cardiac cath lab	11,851,096	12,274,579	24,125,675
Complex lab	5,208	3,786,795	3,792,003
Electrocardiography	1,762,093	3,043,228	4,805,321
Geriatric psychology	2,324,758	-	2,324,758
Hyperbaric	5,470	295,024	300,494
Laboratory	7,339,461	12,916,490	20,255,951
Nephrology	-	368,260	368,260
Obstetrics	2,257,056	238,850	2,495,906
Oncology	250	13,359,264	13,359,514
Pharmacy	10,017,110	5,275,702	15,292,812
Physical therapy	353,390	577,737	931,127
Physician	-	15,674,205	15,674,205
Radiology	3,303,934	28,728,716	32,032,650
Rehabilitation	2,495,204	228,074	2,723,278
Respiratory therapy	8,231,636	4,074,006	12,305,642
Speech therapy	157,280	331,306	488,586
Wellness Center	-	294	294
	<u>50,885,054</u>	<u>112,211,873</u>	<u>163,096,927</u>
	<u>\$ 107,882,902</u>	<u>\$ 156,496,555</u>	<u>264,379,457</u>
Charity care			<u>(4,515,962)</u>
Total patient service revenue			<u>259,863,495</u>
Deductions from Revenue			
Contractual Adjustments			(155,099,402)
Provision for Bad Debts			<u>(11,000,791)</u>
Total reductions from revenue			<u>(166,100,193)</u>
Net Patient Service Revenue			<u>\$ 93,763,302</u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Schedules of Hospital Net Patient Service Revenue  
Years Ended June 30, 2017 and 2016

2016		
Inpatient	Outpatient	Total
\$ 5,102,856	\$ -	\$ 5,102,856
12,090,927	-	12,090,927
761,957	-	761,957
<u>17,955,740</u>	<u>-</u>	<u>17,955,740</u>
76,010	29,111	105,121
4,025,379	19,470,008	23,495,387
-	164,881	164,881
-	1,702,747	1,702,747
<u>15,974,213</u>	<u>23,315,685</u>	<u>39,289,898</u>
<u>20,075,602</u>	<u>44,682,432</u>	<u>64,758,034</u>
-	3,429,187	3,429,187
655,304	6,780,333	7,435,637
5,601,383	7,075,457	12,676,840
10,739	21,143,906	21,154,645
808,641	2,117,830	2,926,471
2,861,814	-	2,861,814
1,071	353,669	354,740
5,795,026	12,006,329	17,801,355
-	199,867	199,867
2,282,680	309,887	2,592,567
1,375	12,689,814	12,691,189
6,875,609	4,503,554	11,379,163
417,314	671,672	1,088,986
-	13,583,758	13,583,758
2,353,244	27,007,317	29,360,561
2,132,882	234,949	2,367,831
6,105,482	3,799,312	9,904,794
98,756	334,145	432,901
<u>-</u>	<u>567</u>	<u>567</u>
<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>	234,956,647
		<u>(4,019,428)</u>
		<u>230,937,219</u>
		(129,950,485)
		<u>(14,042,929)</u>
		<u>(143,993,414)</u>
		<u>\$ 86,943,805</u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Schedules of Hospital Other Revenue  
Years Ended June 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
Other Revenue		
Government incentive for electronic health records	\$ -	\$ 376,697
Rental income	781,860	762,325
Service contract billing	1,593,282	2,150,818
Cafeteria	290,416	285,857
Kiosk (The Coffee House)	512,780	468,251
Miscellaneous	841,992	307,495
	<u>                    </u>	<u>                    </u>
Total Other Revenue	<u>\$ 4,020,330</u>	<u>\$ 4,351,443</u>

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	2017		
	Salaries	Supplies & Expenses	Total
<b>Nursing Services</b>			
Central service supplies	\$ 234,005	\$ 204,792	\$ 438,797
Emergency room	1,528,743	875,116	2,403,859
Wound care	-	162,535	162,535
Intensive care unit	1,902,210	1,414,310	3,316,520
Labor and delivery	843,537	268,251	1,111,788
Medical and surgical	2,928,105	619,948	3,548,053
Nursery	-	1,692	1,692
Nursing administration	1,099,481	40,712	1,140,193
Operating room	2,486,044	11,364,275	13,850,319
	<u>11,022,125</u>	<u>14,951,631</u>	<u>25,973,756</u>
<b>Other Professional Services</b>			
Ambulance	1,041,218	185,638	1,226,856
Anesthesiology	-	1,161,753	1,161,753
Bio Med	137,556	11,228	148,784
Cardiology	41,779	1,254	43,033
Cath lab	6,916	9,582,513	9,589,429
Complex lab	137,900	256,109	394,009
Electrocardiography	100,024	33,649	133,673
Geriatric psychology	978,430	162,864	1,141,294
Health education	132,974	30,010	162,984
Hyperbarics	11,229	141,889	153,118
Laboratory	1,204,914	2,777,092	3,982,006
Nephrology	-	290,693	290,693
Occupational therapy	63,794	22,092	85,886
Oncology	286,810	3,289,438	3,576,248
Pharmacy	1,016,453	2,155,330	3,171,783
Physical therapy	277,864	117,079	394,943
Physician	8,700,534	3,581,814	12,282,348
Radiology	1,798,326	2,063,980	3,862,306
Rehabilitation inpatient	659,207	789,874	1,449,081
Respiratory therapy	1,382,257	371,985	1,754,242
Social services	303,798	18,398	322,196
Speech therapy	146,237	26,298	172,535
Specialty clinics	-	5,196	5,196
	<u>18,428,220</u>	<u>27,076,176</u>	<u>45,504,396</u>
<b>General Services</b>			
Dietary	743,833	554,407	1,298,240
Housekeeping	595,648	158,993	754,641
Laundry and linen	-	333,553	333,553
Medical records	905,917	504,064	1,409,981
Plant operations	811,237	1,252,629	2,063,866
	<u>3,056,635</u>	<u>2,803,646</u>	<u>5,860,281</u>
<b>Administrative Services</b>			
Administration and office	5,719,852	5,301,031	11,020,883
Employee benefits	-	6,017,123	6,017,123
	<u>5,719,852</u>	<u>11,318,154</u>	<u>17,038,006</u>
<b>Depreciation</b>	<u>-</u>	<u>2,476,239</u>	<u>2,476,239</u>
	<u>\$ 38,226,832</u>	<u>\$ 58,625,846</u>	<u>\$ 96,852,678</u>



Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Schedules of Hospital Expenses  
Years Ended June 30, 2017 and 2016

2016		
Salaries	Supplies & Expenses	Total
\$ 235,215	\$ 177,676	\$ 412,891
1,456,352	1,000,191	2,456,543
5,089	42,998	48,087
1,725,555	761,333	2,486,888
858,773	258,235	1,117,008
2,614,671	678,209	3,292,880
-	1,965	1,965
1,076,994	58,014	1,135,008
2,407,362	10,513,343	12,920,705
<u>10,380,011</u>	<u>13,491,964</u>	<u>23,871,975</u>
1,031,060	147,272	1,178,332
-	1,330,050	1,330,050
118,854	5,704	124,558
40,426	1,108	41,534
6,081	6,714,072	6,720,153
73,886	3,579,515	3,653,401
95,765	13,545	109,310
1,078,227	141,347	1,219,574
63,488	17,653	81,141
33,411	50,450	83,861
1,123,277	2,453,579	3,576,856
-	97,265	97,265
58,604	4,921	63,525
276,165	2,975,223	3,251,388
928,858	1,924,990	2,853,848
269,551	217,568	487,119
8,390,955	2,802,860	11,193,815
1,627,746	2,125,981	3,753,727
663,961	773,133	1,437,094
1,258,493	252,734	1,511,227
266,183	10,248	276,431
138,135	2,471	140,606
88	1,693	1,781
<u>17,543,214</u>	<u>25,643,382</u>	<u>43,186,596</u>
693,953	588,472	1,282,425
550,198	160,137	710,335
-	296,886	296,886
820,196	421,072	1,241,268
698,450	1,089,496	1,787,946
<u>2,762,797</u>	<u>2,556,063</u>	<u>5,318,860</u>
4,779,476	6,472,836	11,252,312
-	6,147,805	6,147,805
<u>4,779,476</u>	<u>12,620,641</u>	<u>17,400,117</u>
-	2,369,146	2,369,146
<u>\$ 35,465,498</u>	<u>\$ 56,681,196</u>	<u>\$ 92,146,694</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) as of and for the year ended June 30, 2017, 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 6, 2017.

**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 Authority’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompany schedule of findings and responses, that we consider to be significant deficiencies: 2017-A and 2017-B.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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**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 cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
November 6, 2017

**2017-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 Chief Financial Officer 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.

**2017-B Cost Report Estimate**

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

**Condition** – During the current year, the Authority did not complete their estimate of the current year cost report settlement.

**Cause** – The current year cost report settlement was not properly estimated at year end which resulted in an audit journal entry to the financial statements.

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

**Recommendation** – It is recommended the Authority implement a system that provides adequate controls over estimating cost report settlements.

**Views of Responsible Officials** – Management agrees that processes need to be improved and has already taken significant steps to ensure the estimate is properly calculated.