



Management's Discussion and Analysis
and Financial Statements
June 30, 2018 and 2017

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma

Tahlequah Hospital Authority
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June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2019 on our consideration of Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's 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 the 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
January 17, 2019

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, 2018, 2017 and 2016. 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 by \$418,345 or 1% in 2018 and increased by \$2,841,356 or 5% in 2017.
- The Authority reported operating income in 2018 of \$483,048 and operating income in 2017 of \$1,581,355. Operating income decreased \$1,098,307 or 69% in 2018 over 2017. Operating income increased \$1,272,387 or 412% in 2017 over 2016.
- The Authority's total assets increased \$9,048,241 or 10% in 2018 compared to 2017. Total assets increased \$4,622,686 or 5% in 2017 compared to 2016.

Using This Annual Report

The Authority's financials 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 \$418,345 or 1% in 2018 and increased \$2,841,356 or 5% in 2017, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 36,706,571	\$ 33,142,169	\$ 35,269,329
Capital assets	43,132,010	37,895,301	31,025,886
Other noncurrent assets	<u>24,409,203</u>	<u>24,162,073</u>	<u>24,281,642</u>
Total assets	<u>\$ 104,247,784</u>	<u>\$ 95,199,543</u>	<u>\$ 90,576,857</u>
Liabilities			
Current liabilities	\$ 14,297,238	\$ 8,797,689	\$ 11,384,728
Long-term liabilities	<u>27,307,331</u>	<u>24,176,984</u>	<u>19,808,615</u>
Total liabilities	<u>41,604,569</u>	<u>32,974,673</u>	<u>31,193,343</u>
Net Position			
Invested in capital assets, net of related debt	14,857,333	13,400,581	10,706,052
Unrestricted	47,224,576	47,021,162	47,089,143
Noncontrolling interest in joint venture	<u>561,306</u>	<u>1,803,127</u>	<u>1,588,319</u>
Total net position	<u>62,643,215</u>	<u>62,224,870</u>	<u>59,383,514</u>
Total liabilities and net position	<u>\$ 104,247,784</u>	<u>\$ 95,199,543</u>	<u>\$ 90,576,857</u>

A significant component of the change in the Authority's assets is the increase in capital assets. Capital assets increased in 2018 by \$5,236,709 or 14% and increased in 2017 by \$6,869,415 or 22%. The primary increases between 2017 and 2018 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

	2018	2017	2016
Operating Revenues			
Net patient service revenue	\$ 103,313,371	\$ 95,771,071	\$ 89,226,296
Other revenue	5,278,671	4,223,165	4,820,996
Total operating revenues	<u>108,592,042</u>	<u>99,994,236</u>	<u>94,047,292</u>
Expenses			
Nursing services	27,087,339	23,260,436	22,264,580
Other professional services	51,083,529	47,712,957	43,390,648
General services	8,126,665	7,093,538	6,932,533
Administrative services	18,037,852	16,617,088	17,603,909
Other expenses	584,616	710,516	712,748
Depreciation and amortization	3,188,993	3,018,346	2,833,906
Total expenses	<u>108,108,994</u>	<u>98,412,881</u>	<u>93,738,324</u>
Operating Income	<u>483,048</u>	<u>1,581,355</u>	<u>308,968</u>
Nonoperating Revenue (Expense)			
Investment income	635,524	774,836	652,140
Income from joint ventures	1,627,280	2,177,598	1,972,027
Interest expense	(1,075,713)	(1,199,147)	(1,146,738)
Gain (loss)	(22,023)	(293,942)	(11,752)
Contributions expense	(26,750)	(34,206)	(19,994)
Nonoperating revenues, net	<u>1,138,318</u>	<u>1,425,139</u>	<u>1,445,683</u>
Revenues in Excess of Expenses	1,621,366	3,006,494	1,754,651
Noncontrolling Interest in Joint Ventures	<u>38,800</u>	<u>(379,946)</u>	<u>(316,299)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	<u>\$ 1,660,166</u>	<u>\$ 2,626,548</u>	<u>\$ 1,438,352</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 an operating income of \$483,048 in 2018 compared to an operating income of \$1,581,355 in 2017 and an operating income of \$308,968 in 2016.

The primary components of the operating income are:

- Net patient service revenue increased \$7,542,300 or 8% in 2018 and increased \$6,544,775 or 7% in 2017. The increase in 2018 and 2017 is attributed to an increase in services provided by the Authority.
- Other professional services expenses increased \$3,370,572 or 7% in 2018 and \$4,322,309 or 10% in 2017. The increases in 2018 and 2017 is attributed to the Authority hiring additional employees and increased cost of supplies.
- Nursing services expenses increased \$3,826,903 or 16% in 2018 and increased \$995,856 or 4% in 2017. The increases in 2018 and 2017 is attributed to increased cost of contract labor, supplies and purchased services.

Net patient service revenue before provision for bad debts increased \$13,936,352 or 13% from 2017 to 2018 and increased \$3,654,816 or 4% from 2016 to 2017. The provision for bad debts increased \$6,394,052 or 58% in 2018 and decreased \$2,883,059 or 21% in 2017.

Total patient service revenues were \$303,519,159 and \$270,183,338 for the years ended June 30, 2018 and 2017. Factors impacting total patient service revenues in 2018 compared to 2017 and 2017 compared to 2016 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 decreased \$550,318 or 25% in 2018 and increased \$205,571 or 10% in 2017. Investment income decreased \$139,312 or 18% in 2018 and increased \$122,696 or 19% in 2017. Interest expense decreased \$123,434 or 10% in 2018 and increased \$52,409 or 5% in 2017.

The Authority's Cash Flows

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

- Net cash provided by operating activities increased in 2018 by \$2,511,628 and decreased by \$5,742,942 in 2017.
- Net cash used in financing activities decreased in 2018 by \$551,478 and decreased by \$1,457,799 in 2017.
- Net cash provided by investing activities decreased in 2018 by \$840,156 and increased by \$837,735 in 2017.

Capital Assets

At the end of 2018, the Authority had \$43,132,010 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2018, the Authority purchased new capital assets costing \$8,441,676. At the end of 2017, the Authority had \$37,895,301 invested in capital assets, net of accumulated depreciation. In 2017, the Authority purchased new capital assets costing \$9,944,861.

Debt

At June 30, 2018 and 2017, the Authority had \$28,385,776 and \$24,743,291 in revenue notes, mortgage loans and capital lease obligations outstanding as detailed in Note 8 to the financial statements. The Authority issued \$18,235,474 and \$6,314,011 of new debt in 2018 and 2017. The amount of debt issued is subject to limitations that apply to the city and its component units as a whole. The Authority made debt payments of \$14,592,989 and \$1,890,554 in 2018 and 2017.

Economic Factors and Next Year's Budget

The Authority continues to monitor costs throughout the year. The 2019 fiscal year operating budget indicates conservative net revenue of approximately \$105,000,000. 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>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 7,008,511	\$ 10,722,323
Board designated cash	588,055	530,432
Receivables		
Patients, net of estimated uncollectibles of \$10,904,000 in 2018 and \$8,246,000 in 2017	21,008,838	14,894,962
Other	1,543,003	1,400,416
Related parties	2,168,643	2,018,770
Supplies	2,581,194	2,450,019
Prepaid expenses	1,808,327	1,125,247
Total current assets	<u>36,706,571</u>	<u>33,142,169</u>
Capital Assets, Net		
Non-depreciable capital assets	13,255,425	10,448,156
Depreciable capital assets, net	29,876,585	27,447,145
Total capital assets, net	<u>43,132,010</u>	<u>37,895,301</u>
Other Assets		
Investments in joint ventures	6,762,908	6,407,776
Assets held under deferred compensation agreement	644,888	1,563,896
Investments	14,757,863	14,477,675
Investment in captive insurance	584,761	445,655
Other	1,658,783	1,267,071
Total other assets	<u>24,409,203</u>	<u>24,162,073</u>
Total assets	<u>\$ 104,247,784</u>	<u>\$ 95,199,543</u>

See Notes to Financial Statements

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,723,333	\$ 2,130,203
Accounts payable	6,184,153	2,913,904
Estimated third-party payor settlements	1,744,243	60,524
Accrued expenses		
Salaries and benefits payable	973,419	748,231
Vacation	2,081,125	1,852,878
Payroll taxes and other	1,407,513	1,019,334
Related party payable	183,452	72,615
Total current liabilities	14,297,238	8,797,689
Deferred Compensation	644,888	1,563,896
Long-Term Debt, Less Current Maturities	26,662,443	22,613,088
Total liabilities	41,604,569	32,974,673
Net Position		
Net investment in capital assets	14,857,333	13,400,581
Unrestricted	47,224,576	47,021,162
Noncontrolling interest in joint ventures	561,306	1,803,127
Total net position	62,643,215	62,224,870
Total liabilities and net position	\$ 104,247,784	\$ 95,199,543

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Revenues and Expenses
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$17,489,638 in 2018 and \$11,095,586 in 2017)	\$ 103,313,371	\$ 95,771,071
Other revenue	5,278,671	4,223,165
Total operating revenue	108,592,042	99,994,236
Expenses		
Nursing services	27,087,339	23,260,436
Other professional services	51,083,529	47,712,957
General services	8,126,665	7,093,538
Administrative services	18,037,852	16,617,088
Other expenses	584,616	710,516
Depreciation and amortization	3,188,993	3,018,346
Total expenses	108,108,994	98,412,881
Operating Income	483,048	1,581,355
Nonoperating Revenues (Expenses)		
Investment income	635,524	774,836
Income from joint venture	1,627,280	2,177,598
Interest expense	(1,075,713)	(1,199,147)
Gain (loss) on capital assets and lease termination	(22,023)	(293,942)
Contributions expense	(26,750)	(34,206)
Nonoperating revenues (expenses), net	1,138,318	1,425,139
Revenues in Excess of Expenses	1,621,366	3,006,494
Noncontrolling Interest in Joint Ventures	38,800	(379,946)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	\$ 1,660,166	\$ 2,626,548

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>Noncontrolling Interest</u>	<u>Controlling Interest</u>	<u>Total</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	1,803,127	60,421,743	62,224,870
Member Distributions	(203,021)	-	(203,021)
Controlling Interest Purchase	(1,000,000)	-	(1,000,000)
Change in Net Position	<u>(38,800)</u>	<u>1,660,166</u>	<u>1,621,366</u>
Net Position, June 30, 2018	<u><u>\$ 561,306</u></u>	<u><u>\$ 62,081,909</u></u>	<u><u>\$ 62,643,215</u></u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Cash received from patient services	\$ 98,883,214	\$ 92,724,864
Other operating receipts	4,986,211	3,168,377
Cash payments to suppliers for goods and services	(64,000,288)	(58,348,506)
Cash payments to and on behalf of employees for services	(38,828,037)	(39,015,263)
Net Cash from (used for) Operating Activities	1,041,100	(1,470,528)
Capital and Capital Related Financing Activities		
Payments on long-term debt	(1,390,560)	(1,809,125)
Payment of interest on long-term debt	(1,068,616)	(1,191,258)
Purchase of property and equipment	(8,441,676)	(8,592,516)
Proceeds from issuance of long-term debt	5,091,044	5,076,809
Proceeds from sale of capital assets	-	62,958
Net Cash used for Capital and Capital Related Financing Activities	(5,809,808)	(6,453,132)
Noncapital Financing Activities		
Contributions made	(26,750)	(34,206)
Interest paid on non capital financing arrangements	(7,097)	(7,889)
Proceeds from issuance of non capital financing arrangements	-	300,000
Principal paid on long-term debt	(57,999)	(51,429)
Net Cash from (used for) Noncapital Financing Activities	(91,846)	206,476
Investing Activities		
Distribution to and purchase of noncontrolling interest in joint ventures	(1,203,021)	(165,138)
Distributions received from joint ventures	1,272,148	2,454,316
Payments received on lease receivable	-	27,725
Investment income	132,355	531,174
Purchase of investments	(629,604)	(803,557)
Proceeds sale of investments	1,632,487	-
Net Cash from Investing Activities	1,204,365	2,044,520
Net Change in Cash and Cash Equivalents	(3,656,189)	(5,672,664)
Cash and Cash Equivalents, Beginning of Year	11,252,755	16,925,419
Cash and Cash Equivalents, End of Year	\$ 7,596,566	\$ 11,252,755
Cash and cash equivalents	\$ 7,008,511	\$ 10,722,323
Board designated cash	588,055	530,432
Total Cash and Cash Equivalents	\$ 7,596,566	\$ 11,252,755

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating income	\$ 483,048	\$ 1,581,355
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,188,993	3,018,346
Provision for bad debts	17,489,638	11,095,586
Changes in assets and liabilities		
Patient receivables	(23,603,514)	(13,646,095)
Other receivables	(142,587)	(293,180)
Due from related parties	(149,873)	(738,339)
Supplies	(131,175)	13,842
Prepays	(689,129)	132,334
Other assets	(391,712)	30,129
Accounts payable	3,270,249	(1,216,980)
Accrued expenses	841,614	(1,318,644)
Deferred compensation	(919,008)	313,401
Estimated third-party payor settlement	1,683,719	(495,698)
Due to related parties	110,837	53,415
	<u>\$ 1,041,100</u>	<u>\$ (1,470,528)</u>
Supplemental Disclosure of Non-cash Capital and Capital Related Financing and Investing Activities		
Income from joint venture	<u>\$ 1,627,280</u>	<u>\$ 2,177,598</u>
Capital asset purchases financed through capital lease	<u>\$ -</u>	<u>\$ 106,000</u>
Capital asset acquired through amendment of lease receivable	<u>\$ -</u>	<u>\$ 445,143</u>
Capital asset acquired through debt assumption	<u>\$ -</u>	<u>\$ 801,202</u>
Refinancing of revenue notes and notes payable	<u>\$ 13,144,430</u>	<u>\$ -</u>
Vested in captive insurance	<u>\$ 139,106</u>	<u>\$ 121,831</u>

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, 2018 and 2017.

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, 2018 and 2017.

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, 2018 and 2017, notes receivable from physicians and employees totaled \$1,805,479 and \$1,389,866 and are included in other receivables and other assets on the statements of net position. Schedule of anticipated amounts to be forgiven is as follows:

<u>Year Ending June 30,</u>	
2019	\$ 421,700
2020	567,620
2021	317,707
2022	231,373
2023	172,540
2024	<u>94,539</u>
Total	<u><u>\$ 1,805,479</u></u>

Supplies

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

Capital Assets

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

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

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

Investments in Joint Ventures

Joint ventures in which the Authority has less than 20% ownership are stated at cost and dividends are recorded as investment income in the financial statements. Investments in joint ventures in which the Authority's ownership interest is 20% to 50% are generally reported using the equity method of accounting. Gains and losses are recorded as nonoperating revenues.

Investments

Investments include mutual funds, debt and equity securities. The Authority measures and reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value in its statement of net position. The net increase or decreases in fair value of investments are reported in the statements of revenues and expenses as nonoperating revenue. 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, 2018 and 2017, 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 \$1,576,000 and \$4,516,000 for the years ended June 30, 2018 and 2017. Total direct and indirect cost related to those forgone charges were approximately \$551,000 and \$1,603,000 at June 30, 2018 and 2017, based on average ratios of cost to gross charges. The amount of charity care given depends on the number of patients that apply for charity care during the year and the cost of services provided.

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.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority made SHOPP payments totaling \$2,369,067 and \$1,961,353 included in administrative services, for the years ended June 30, 2018 and 2017. In return, the Authority received \$5,839,226 and \$5,194,312 included in net patient service revenue, for the years ended June 30, 2018 and 2017.

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

Reclassifications

Reclassifications have been made to the June 30, 2017 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported changes in net position.

Note 2 - Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended June 30, 2012.

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

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended June 30, 2018 and 2017:

	2018	2017
Medicare	49%	49%
Medicaid	11%	12%
Blue Cross and other commercial payors	33%	31%
Self pay and other	7%	8%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2018 and 2017 increased approximately \$445,000 and decreased approximately \$27,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

Note 3 - Deposits, Investments and Investment Income

The carrying amounts of deposits as of June 30, 2018 and 2017 are as follows:

	2018	2017
Carry amount		
Deposits	\$ 7,596,566	\$ 11,252,755

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

	2018	2017
Cash and cash equivalents	\$ 7,008,511	\$ 10,722,323
Board designated cash	588,055	530,432
Total	\$ 7,596,566	\$ 11,252,755

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Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. State statutes require that investments be made only in U.S. government obligations and that all bank balances are protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 100% of the deposits not covered by insurance or bonds.

As of June 30, 2018 and 2017, \$8,034,025 of the Authority's bank balance of \$9,682,048 and \$12,563,516 of the Authority's bank balance of \$14,162,037 was exposed to custodial credit risk as follows:

	2018	2017
Uninsured and uncollateralized	\$ 801,444	\$ 2,545,161
Uninsured and collateral held by pledging bank's trust department in the Authority's name	7,232,581	10,018,355
Total	\$ 8,034,025	\$ 12,563,516

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, 2018:

June 30, 2018		Investment Maturities (in Years)			
Type	Fair Value	Ratings	Less than 1	1 - 5	6-10
Domestic fixed income	\$ 3,184,409	Baa1 - Aaa	\$ 214,815	\$ 1,117,924	\$ 1,851,670
International fixed income	336,984	Baa1 - Aa2	-	336,984	-
	3,521,393		\$ 214,815	\$ 1,454,908	\$ 1,851,670
Domestic equities	2,752,210				
International equities	652,960				
Bond fund	7,483,423				
Balanced fund	303,544				
Prime fund	44,333				
	\$ 14,757,863				

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

June 30, 2017	Type	Fair Value	Ratings	Investment Maturities (in Years)		
				Less than 1	1 - 5	6-10
	Domestic fixed income	\$ 2,682,859	Baa1 - Aa2	\$ 448,329	\$ 767,771	\$ 1,466,759
	International fixed income	865,069	Baa2 - Aa3	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				
		<u>\$ 14,477,675</u>				

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy requires that the weighted average maturity of investments shall not exceed 7 years. As of June 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017.

	2018	2017
Interest and dividend income	\$ 267,036	\$ 351,339
Change in unrealized gains and losses on investments	368,488	423,497
Total	\$ 635,524	\$ 774,836

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.

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.

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The following table presents fair value measurements as of June 30, 2018:

	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	\$ 44,333	\$ 44,333	\$ -	\$ -
Bonds - domestic	9,950,685	-	9,950,685	-
Bonds - international	1,054,131	-	1,054,131	-
Corporate stocks	126,424	-	-	126,424
Mutual funds - domestic	2,625,786	2,625,786	-	-
Mutual funds - international	652,960	652,960	-	-
Mutual funds - balanced	303,544	303,544	-	-
Total investments by fair value level	<u>\$ 14,757,863</u>	<u>\$ 3,626,623</u>	<u>\$ 11,004,816</u>	<u>\$ 126,424</u>

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

	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	\$ 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>

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.

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Note 5 - Capital Assets

Capital assets additions, retirements, and balances for the year ended June 30, 2018 are as follows:

	Balance June 30, 2017	Additions	Transfers and Retirements	Balance June 30, 2018
Capital assets not being depreciated				
Land	\$ 2,976,856	\$ -	\$ -	\$ 2,976,856
Construction in progress	7,471,300	5,828,936	(3,021,667)	10,278,569
Total capital assets not being depreciated	<u>\$ 10,448,156</u>	<u>\$ 5,828,936</u>	<u>\$ (3,021,667)</u>	<u>\$ 13,255,425</u>
Capital assets being depreciated				
Land improvements	\$ 625,450	\$ 9,222	\$ -	\$ 634,672
Buildings and fixed equipment	35,520,859	31,746	1,898,549	37,451,154
Major movable equipment	26,275,469	2,571,772	225,207	29,072,448
Total capital assets being depreciated	<u>62,421,778</u>	<u>\$ 2,612,740</u>	<u>\$ 2,123,756</u>	<u>67,158,274</u>
Less accumulated depreciation for				
Land and improvements	\$ (402,213)	\$ (37,793)	\$ -	\$ (440,006)
Buildings and fixed equipment	(14,977,252)	(1,093,979)	229	(16,071,002)
Major movable equipment	(19,595,168)	(2,051,173)	875,660	(20,770,681)
Total accumulated depreciation	<u>(34,974,633)</u>	<u>\$ (3,182,945)</u>	<u>\$ 875,889</u>	<u>(37,281,689)</u>
Net capital assets being depreciated	<u>\$ 27,447,145</u>			<u>\$ 29,876,585</u>
Capital assets, net	<u>\$ 37,895,301</u>			<u>\$ 43,132,010</u>

The majority of construction in progress at June 30, 2018 represents cost incurred for construction of a building, new electronic medical records (EMR) software and various other smaller projects. Total expected cost to complete the construction of the building is approximately \$9,300,000 which is financed with the 3.92% note payable listed in Note 8 and internal funds. Completion of the construction of the building is expected in January 2019. The Authority has entered into a 10-year agreement for the new EMR software. The EMR software is expected to be operational in February 2019.

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

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated				
Land	\$ 2,838,057	\$ 138,799	\$ -	\$ 2,976,856
Construction in progress	<u>1,137,466</u>	<u>7,475,911</u>	<u>(1,142,077)</u>	<u>7,471,300</u>
Total capital assets not being depreciated	<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	<u>24,280,367</u>	<u>951,079</u>	<u>1,044,023</u>	<u>26,275,469</u>
Total capital assets being depreciated	<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	<u>(17,657,538)</u>	<u>(1,976,194)</u>	<u>38,564</u>	<u>(19,595,168)</u>
Total accumulated depreciation	<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>

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Note 6 - Investments in Joint Ventures

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2018 and 2017, the Authority's investment in joint ventures consisted of the following:

	2018	2017
Cherokee Health Partners, LLC	\$ 1,883,737	\$ 1,529,365
Platte Dialysis, LLC	4,879,171	4,878,411
Total investment in joint ventures	\$ 6,762,908	\$ 6,407,776

Joint venture activity for the years ended June 30, 2018 and 2017 are as follow:

	Balance June 30, 2017	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2018
Cherokee Health Partners, LLC	\$ 1,529,365	\$ 798,420	\$ (444,048)	\$ -	\$ 1,883,737
Platte Dialysis, LLC	4,878,411	828,860	(828,100)	-	4,879,171
	\$ 6,407,776	\$ 1,627,280	\$ (1,272,148)	\$ -	\$ 6,762,908
	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

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 2018 and 2017, the Authority was paid \$1,230,966 and \$2,071,524 for services and building space provided to CHP. These amounts are included in operating revenues. The Authority was owed \$429,483 and \$446,590 for the years ended June 30, 2018 and 2017. The receivable is included in related party payable. The Authority is being reimbursed for the 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 2018 and 2017, the Authority was paid \$11,059,805 and \$11,362,494 for services provided to NOHC. These amounts are included in operating revenues. The Authority was owed \$1,210,967 and \$1,044,047 at June 30, 2018 and 2017. 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 \$32,333 and \$22,450 for services provided during the years ended June 30, 2018 and 2017. The receivables are included in related party receivable. The Authority owed Platte \$0 and \$0 for services provided during the years ended June 30, 2018 and 2017. 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. During the year ended June 30, 2018 and 2017, the Authority owns 100% and 60% of the outstanding units of NOCC. During 2018, NOCC purchased the remaining 40% of the outstanding units from the other owner.

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, 2018 and 2017, 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, 2018 and 2017, the Authority owns a 60% share NWM.

As the Authority has majority ownership interest and management control over NWM, the balance of the investment in NWM is eliminated in the combining process as reflected in the combining statements of net position and statements of revenues and expenses and changes in net position included in the supplementary schedules.

Note 7 - Leases

The Authority leases certain equipment under non-cancelable long-term lease agreements, which have been recorded as either capital or operating leases. Total lease expense in June 30, 2018 and 2017 for all operating leases was approximately \$501,000 and \$873,000. The capitalized leases assets consist of:

	2018	2017
Major moveable equipment	\$ 106,000	\$ 106,000
Accumulated depreciation	(26,500)	(5,300)
	\$ 79,500	\$ 100,700

Minimum future lease payments for the leases are as follows:

Year Ending June 30,	Capital Lease	Operating Lease
2019	\$ 31,875	\$ 16,800
2020	38,250	12,975
2021	28,687	11,700
2022	-	8,775
	\$ 98,812	\$ 50,250
Total minimum lease payments		

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Note 8 - Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Debt					
Revenue notes	\$ 9,668,347	\$ -	\$ (9,668,347)	\$ -	\$ -
Notes payable	14,926,944	18,235,474	(4,875,454)	28,286,964	1,691,458
Capital lease	<u>148,000</u>	<u>-</u>	<u>(49,188)</u>	<u>98,812</u>	<u>31,875</u>
Total long-term debt	<u>\$ 24,743,291</u>	<u>\$ 18,235,474</u>	<u>\$ (14,592,989)</u>	<u>\$ 28,385,776</u>	<u>\$ 1,723,333</u>

	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>

The terms, due dates, and securing collateral of the Authority's long-term debt, including capital lease obligation, at June 30, 2018 and 2017 follow:

	<u>2018</u>	<u>2017</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
4.9% revenue note, due in monthly installments of \$34,149 including interest, through December 2027, secured by fixed assets (A)	<u>-</u>	<u>3,366,483</u>
Total revenue notes	<u>-</u>	<u>9,668,347</u>

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	2018	2017
Notes Payable/Mortgage Loans		
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
3.9% note 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
3.72% note payable, due in monthly installments of \$114,385 including interest, with an estimated balloon payment of \$6,257,000 due December 2027, secured by property and equipment	14,702,064	-
4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2019, secured by property	462,449	487,414
4.1% note payable, due in monthly installments of \$4,268 including interest, through April 2024, secured by land	265,254	304,685
4.1% note payable, due in monthly installments of \$6,431 including interest, through April 2024, secured by land	399,643	459,056
4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	502,320	539,938
2.99% note payable, due in monthly installments of \$9,606 including interest, through February 2022, secured by associated equipment	401,013	501,486
4.5% note payable, due in monthly installments of \$29,359 including interest, through December 2031, secured by property	3,545,251	3,731,164
5.0% note payable, due in monthly installments of \$5,876 including interest, through August 2033, secured by building	750,121	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	6,484,970	3,249,496
2.75% note payable, due in monthly installments of \$10,258 including interest, through July 2023, secured by equipment	583,307	688,783
3.2% note payable, due in monthly installments of \$5,426 including interest, through July 2021, secured by property and equipment	190,572	248,570
Total notes payable/mortgage loans	28,286,964	14,926,944
Capital Lease		
Capital lease obligation with imputed interest of 0%, with a maturity date of April 2021, collateralized by equipment	98,812	148,000
	28,385,776	24,743,291
Less current maturities	(1,723,333)	(2,130,203)
Long-term debt, less current maturities	\$ 26,662,443	\$ 22,613,088

(A) Revenue notes and notes payable were refinanced during 2018 with the 3.72% note payable.

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

<u>Year Ending June 30,</u>	Long-term Debt	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,723,333	\$ 1,166,712
2020	1,928,062	1,091,621
2021	1,998,521	1,011,603
2022	7,132,205	773,937
2023	1,457,674	658,094
2024 to 2028	12,660,582	2,248,650
2029 to 2033	1,476,596	139,039
2034 to 2037	8,803	54
Total	<u>\$ 28,385,776</u>	<u>\$ 7,089,710</u>

The provisions of the 3.72% note payable, contain covenants pertaining to reporting requirements and debt service ratio. For the year ended June 30, 2018, the Authority did not meet the reporting requirement to deliver the audited financial statement within the required 150 days after year-end. The Authority obtained a letter from the financial institution waiving the requirement for the year ending June 30, 2018.

Note 9 - Pension Plan

The Authority contributes to a defined contribution pension plan 403(b) covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by a third-party administrator. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Authority's Board of Trustees. The Authority can match a discretionary amount, and currently matches 3% of the participants' contributions. Participants vest after 3 years of full-time or part-time employment and completion of at least 1,000 hours of service in each plan year.

There is also a discretionary 403(b) contribution plan which is designed to financially reward non-physician executives of the Authority for meeting or exceeding fiscal year-end budgeted expectations. Discretionary contributions are based on fiscal year-end net income compared to budgeted amounts. Total pension plan expense for the years ended June 30, 2018, 2017, and 2016 was \$702,247, \$868,550, and \$895,058.

Note 10 - Deferred Compensation Plan

The Authority has adopted a non-qualified executive 457(f) deferred compensation plan. The Authority may make discretionary credits to the deferred compensation account of each active participant in an amount determined each plan year by the Authority. Eligible employees may elect to defer payment of federal and state income taxes on salaries deferred under this plan. Participants vest in their deferred compensation account either at a specific date as selected in writing by the Authority, upon involuntary separation from service from the Authority without cause, or upon the date of a change in a control event. At June 30, 2018 and 2017, the value of deferred compensation totaled \$644,888 and \$1,563,896.

Note 11 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2018 and 2017 was as follows:

	2018	2017
Medicare	24%	29%
Medicaid	6%	6%
Other third-party payors	53%	49%
Patients	17%	16%
	100%	100%

Note 12 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The 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, 2018.

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
2018	\$ 266,000	\$ 2,889,198	\$ (2,853,198)	\$ 302,000
2017	488,000	2,231,970	(2,453,970)	266,000

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Note 13 - Condensed Combining Information

The following summarizes combining information for the Authority, and NOD, NWM, Foundation, NOCC, and NOMSO, which have been presented as blended component units, as of and for the year ended June 30, 2018.

Statement of net position as of June 30, 2018:

	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	\$ 34,931,039	\$ 1,144,513	\$ 174,272	\$ 1,084,776	\$ 1,166,239	\$ 203,867	\$ (1,998,135)	\$ 36,706,571
Capital assets, net	24,977,475	1,701,454	3,758	16,441,641	7,682	-	-	43,132,010
Other noncurrent assets	33,947,760	-	-	74,310	-	-	(9,612,867)	24,409,203
Total assets	\$ 93,856,274	\$ 2,845,967	\$ 178,030	\$ 17,600,727	\$ 1,173,921	\$ 203,867	\$ (11,611,002)	\$ 104,247,784
Liabilities								
Current liabilities	\$ 13,026,468	\$ 515,032	\$ 429,591	\$ 1,535,537	\$ 612,642	\$ 175,714	\$ (1,997,746)	\$ 14,297,238
Deferred Compensation	644,888	-	-	-	-	-	-	644,888
Long-term debt, less current maturities	17,817,394	474,895	130,689	8,314,165	-	-	(74,700)	26,662,443
Total liabilities	31,488,750	989,927	560,280	9,849,702	612,642	175,714	(2,072,446)	41,604,569
Net Position								
Net investment in capital assets	6,150,862	1,118,147	3,758	7,576,884	7,682	-	-	14,857,333
Unrestricted	56,216,662	737,893	(386,008)	174,141	553,597	28,153	(10,100,862)	47,223,576
Noncontrolling interest in joint ventures	-	-	-	-	-	-	562,306	562,306
Total net position	62,367,524	1,856,040	(382,250)	7,751,025	561,279	28,153	(9,538,556)	62,643,215
Total liabilities and net position	\$ 93,856,274	\$ 2,845,967	\$ 178,030	\$ 17,600,727	\$ 1,173,921	\$ 203,867	\$ (11,611,002)	\$ 104,247,784

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Operating results and changes in net position for the year ended June 30, 2018:

	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	\$ 101,246,086	\$ 1,493,587	\$ -	\$ -	\$ 2,067,285	\$ -	\$ (1,493,587)	\$ 103,313,371
Other revenue	<u>3,640,791</u>	<u>177,934</u>	<u>417,083</u>	<u>1,502,706</u>	<u>-</u>	<u>371,498</u>	<u>(831,341)</u>	<u>5,278,671</u>
Total operating revenues	<u>104,886,877</u>	<u>1,671,521</u>	<u>417,083</u>	<u>1,502,706</u>	<u>2,067,285</u>	<u>371,498</u>	<u>(2,324,928)</u>	<u>108,592,042</u>
Operating expenses								
Depreciation and amortization	2,521,534	351,327	563	304,659	10,910	-	-	3,188,993
Other operating expenses	<u>102,967,712</u>	<u>530,860</u>	<u>515,092</u>	<u>414,124</u>	<u>1,810,342</u>	<u>506,798</u>	<u>(1,824,927)</u>	<u>104,920,001</u>
Total operating expenses	<u>105,489,246</u>	<u>882,187</u>	<u>515,655</u>	<u>718,783</u>	<u>1,821,252</u>	<u>506,798</u>	<u>(1,824,927)</u>	<u>108,108,994</u>
Operating income (loss)	(602,369)	789,334	(98,572)	783,923	246,033	(135,300)	(500,001)	483,048
Nonoperating revenues (expenses)	<u>2,094,735</u>	<u>(6,265)</u>	<u>-</u>	<u>(96,316)</u>	<u>10,477</u>	<u>-</u>	<u>(864,313)</u>	<u>1,138,318</u>
Revenues in excess of (less than) expenses	1,492,366	783,069	(98,572)	687,607	256,510	(135,300)	(1,364,314)	1,621,366
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,800</u>	<u>38,800</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	1,492,366	783,069	(98,572)	687,607	256,510	(135,300)	(1,325,514)	1,660,166
Net position, beginning of year	60,875,158	1,749,709	(283,678)	7,063,418	1,304,769	163,453	(10,452,086)	60,420,743
Members' Redemption	-	-	-	-	(1,000,000)	-	1,000,000	-
Members' Distributions	-	(676,738)	-	-	-	-	676,738	-
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>562,306</u>	<u>562,306</u>
Net position, end of year	<u>\$ 62,367,524</u>	<u>\$ 1,856,040</u>	<u>\$ (382,250)</u>	<u>\$ 7,751,025</u>	<u>\$ 561,279</u>	<u>\$ 28,153</u>	<u>\$ (9,538,556)</u>	<u>\$ 62,643,215</u>

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Cash flows for the year ended June 30, 2018:

	<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 (used for) operating activities	\$ (1,203,134)	\$ 1,302,563	\$ 151,862	\$ 1,222,765	\$ 68,123	\$ (1,079)	\$ (500,000)	\$ 1,041,100
Net cash from (used for) capital and related financing activities	(3,705,379)	(1,458,122)	(1,027)	(1,145,280)	-	-	500,000	(5,809,808)
Net cash from (used for) noncapital financing activities	(26,750)	-	(65,096)	-	-	-	-	(91,846)
Net cash from (used for) investing activities	<u>2,834,161</u>	<u>(665,382)</u>	<u>-</u>	<u>25,109</u>	<u>(989,523)</u>	<u>-</u>	<u>-</u>	<u>1,204,365</u>
Net change in cash and cash equivalents	(2,101,102)	(820,941)	85,739	102,594	(921,400)	(1,079)	-	(3,656,189)
Cash and cash equivalents, beginning of year	<u>7,122,328</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>11,252,755</u>
Cash and cash equivalents, end of year	<u>\$ 5,021,226</u>	<u>\$ 946,489</u>	<u>\$ 109,952</u>	<u>\$ 1,020,427</u>	<u>\$ 339,354</u>	<u>\$ 159,118</u>	<u>\$ -</u>	<u>\$ 7,596,566</u>

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The following summarized combining information for the Authority, NOD, Foundation, NOCC and NOMSO, which has been presented as blended component units, as of and for the year ended June 30, 2017.

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
Assets								
Current Assets	\$ 30,224,757	\$ 1,946,413	\$ 55,410	\$ 1,438,722	\$ 1,460,578	\$ 190,784	\$ (2,174,495)	\$ 33,142,169
Capital assets, net	24,485,215	714,099	3,294	12,674,101	18,592	-	-	37,895,301
Other noncurrent assets	32,795,154	-	-	79,083	14,879	-	(8,727,043)	24,162,073
Total assets	\$ 87,505,126	\$ 2,660,512	\$ 58,704	\$ 14,191,906	\$ 1,494,049	\$ 190,784	\$ (10,901,538)	\$ 95,199,543
Liabilities								
Current liabilities	\$ 8,775,295	\$ 327,495	\$ 151,810	\$ 1,500,974	\$ 189,280	\$ 27,331	\$ (2,174,496)	\$ 8,797,689
Deferred Compensation	1,563,896	-	-	-	-	-	-	1,563,896
Long-term debt, less current maturities	16,290,777	583,308	190,572	5,627,514	-	-	(79,083)	22,613,088
Total liabilities	26,629,968	910,803	342,382	7,128,488	189,280	27,331	(2,253,579)	32,974,673
Net Position								
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	60,875,158	1,749,709	(283,678)	7,063,418	1,304,769	163,453	(8,647,959)	62,224,870
Total liabilities and net position	\$ 87,505,126	\$ 2,660,512	\$ 58,704	\$ 14,191,906	\$ 1,494,049	\$ 190,784	\$ (10,901,538)	\$ 95,199,543

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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	\$ 93,770,202	\$ 1,607,395	\$ -	\$ -	\$ 2,000,869	\$ -	\$ (1,607,395)	\$ 95,771,071
Other revenue	4,013,878	26,438	304,155	1,798,051	-	207,158	(2,126,515)	4,223,165
Total operating revenues	97,784,080	1,633,833	304,155	1,798,051	2,000,869	207,158	(3,733,910)	99,994,236
Operating expenses								
Depreciation and amortization	2,476,239	284,416	362	245,375	11,954	-	-	3,018,346
Other operating expenses	94,498,718	654,372	584,972	423,443	1,847,350	122,090	(2,736,410)	95,394,535
Total operating expenses	96,974,957	938,788	585,334	668,818	1,859,304	122,090	(2,736,410)	98,412,881
Operating income (loss)	809,123	695,045	(281,179)	1,129,233	141,565	85,068	(997,500)	1,581,355
Nonoperating revenues (expenses)	2,210,076	(11,138)	-	(142,738)	14,191	-	(645,252)	1,425,139
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	\$ 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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Cash flows for the year ended June 30, 2017:

	<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 (used for) operating activities	\$ (3,653,889)	\$ 1,033,857	\$ (220,702)	\$ 1,890,696	\$ 404,855	\$ 74,655	\$ (1,000,000)	\$ (1,470,528)
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
	<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 cash from (used for) investing activities	(6,426,276)	756,505	24,213	(520,807)	419,046	74,655	-	(5,672,664)
Net change in cash and cash equivalents	13,548,604	1,010,925	-	1,438,640	841,708	85,542	-	16,925,419
Cash and cash equivalents, beginning of year	<u>\$ 7,122,328</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>\$ 11,252,755</u>
Cash and cash equivalents, end of year								



Supplementary Information
June 30, 2018 and 2017

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, 2018 and 2017 and our report thereon dated January 17, 2019, 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 cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
January 17, 2019

What inspires you, inspires us. Let's talk. | eidebailly.com

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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, 2018

	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	\$ 4,433,171	\$ 946,489	\$ 109,952	\$ 1,020,427	\$ 339,354	\$ 159,118	\$ -	\$ 7,008,511
Board designated cash	588,055	-	-	-	-	-	-	588,055
Receivables								
Patient, net	20,353,609	-	-	-	655,229	-	-	21,008,838
Other	1,600,594	-	53,366	45,400	-	42,683	(199,040)	1,543,003
Current portion of lease receivable	-	-	-	4,773	-	-	(4,773)	-
Due from related parties	3,797,149	165,816	-	-	-	-	(1,794,322)	2,168,643
Supplies	2,570,669	-	8,158	-	2,367	-	-	2,581,194
Prepaid expenses	1,587,792	32,208	2,796	14,176	169,289	2,066	-	1,808,327
Total current assets	<u>34,931,039</u>	<u>1,144,513</u>	<u>174,272</u>	<u>1,084,776</u>	<u>1,166,239</u>	<u>203,867</u>	<u>(1,998,135)</u>	<u>36,706,571</u>
Capital Assets, Net	<u>24,977,475</u>	<u>1,701,454</u>	<u>3,758</u>	<u>16,441,641</u>	<u>7,682</u>	<u>-</u>	<u>-</u>	<u>43,132,010</u>
Other Assets								
Investment in NOD	691,707	-	-	-	-	-	(691,707)	-
Interest in Foundation	7,777,445	-	-	-	-	-	(7,777,445)	-
Investment in NOMSO	28,155	-	-	-	-	-	(28,155)	-
Investment in CHP	1,883,737	-	-	-	-	-	-	1,883,737
Investment in NOCC	1,041,250	-	-	-	-	-	(1,041,250)	-
Investment in NWM	-	-	-	-	-	-	-	-
Investment in Platte Dialysis	4,879,171	-	-	-	-	-	-	4,879,171
Total investments in joint ventures	<u>16,301,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,538,557)</u>	<u>6,762,908</u>
Assets held under deferred compensation agreement	644,888	-	-	-	-	-	-	644,888
Investments	14,757,863	-	-	-	-	-	-	14,757,863
Investment in captive insurance	584,761	-	-	-	-	-	-	584,761
Lease receivable, net of current portion	-	-	-	74,310	-	-	(74,310)	-
Other	1,658,783	-	-	-	-	-	-	1,658,783
Total other assets	<u>33,947,760</u>	<u>-</u>	<u>-</u>	<u>74,310</u>	<u>-</u>	<u>-</u>	<u>(9,612,867)</u>	<u>24,409,203</u>
Total assets	<u>\$ 93,856,274</u>	<u>\$ 2,845,967</u>	<u>\$ 178,030</u>	<u>\$ 17,600,727</u>	<u>\$ 1,173,921</u>	<u>\$ 203,867</u>	<u>\$ (11,611,002)</u>	<u>\$ 104,247,784</u>

	<u>Tahlequah Hospital Authority</u>	<u>Northeast Oklahoma Diagnostics</u>	<u>Northeastern Wound Management</u>	<u>Tahlequah Hospital Foundation</u>	<u>Northeast Oklahoma Cancer Center</u>	<u>Northeast Oklahoma Management Service Organization</u>	<u>Reclassifications or Eliminations</u>	<u>Combined</u>
Liabilities and Net Position								
Current Liabilities								
Current maturities of long-term debt	\$ 1,009,219	\$ 108,412	\$ 59,883	\$ 550,592	\$ -	\$ -	\$ (4,773)	\$ 1,723,333
Accounts payable	5,810,949	406,620	364,200	-	594,668	175,714	(1,167,998)	6,184,153
Estimated third-party payor settlements	1,744,243	-	-	-	-	-	-	1,744,243
Accrued expenses								
Salaries and benefits payable	973,419	-	-	-	-	-	-	973,419
Vacation	2,081,125	-	-	-	-	-	-	2,081,125
Payroll taxes and other	1,407,513	-	-	-	-	-	-	1,407,513
Due to related parties	-	-	5,508	984,945	17,974	-	(824,975)	183,452
Total current liabilities	13,026,468	515,032	429,591	1,535,537	612,642	175,714	(1,997,746)	14,297,238
Deferred Compensation	644,888	-	-	-	-	-	-	644,888
Long-Term Debt, Less Current Maturities	<u>17,817,394</u>	<u>474,895</u>	<u>130,689</u>	<u>8,314,165</u>	<u>-</u>	<u>-</u>	<u>(74,700)</u>	<u>26,662,443</u>
Total liabilities	<u>31,488,750</u>	<u>989,927</u>	<u>560,280</u>	<u>9,849,702</u>	<u>612,642</u>	<u>175,714</u>	<u>(2,072,446)</u>	<u>41,604,569</u>
Net Position								
Net investment in capital assets	6,150,862	1,118,147	3,758	7,576,884	7,682	-	-	14,857,333
Unrestricted	56,216,662	737,893	(386,008)	174,141	553,597	28,153	(10,100,862)	47,223,576
Noncontrolling interest in joint ventures	-	-	-	-	-	-	562,306	562,306
Total net position	<u>62,367,524</u>	<u>1,856,040</u>	<u>(382,250)</u>	<u>7,751,025</u>	<u>561,279</u>	<u>28,153</u>	<u>(9,538,556)</u>	<u>62,643,215</u>
Total liabilities and net position	<u>\$ 93,856,274</u>	<u>\$ 2,845,967</u>	<u>\$ 178,030</u>	<u>\$ 17,600,727</u>	<u>\$ 1,173,921</u>	<u>\$ 203,867</u>	<u>\$ (11,611,002)</u>	<u>\$ 104,247,784</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, 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	\$ 6,591,896	\$ 1,767,430	\$ 24,213	\$ 917,833	\$ 1,260,754	\$ 160,197	\$ -	\$ 10,722,323
Board designated cash	530,432	-	-	-	-	-	-	530,432
Receivables								
Patient, net	14,707,456	-	-	-	187,506	-	-	14,894,962
Other	1,371,586	-	24,762	500,000	-	28,830	(524,762)	1,400,416
Current portion of lease receivable	-	-	-	4,586	-	-	(4,586)	-
Due from related parties	3,507,108	156,809	-	-	-	-	(1,645,147)	2,018,770
Supplies	2,443,308	-	4,246	-	2,465	-	-	2,450,019
Prepaid expenses	1,072,971	22,174	2,189	16,303	9,853	1,757	-	1,125,247
Total current assets	<u>30,224,757</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>33,142,169</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 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	1,252,192	-	-	-	14,879	-	-	1,267,071
Total other assets	<u>32,795,154</u>	<u>-</u>	<u>-</u>	<u>79,083</u>	<u>14,879</u>	<u>-</u>	<u>(8,727,043)</u>	<u>24,162,073</u>
Total assets	<u>\$ 87,505,126</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>\$ 95,199,543</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
Liabilities and Net Position								
Current Liabilities								
Current maturities of long-term debt	\$ 1,775,441	\$ 105,475	\$ 57,999	\$ 195,874	\$ -	\$ -	\$ (4,586)	\$ 2,130,203
Accounts payable	3,327,690	222,020	93,811	-	180,477	27,331	(937,425)	2,913,904
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	8,775,295	327,495	151,810	1,500,974	189,280	27,331	(2,174,496)	8,797,689
Deferred Compensation	1,563,896	-	-	-	-	-	-	1,563,896
Long-Term Debt, Less Current Maturities	16,290,777	583,308	190,572	5,627,514	-	-	(79,083)	22,613,088
Total liabilities	26,629,968	910,803	342,382	7,128,488	189,280	27,331	(2,253,579)	32,974,673
Net Position								
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	60,875,158	1,749,709	(283,678)	7,063,418	1,304,769	163,453	(8,647,959)	62,224,870
Total liabilities and net position	\$ 87,505,126	\$ 2,660,512	\$ 58,704	\$ 14,191,906	\$ 1,494,049	\$ 190,784	\$ (10,901,538)	\$ 95,199,543

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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, 2018

	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	\$ 101,246,086	\$ 1,493,587	\$ -	\$ -	\$ 2,067,285	\$ -	\$ (1,493,587)	\$ 103,313,371
Other revenue	3,640,791	177,934	417,083	1,502,706	-	371,498	(831,341)	5,278,671
Total operating revenue	<u>104,886,877</u>	<u>1,671,521</u>	<u>417,083</u>	<u>1,502,706</u>	<u>2,067,285</u>	<u>371,498</u>	<u>(2,324,928)</u>	<u>108,592,042</u>
Expenses								
Nursing services	28,580,926	-	-	-	-	-	(1,493,587)	27,087,339
Other professional services	50,864,862	23,126	-	11,903	732,580	-	(548,942)	51,083,529
General services	5,709,008	-	515,092	-	992,551	506,798	403,216	8,126,665
Administrative services	17,812,916	110,540	-	29,185	85,211	-	-	18,037,852
Other expenses	-	397,194	-	373,036	-	-	(185,614)	584,616
Depreciation and amortization	2,521,534	351,327	563	304,659	10,910	-	-	3,188,993
Total expenses	<u>105,489,246</u>	<u>882,187</u>	<u>515,655</u>	<u>718,783</u>	<u>1,821,252</u>	<u>506,798</u>	<u>(1,824,927)</u>	<u>108,108,994</u>
Operating Income (Loss)	<u>(602,369)</u>	<u>789,334</u>	<u>(98,572)</u>	<u>783,923</u>	<u>246,033</u>	<u>(135,300)</u>	<u>(500,001)</u>	<u>483,048</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	\$ 593,168	\$ 11,356	\$ -	\$ 20,523	\$ 10,477	\$ -	\$ -	\$ 635,524
Income from NOD	548,148	-	-	-	-	-	(548,148)	-
Income from Foundation	687,607	-	-	-	-	-	(687,607)	-
Income from NOMSO	(135,300)	-	-	-	-	-	135,300	-
Income from CHP	798,420	-	-	-	-	-	-	798,420
Income from NOCC	263,858	-	-	-	-	-	(263,858)	-
Income from NWM	-	-	-	-	-	-	-	-
Income from Platte	828,860	-	-	-	-	-	-	828,860
Interest expense	(941,253)	(17,621)	-	(116,839)	-	-	-	(1,075,713)
Loss on disposal	(22,023)	-	-	-	-	-	-	(22,023)
Contributions expense	(526,750)	-	-	-	-	-	500,000	(26,750)
Total non operating revenue (expense), net	<u>2,094,735</u>	<u>(6,265)</u>	<u>-</u>	<u>(96,316)</u>	<u>10,477</u>	<u>-</u>	<u>(864,313)</u>	<u>1,138,318</u>
Revenues in Excess of (Less Than) Expenses	1,492,366	783,069	(98,572)	687,607	256,510	(135,300)	(1,364,314)	1,621,366
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	38,800	38,800
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	1,492,366	783,069	(98,572)	687,607	256,510	(135,300)	(1,325,514)	1,660,166
Net Position, Beginning of Year	60,875,158	1,749,709	(283,678)	7,063,418	1,304,769	163,453	(10,452,086)	60,420,743
Members' Distributions	-	(676,738)	-	-	-	-	676,738	-
Members' Redemption	-	-	-	-	(1,000,000)	-	1,000,000	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	562,306	562,306
Net Position, End of Year	<u>\$ 62,367,524</u>	<u>\$ 1,856,040</u>	<u>\$ (382,250)</u>	<u>\$ 7,751,025</u>	<u>\$ 561,279</u>	<u>\$ 28,153</u>	<u>\$ (9,538,556)</u>	<u>\$ 62,643,215</u>

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Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Combining Schedule – Operations and Changes in Net Position Information
Year Ended June 30, 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	\$ 93,770,202	\$ 1,607,395	\$ -	\$ -	\$ 2,000,869	\$ -	\$ (1,607,395)	\$ 95,771,071
Other revenue	4,013,878	26,438	304,155	1,798,051	-	207,158	(2,126,515)	4,223,165
Total operating revenue	<u>97,784,080</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>99,994,236</u>
Expenses								
Nursing services	24,867,831	-	-	-	-	-	(1,607,395)	23,260,436
Other professional services	47,613,053	22,293	-	6,025	507,275	-	(435,689)	47,712,957
General services	5,601,662	-	584,972	-	1,267,443	122,090	(482,629)	7,093,538
Administrative services	16,416,172	114,392	-	13,892	72,632	-	-	16,617,088
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>96,974,957</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>98,412,881</u>
Operating Income (Loss)	<u>809,123</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>1,581,355</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	\$ 741,239	\$ 7,552	\$ -	\$ 11,854	\$ 14,191	\$ -	\$ -	\$ 774,836
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	<u>2,210,076</u>	<u>(11,138)</u>	<u>-</u>	<u>(142,738)</u>	<u>14,191</u>	<u>-</u>	<u>(645,252)</u>	<u>1,425,139</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(379,946)</u>	<u>(379,946)</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,803,127</u>	<u>1,803,127</u>
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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	2018		
	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 12,660,376	\$ 802,253	\$ 13,462,629
Intensive care unit	18,635,588	68,519	18,704,107
Nursery	698,055	-	698,055
	<u>31,994,019</u>	<u>870,772</u>	<u>32,864,791</u>
Other nursing services			
Central service supplies	198,370	103,497	301,867
Emergency room	4,811,810	19,286,319	24,098,129
Wound Care	-	627,481	627,481
Observation	373,929	1,755,573	2,129,502
Operating room	22,676,634	22,463,843	45,140,477
	<u>28,060,743</u>	<u>44,236,713</u>	<u>72,297,456</u>
Other professional services			
Ambulance	1,870	4,653,809	4,655,679
Anesthesiology	801,143	7,357,661	8,158,804
Cardiac cath lab	13,687,781	17,219,024	30,906,805
Complex lab	8,124	5,426,946	5,435,070
Electrocardiography	899,726	3,324,268	4,223,994
Geriatric psychology	2,938,166	-	2,938,166
Hyperbaric	6,148	639,152	645,300
Laboratory	7,329,756	12,867,534	20,197,290
Nephrology	230,717	30,909	261,626
Occupational therapy	100,366	49,406	149,772
Obstetrics	1,418,529	243,488	1,662,017
Oncology	2,179	15,958,785	15,960,964
Pharmacy	11,765,177	5,593,989	17,359,166
Physical therapy	321,181	460,562	781,743
Physician	-	18,667,858	18,667,858
Radiology	5,288,762	34,144,047	39,432,809
Rehabilitation	2,609,845	208,704	2,818,549
Respiratory therapy	9,549,540	4,677,413	14,226,953
Sleep Study	-	1,256,310	1,256,310
Speech therapy	158,818	248,702	407,520
Wellness Center	-	-	-
	<u>57,117,828</u>	<u>133,028,567</u>	<u>190,146,395</u>
	<u>\$ 117,172,590</u>	<u>\$ 178,136,052</u>	<u>295,308,642</u>
Charity care			<u>(1,575,539)</u>
Total patient service revenue			<u>293,733,103</u>
Deductions from Revenue			
Contractual Adjustments			(175,101,379)
Provision for Bad Debts			<u>(17,385,638)</u>
Total reductions from revenue			<u>(192,487,017)</u>
Net Patient Service Revenue			<u>\$ 101,246,086</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Net Patient Service Revenue
Years Ended June 30, 2018 and 2017

2017		
Inpatient	Outpatient	Total
\$ 12,866,969	\$ 505,505	\$ 13,372,474
16,291,078	38,268	16,329,346
817,055	-	817,055
<u>29,975,102</u>	<u>543,773</u>	<u>30,518,875</u>
70,136	39,245	109,381
4,781,849	19,241,164	24,023,013
-	304,986	304,986
-	1,395,038	1,395,038
21,640,491	22,580,616	44,221,107
<u>26,492,476</u>	<u>43,561,049</u>	<u>70,053,525</u>
-	3,715,205	3,715,205
781,108	7,324,138	8,105,246
12,441,991	12,274,579	24,716,570
5,208	3,786,795	3,792,003
515,617	2,147,481	2,663,098
2,324,758	-	2,324,758
5,470	295,024	300,494
7,338,253	12,687,608	20,025,861
351,171	17,089	368,260
86,094	64,199	150,293
2,257,056	238,850	2,495,906
250	13,359,264	13,359,514
10,018,318	5,504,584	15,522,902
267,296	513,538	780,834
-	15,805,254	15,805,254
4,550,410	29,624,463	34,174,873
2,495,204	216,260	2,711,464
8,231,636	4,074,006	12,305,642
-	-	-
157,280	331,306	488,586
<u>-</u>	<u>7,194</u>	<u>7,194</u>
<u>51,827,120</u>	<u>111,986,837</u>	<u>163,813,957</u>
<u>\$ 108,294,698</u>	<u>\$ 156,091,659</u>	264,386,357
		<u>(4,515,962)</u>
		<u>259,870,395</u>
		(155,099,402)
		<u>(11,000,791)</u>
		<u>(166,100,193)</u>
		<u>\$ 93,770,202</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Other Revenue
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Other Revenue		
Rental income	\$ 724,851	\$ 781,860
Service contract billing	1,507,985	1,561,835
Cafeteria	263,794	290,416
Kiosk (The Coffee House)	540,601	512,780
340B program revenue	203,442	31,895
Miscellaneous	400,118	835,092
	<u> </u>	<u> </u>
Total Other Revenue	<u>\$ 3,640,791</u>	<u>\$ 4,013,878</u>

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	2018		
	Salaries	Supplies and Expenses	Total
Nursing Services			
Central service supplies	\$ 241,723	\$ 152,776	\$ 394,499
Emergency room	2,003,085	2,536,565	4,539,650
Wound care	-	216,309	216,309
Intensive care unit	2,579,586	1,632,941	4,212,527
Labor and delivery	851,130	249,014	1,100,144
Medical and surgical	3,410,538	1,555,492	4,966,030
Nursery	-	1,044	1,044
Nursing administration	997,257	43,180	1,040,437
Observation	140,429	133,215	273,644
Operating room	2,528,927	9,307,715	11,836,642
	<u>12,752,675</u>	<u>15,828,251</u>	<u>28,580,926</u>
Other Professional Services			
Ambulance	1,092,627	194,200	1,286,827
Anesthesiology	-	1,302,981	1,302,981
Bio Med	161,885	10,513	172,398
Cardiology	43,992	2,470,800	2,514,792
Cath lab	19,925	10,445,120	10,465,045
Complex lab	164,911	286,917	451,828
Electrocardiography	26,835	147,017	173,852
Geriatric psychology	1,058,166	168,182	1,226,348
Health education	165,570	38,452	204,022
Hyperbarics	487	198,685	199,172
Laboratory	1,199,318	3,041,063	4,240,381
Nephrology	-	280,097	280,097
Occupational therapy	63,738	23,576	87,314
Oncology	305,910	5,085,969	5,391,879
Pharmacy	1,216,571	2,892,399	4,108,970
Physical therapy	277,820	132,660	410,480
Physician	7,746,146	3,244,748	10,990,894
Radiology	1,861,427	1,934,361	3,795,788
Rehabilitation inpatient	667,101	847,348	1,514,449
Respiratory therapy	731,281	720,958	1,452,239
Sallisaw	-	3,500	3,500
Social services	300,210	36,743	336,953
Speech therapy	101,326	26,543	127,869
Specialty clinics	-	2,315	2,315
Sleep Study	124,469	-	124,469
	<u>17,329,715</u>	<u>33,535,147</u>	<u>50,864,862</u>
General Services			
Dietary	754,205	624,146	1,378,351
Housekeeping	580,586	159,461	740,047
Laundry and linen	-	351,906	351,906
Medical records	988,345	485,128	1,473,473
Plant operations	580,461	1,184,770	1,765,231
	<u>2,903,597</u>	<u>2,805,411</u>	<u>5,709,008</u>
Administrative Services			
Administration and office	5,764,656	5,915,243	11,679,899
Employee benefits	-	6,133,017	6,133,017
	<u>5,764,656</u>	<u>12,048,260</u>	<u>17,812,916</u>
Depreciation	-	2,521,534	2,521,534
	<u>\$ 38,750,643</u>	<u>\$ 66,738,603</u>	<u>\$ 105,489,246</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Schedules of Hospital Expenses
Years Ended June 30, 2018 and 2017

2017		
Salaries	Supplies and Expenses	Total
\$ 234,005	\$ 204,806	\$ 438,811
1,528,062	894,752	2,422,814
-	162,535	162,535
2,874,919	1,390,156	4,265,075
843,537	270,077	1,113,614
3,299,572	1,099,292	4,398,864
-	1,692	1,692
956,598	38,466	995,064
-	134	134
2,486,044	8,583,184	11,069,228
<u>12,222,737</u>	<u>12,645,094</u>	<u>24,867,831</u>
1,041,218	187,573	1,228,791
-	1,155,074	1,155,074
137,556	11,228	148,784
42,302	2,782,015	2,824,317
6,916	9,582,681	9,589,597
137,900	304,262	442,162
84,118	35,969	120,087
978,430	163,067	1,141,497
285,497	40,232	325,729
11,229	139,333	150,562
1,204,914	2,777,210	3,982,124
-	219,148	219,148
63,794	22,092	85,886
284,316	3,247,732	3,532,048
1,060,794	2,194,345	3,255,139
277,864	132,217	410,081
8,573,294	3,240,937	11,814,231
1,814,406	2,071,696	3,886,102
659,207	790,293	1,449,500
731,626	605,888	1,337,514
-	-	-
303,798	38,347	342,145
146,237	26,298	172,535
-	-	-
-	-	-
<u>17,845,416</u>	<u>29,767,637</u>	<u>47,613,053</u>
743,833	554,487	1,298,320
595,648	158,993	754,641
-	333,553	333,553
905,917	504,848	1,410,765
554,436	1,249,947	1,804,383
<u>2,799,834</u>	<u>2,801,828</u>	<u>5,601,662</u>
5,142,033	5,257,016	10,399,049
-	6,017,123	6,017,123
<u>5,142,033</u>	<u>11,274,139</u>	<u>16,416,172</u>
-	2,476,239	2,476,239
<u>\$ 38,010,020</u>	<u>\$ 58,964,937</u>	<u>\$ 96,974,957</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, 2018, and the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended and the related notes to the financial statements and have issued our report thereon dated January 17, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2018-A to 2018-D.

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
January 17, 2019

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

Material Weakness

2018-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.

2018-B Cost Report Estimate

Criteria – Accounting standards require an entity to accrue significant estimates such as 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 an 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 a material audit journal entry to the financial statements.

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

Recommendation – It is recommended the Authority implement a system that provides adequate controls over estimating and accruing 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 and reported.

2018-C Credit Balances in Patient Accounts Receivable

Criteria – An important control in accounts receivable is to monitor patient balances within the detail and determine the reasoning for and proper course of action on credit balances.

Condition – A large number of credit balances exist within patient accounts receivable.

Cause – Contractual adjustments were improperly recorded to patient accounts receivable resulting in credit balances. The credit balances are not being reviewed on a regular basis.

Effect – Interim financial statements may not be properly stated. An audit adjustment was posted to recognize these credit balances (or negative receivables) as accounts payable for financial statement reporting purposes.

Recommendation – We recommend that management and business office staff continue to monitor the accounts receivable listing and determine the status of these accounts with credit balances. We also recommend that any credit balances be reviewed on a monthly basis so necessary action can be taken in regards to these accounts as soon as possible. This process will ensure the accuracy of the accounts receivable detail and strengthen internal controls over accounts receivable.

Views of Responsible Officials – Management will work to analyze these accounts and determine the proper course of action on the accounts.

2018-D Account Reconciliation

Criteria – Reviewing and reconciling accounts to the general ledger is a necessary step in the Authority's internal control process.

Condition – During the course of our engagement, it was identified that certain accounts are not reconciled from a sub-ledger or other detail and support to the general ledger on a timely basis.

Cause – Areas with differences that resulted in significant adjustments to the financial statements included prepaid expenses, accounts payable and related party accounts.

Effect – Misstatements are not identified and corrected in a timely manner.

Recommendation – We recommend management prepare account reconciliations on a timely basis as well as a review of these reconciliations, in order to identify potential misstatements and reconciling items and to serve as an internal control over financial reporting. Significant accounts should be reconciled from a sub-ledger or other detail or support to the general ledger at least on a monthly basis. Any variances should also be reconciled on a periodic basis to ensure that these balances are accurate.

Views of Responsible Officials – Management has developed a process to reconcile accounts on a regular basis and investigate any variances.