



Management's Discussion and Analysis  
and Financial Statements  
June 30, 2019 and 2018

## Tahlequah Hospital Authority

A Component Unit of the City of Tahlequah, Oklahoma

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
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June 30, 2019 and 2018

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying statements of net position of Tahlequah Hospital Authority (Authority), as of June 30, 2019 and 2018, 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 preform 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tahlequah Hospital Authority as of June 30, 2019 and 2018, 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 November 15, 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.



Oklahoma City, Oklahoma  
November 15, 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, 2019, 2018 and 2017. 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 \$3,912,118 or 6% in 2019 and increased by \$418,345 or 1% in 2018.
- The Authority reported operating income in 2019 of \$2,270,529 and operating income in 2018 of \$483,048. Operating income increased \$1,787,481 or 370% in 2019 over 2018. Operating income decreased \$1,098,307 or 69% in 2018 over 2017.
- The Authority's total assets increased \$4,512,058 or 4% in 2019 compared to 2018. Total assets increased \$9,048,241 or 10% in 2018 compared to 2017.

### **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, deferred outflows of resources, 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, deferred outflows of resources, 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, deferred outflows of resources, and liabilities reported in the Statement of Net Position. The Authority's net position increased by \$3,912,118 or 6% in 2019 and increased \$418,345 or 1% in 2018, as shown in Table 1.

**Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position**

	2019	2018	2017
<b>Assets</b>			
Current assets	\$ 41,790,743	\$ 36,706,571	\$ 33,142,169
Capital assets	45,163,900	43,132,010	37,895,301
Other noncurrent assets	21,805,199	24,409,203	24,162,073
<b>Total assets</b>	<b>108,759,842</b>	<b>104,247,784</b>	<b>95,199,543</b>
<b>Deferred Outflows of Resources</b>	<b>637,715</b>	-	-
<b>Total assets and deferred outflows of resources</b>	<b>\$ 109,397,557</b>	<b>\$ 104,247,784</b>	<b>\$ 95,199,543</b>
<b>Liabilities</b>			
Current liabilities	\$ 14,759,350	\$ 14,297,238	\$ 8,797,689
Long-term liabilities	28,082,874	27,307,331	24,176,984
<b>Total liabilities</b>	<b>42,842,224</b>	<b>41,604,569</b>	<b>32,974,673</b>
<b>Net Position</b>			
Invested in capital assets, net of related debt	15,885,888	14,857,333	13,400,581
Unrestricted	50,063,355	47,223,576	47,021,162
Noncontrolling interest in joint venture	606,090	562,306	1,803,127
<b>Total net position</b>	<b>66,555,333</b>	<b>62,643,215</b>	<b>62,224,870</b>
<b>Total liabilities and net position</b>	<b>\$ 109,397,557</b>	<b>\$ 104,247,784</b>	<b>\$ 95,199,543</b>

A significant component of the change in the Authority's assets is the increase in patient receivables and capital assets. Patient receivables increased in 2019 by \$849,849 or 4% and increased in 2018 by \$6,113,876 or 41%. The primary increases between 2018 and 2019 are due to an increase in services provided by the Authority. Capital assets increased in 2019 by \$2,031,890 or 5% and increased in 2018 by \$5,236,709 or 14%. The primary increases between 2018 and 2019 are due to the purchase of new capital assets and construction of the medical park building.

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

**Table 2: Operating Results**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues			
Net patient service revenue	\$ 110,109,351	\$ 103,313,371	\$ 95,771,071
Other revenue	<u>8,726,852</u>	<u>5,278,671</u>	<u>4,223,165</u>
Total operating revenues	<u>118,836,203</u>	<u>108,592,042</u>	<u>99,994,236</u>
Expenses			
Nursing services	27,908,754	27,087,339	23,260,436
Other professional services	55,717,277	51,083,529	47,712,957
General services	9,047,835	8,126,665	7,093,538
Administrative services	19,808,881	18,037,852	16,617,088
Other expenses	788,152	584,616	710,516
Depreciation and amortization	<u>3,294,775</u>	<u>3,188,993</u>	<u>3,018,346</u>
Total expenses	<u>116,565,674</u>	<u>108,108,994</u>	<u>98,412,881</u>
Operating Income	<u>2,270,529</u>	<u>483,048</u>	<u>1,581,355</u>
Nonoperating Revenue (Expense)			
Investment income	1,415,036	635,524	774,836
Income from joint ventures	1,703,273	1,627,280	2,177,598
Interest expense	(1,257,444)	(1,075,713)	(1,199,147)
Gain (loss)	1,046	(22,023)	(293,942)
Contributions expense	<u>(23,300)</u>	<u>(26,750)</u>	<u>(34,206)</u>
Nonoperating revenues, net	<u>1,838,611</u>	<u>1,138,318</u>	<u>1,425,139</u>
Revenues in Excess of Expenses	4,109,140	1,621,366	3,006,494
Noncontrolling Interest in Joint Ventures	<u>(241,806)</u>	<u>38,800</u>	<u>(379,976)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	<u>\$ 3,867,334</u>	<u>\$ 1,660,166</u>	<u>\$ 2,626,518</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 \$2,270,529 in 2019 compared to an operating income of \$483,048 in 2018 and an operating income of \$1,581,355 in 2017.

The primary components of the operating income are:

- Net patient service revenue increased \$6,795,980 or 7% in 2019 and increased \$7,542,300 or 8% in 2018. The increase in 2019 and 2018 is attributed to an increase in services provided by the Authority.
- Other professional services expenses increased \$4,633,748 or 9% in 2019 and \$3,370,572 or 7% in 2018. The increases in 2019 and 2018 is attributed to the Authority hiring additional employees and increased cost of supplies.
- Nursing services expenses increased \$821,415 or 3% in 2019 and increased \$3,826,903 or 16% in 2018. The increases in 2019 and 2018 is attributed to increased cost of contract labor, supplies and purchased services.

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of investment income, income from joint ventures and interest expense. Investment income increased \$779,512 or 123% in 2019 and decreased \$139,312 or 18% in 2018. Income from joint ventures increased \$75,993 or 5% in 2019 and decreased \$550,318 or 25% in 2018. Interest expense increased \$181,731 or 17% in 2019 and decreased \$123,434 or 10% in 2018.

### **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 2019 by \$888,513 and increased by \$2,511,628 in 2018.
- Net cash used for financing activities increased in 2019 by \$784,520 and decreased by \$551,478 in 2018.
- Net cash provided by investing activities increased in 2019 by \$3,667,598 and decreased by \$840,155 in 2018.

### **Capital Assets**

At the end of 2019, the Authority had \$45,163,900 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2019, the Authority purchased new capital assets costing \$5,338,125. At the end of 2018, the Authority had \$43,132,010 invested in capital assets, net of accumulated depreciation. In 2018, the Authority purchased new capital assets costing \$8,441,676.

### **Debt**

At June 30, 2019 and 2018, the Authority had \$28,409,271 and \$28,385,776 in notes payable and capital lease obligations outstanding as detailed in Note 8 to the financial statements. The Authority issued \$1,698,733 and \$18,235,474 of new debt in 2019 and 2018. 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 \$1,675,238 and \$14,592,989 in 2019 and 2018.



**Economic Factors and Next Year's Budget**

The Authority continues to monitor costs throughout the year. The 2020 fiscal year operating budget indicates conservative net revenue of approximately \$106,000,000. 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.

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Net Position  
June 30, 2019 and 2018

	2019	2018
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,378,117	\$ 7,008,511
Board designated cash	425,697	588,055
Receivables		
Patient, net of estimated uncollectibles of \$15,793,000 in 2019 and \$10,904,000 in 2018	21,858,687	21,008,838
Other	5,082,897	1,543,003
Related parties	1,333,131	2,168,643
Estimated third-party payor settlements	1,443,974	-
Supplies	2,630,813	2,581,194
Prepaid expenses	1,637,427	1,808,327
Total current assets	41,790,743	36,706,571
<b>Capital Assets, Net</b>		
Non-depreciable capital assets	7,244,795	13,255,425
Depreciable capital assets, net	37,919,105	29,876,585
Total capital assets, net	45,163,900	43,132,010
<b>Other Assets</b>		
Investments in joint ventures	6,617,172	6,762,908
Assets held under deferred compensation agreement	813,327	644,888
Investments	12,784,484	14,757,863
Investment in captive insurance	584,761	584,761
Other	1,005,455	1,658,783
Total other assets	21,805,199	24,409,203
Deferred Outflows of Resources	637,715	-
Total assets and deferred outflows of resources	\$ 109,397,557	\$ 104,247,784

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Net Position  
June 30, 2019 and 2018

	2019	2018
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,752,265	\$ 1,723,333
Accounts payable	7,932,343	6,184,153
Estimated third-party payor settlements	-	1,744,243
Accrued expenses		
Salaries and benefits payable	1,166,975	973,419
Vacation	2,372,422	2,081,125
Payroll taxes and other	1,529,284	1,407,513
Related party payable	6,061	183,452
Total current liabilities	14,759,350	14,297,238
Deferred Compensation	788,153	644,888
Long-Term Liabilities		
Long-term debt, less current maturities	26,657,006	26,662,443
Other liabilities	637,715	-
Total long-term liabilities	27,294,721	26,662,443
Total liabilities	42,842,224	41,604,569
Net Position		
Net investment in capital assets	15,885,888	14,857,333
Unrestricted	50,063,355	47,223,576
Noncontrolling interest in joint ventures	606,090	562,306
Total net position	66,555,333	62,643,215
Total liabilities and net position	\$ 109,397,557	\$ 104,247,784

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Revenues and Expenses  
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$14,199,814 in 2019 and \$17,489,638 in 2018)	\$ 110,109,351	\$ 103,313,371
Other revenue	8,726,852	5,278,671
Total operating revenue	118,836,203	108,592,042
Expenses		
Nursing services	27,908,754	27,087,339
Other professional services	55,717,277	51,083,529
General services	9,047,835	8,126,665
Administrative services	19,808,881	18,037,852
Other expenses	788,152	584,616
Depreciation and amortization	3,294,775	3,188,993
Total expenses	116,565,674	108,108,994
Operating Income	2,270,529	483,048
Nonoperating Revenues (Expenses)		
Investment income	1,415,036	635,524
Income from joint venture	1,703,273	1,627,280
Interest expense	(1,257,444)	(1,075,713)
Gain (loss) on capital assets and lease termination	1,046	(22,023)
Contributions expense	(23,300)	(26,750)
Nonoperating revenues (expenses), net	1,838,611	1,138,318
Revenues in Excess of Expenses	4,109,140	1,621,366
Noncontrolling Interest in Joint Ventures	(241,806)	38,800
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	\$ 3,867,334	\$ 1,660,166

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Changes in Net Position  
Years Ended June 30, 2019 and 2018

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	<u>Noncontrolling Interest</u>	<u>Controlling Interest</u>	<u>Total</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	561,306	62,081,909	62,643,215
Member Distributions	(197,022)	-	(197,022)
Change in Net Position	<u>241,806</u>	<u>3,867,334</u>	<u>4,109,140</u>
Net Position, June 30, 2019	<u>\$ 606,090</u>	<u>\$ 65,949,243</u>	<u>\$ 66,555,333</u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Cash Flows  
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Cash received from patient services	\$ 106,071,285	\$ 98,883,214
Other operating receipts	6,022,470	4,986,211
Cash payments to suppliers for goods and services	(68,894,770)	(64,296,985)
Cash payments to and on behalf of employees for services	(41,269,372)	(38,531,340)
Net Cash from Operating Activities	<u>1,929,613</u>	<u>1,041,100</u>
Capital and Capital Related Financing Activities		
Payments on long-term debt	(1,615,355)	(1,390,560)
Payment of interest on long-term debt	(1,250,347)	(1,068,616)
Purchase of property and equipment	(5,338,125)	(8,441,676)
Proceeds from issuance of long-term debt	1,698,733	5,091,044
Proceeds from sale of capital assets	1,046	-
Net Cash used for Capital and Capital Related Financing Activities	<u>(6,504,048)</u>	<u>(5,809,808)</u>
Noncapital Financing Activities		
Contributions made	(23,300)	(26,750)
Interest paid on non capital financing arrangements	(7,097)	(7,097)
Principal paid on long-term debt	(59,883)	(57,999)
Net Cash used for Noncapital Financing Activities	<u>(90,280)</u>	<u>(91,846)</u>
Investing Activities		
Distribution to and purchase of noncontrolling interest in joint ventures	(197,022)	(1,203,021)
Distributions received from joint ventures	1,849,009	1,272,148
Investment income	1,340,501	132,355
Purchase of investments	(10,232,929)	(629,604)
Proceeds sale of investments	12,112,404	1,632,487
Net Cash from Investing Activities	<u>4,871,963</u>	<u>1,204,365</u>
Net Change in Cash and Cash Equivalents	207,248	(3,656,189)
Cash and Cash Equivalents, Beginning of Year	<u>7,596,566</u>	<u>11,252,755</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,803,814</u>	<u>\$ 7,596,566</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash and cash equivalents	\$ 7,378,117	\$ 7,008,511
Board designated cash	425,697	588,055
Total Cash and Cash Equivalents	<u>\$ 7,803,814</u>	<u>\$ 7,596,566</u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Cash Flows  
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating income	\$ 2,270,529	\$ 483,048
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,294,775	3,188,993
Provision for bad debts	14,042,443	17,489,638
Changes in assets and liabilities		
Patient receivables	(14,892,292)	(23,603,514)
Other receivables	(3,539,894)	(142,587)
Due from related parties	835,512	(149,873)
Supplies	(49,619)	(131,175)
Prepays	182,360	(689,129)
Other assets	653,328	(391,712)
Accounts payable	1,748,190	3,270,249
Accrued expenses	606,624	841,614
Deferred compensation	143,265	(919,008)
Estimated third-party payor settlement	(3,188,217)	1,683,719
Due to related parties	(177,391)	110,837
Net Cash from Operating Activities	\$ 1,929,613	\$ 1,041,100
Supplemental Disclosure of Non-cash Capital and Capital Related Financing and Investing Activities		
Income from joint venture	\$ 1,703,273	\$ 1,627,280
Refinancing of revenue notes and notes payable	\$ -	\$ 13,144,430
Vested in captive insurance	\$ -	\$ 139,106

**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.

The Authority has a controlling interest in Northeastern Vascular Services (NVS), which was established as a limited liability company in August 2015. NVS provides vascular 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, deferred outflows of resources 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, 2019 and 2018.

*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, 2019 and 2018.

*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, 2019 and 2018, notes receivable from physicians and employees totaled \$1,744,475 and \$1,805,479 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:

Year Ending June 30,		
2020	\$	675,132
2021		368,302
2022		302,802
2023		236,136
2024		159,636
2025 to 2026		2,467
Total		\$ 1,744,475

**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category, which is the interest rate swap.

**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, 2019 and 2018, the Hospital is entitled to a full refund of its investment.

### **Compensated Absences**

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

### **Estimated Health Claims Payable**

The Authority provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan. These reserves, which are included in current liabilities on the statements of net position, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

### **Operating Revenues and Expenses**

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

### **Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### **Charity Care**

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amounts of charges foregone for services provided under the Authority's charity care policy (Hospital only) were approximately \$4,253,000 and \$1,576,000 for the years ended June 30, 2019 and 2018. Total direct and indirect cost related to those forgone charges were approximately \$1,511,000 and \$551,000 at June 30, 2019 and 2018, 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 \$2,499,275 and \$2,369,067 included in administrative services, for the years ended June 30, 2019 and 2018. In return, the Authority received \$4,950,421 and \$5,839,226 included in net patient service revenue, for the years ended June 30, 2019 and 2018.

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

### **New Accounting Pronouncement**

The Authority adopted the GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The new statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

### **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, 2016.

**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.

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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, 2019 and 2018:

	2019	2018
Medicare	53%	49%
Medicaid	11%	11%
Blue Cross and other commercial payors	32%	33%
Self pay and other	4%	7%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2019 and 2018 increased approximately \$227,000 and increased approximately \$445,000 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 and investments as of June 30, 2019 and 2018 are as follows:

	2019	2018
Carry amount		
Cash and deposits	\$ 7,903,276	\$ 7,596,566
Investments	12,685,022	14,757,863
	\$ 20,588,298	\$ 22,354,429

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

	2019	2018
Cash and cash equivalents	\$ 7,378,117	\$ 7,008,511
Board designated cash	425,697	588,055
Long-term investments	12,784,484	14,757,863
Total	\$ 20,588,298	\$ 22,354,429

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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, 2019 and 2018, \$7,043,985 of the Authority's bank balance of \$8,717,334 and \$8,034,025 of the Authority's bank balance of \$9,682,048 was exposed to custodial credit risk as follows:

	2019	2018
Uninsured and uncollateralized - non-government joint venture exempt from statute	\$ 821,221	\$ 801,444
Uninsured and collateral held by pledging bank's trust department in the Authority's name	6,222,764	7,232,581
Total	\$ 7,043,985	\$ 8,034,025

**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, 2019:

Type	Fair Value	Ratings	Investment Maturities (in Years)		
			Less than 1	1 - 5	6-10
Domestic fixed income	\$ 3,307,190	Baa1 - Aaa	\$ 536,008	\$ 1,305,438	\$ 1,465,744
International fixed income	334,232	Baa2 - A1	141,625	192,607	-
	3,641,422		\$ 677,633	\$ 1,498,045	\$ 1,465,744
Domestic equities	7,212,573				
International equities	1,831,027				
	\$ 12,685,022				



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The Authority had the following investments and maturities at June 30, 2018:

Type	Fair Value	Ratings	Investment Maturities (in Years)		
			Less than 1	1 - 5	6-10
Domestic fixed income	\$ 3,184,409	Baa1 - Aa2	\$ 214,815	\$ 1,117,924	\$ 1,851,670
International fixed income	336,984	Baa2 - Aa3	-	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				
	<u>\$ 14,757,863</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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018.

	2019	2018
Interest and dividend income	\$ 911,407	\$ 267,036
Change in unrealized gains and losses on investments	503,629	368,488
Total	\$ 1,415,036	\$ 635,524

**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, 2019:

	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				
Bonds - domestic	\$ 3,307,190	\$ -	\$ 3,307,190	\$ -
Bonds - international	334,232	-	334,232	-
Corporate stocks	9,043,600	8,917,176	-	126,424
Total investments by fair value level	<u>\$ 12,685,022</u>	<u>\$ 8,917,176</u>	<u>\$ 3,641,422</u>	<u>\$ 126,424</u>

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 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, 2019 are as follows:

	Balance June 30, 2018	Additions	Transfers and Retirements	Balance June 30, 2019
<b>Non-depreciable capital assets</b>				
Land	\$ 2,976,856	\$ 34,555	\$ -	\$ 3,011,411
Construction in progress	10,278,569	3,535,970	(9,581,155)	4,233,384
<b>Total non-depreciable capital assets</b>	<b>\$ 13,255,425</b>	<b>\$ 3,570,525</b>	<b>\$ (9,581,155)</b>	<b>\$ 7,244,795</b>
<b>Depreciable capital assets</b>				
Land improvements	\$ 634,672	\$ -	\$ -	\$ 634,672
Buildings and fixed equipment	37,451,154	773,086	9,391,354	47,615,594
Major movable equipment	29,072,448	994,514	184,401	30,251,363
<b>Total depreciable capital assets</b>	<b>67,158,274</b>	<b>\$ 1,767,600</b>	<b>\$ 9,575,755</b>	<b>78,501,629</b>
<b>Less accumulated depreciation for</b>				
Land and improvements	(440,006)	\$ (37,220)	\$ -	(477,226)
Buildings and fixed equipment	(16,071,002)	(1,158,459)	-	(17,229,461)
Major movable equipment	(20,770,681)	(2,107,256)	2,100	(22,875,837)
<b>Total accumulated depreciation</b>	<b>(37,281,689)</b>	<b>\$ (3,302,935)</b>	<b>\$ 2,100</b>	<b>(40,582,524)</b>
<b>Net capital assets being depreciated</b>	<b>\$ 29,876,585</b>			<b>\$ 37,919,105</b>
<b>Capital assets, net</b>	<b>\$ 43,132,010</b>			<b>\$ 45,163,900</b>

The majority of construction in progress at June 30, 2019 represents cost incurred for new electronic medical records (EMR) software and various other smaller projects. The Authority has entered into a 10-year agreement for the new EMR software. The EMR software is expected to be operational in fiscal year 2020.

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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
<b>Non-depreciable capital assets</b>				
Land	\$ 2,976,856	\$ -	\$ -	\$ 2,976,856
Construction in progress	7,471,300	5,828,936	(3,021,667)	10,278,569
Total non-depreciable capital assets	<u>\$ 10,448,156</u>	<u>\$ 5,828,936</u>	<u>\$ (3,021,667)</u>	<u>\$ 13,255,425</u>
<b>Depreciable capital assets</b>				
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 depreciable capital assets	<u>62,421,778</u>	<u>\$ 2,612,740</u>	<u>\$ 2,123,756</u>	<u>67,158,274</u>
<b>Less accumulated depreciation for</b>				
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>

**Note 6 - Investments in Joint Ventures**

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2019 and 2018, the Authority's investment in joint ventures consisted of the following:

	2019	2018
Cherokee Health Partners, LLC	\$ 1,856,014	\$ 1,883,737
Platte Dialysis, LLC	4,761,158	4,879,171
Total investment in joint ventures	<u>\$ 6,617,172</u>	<u>\$ 6,762,908</u>

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Joint venture activity for the years ended June 30, 2019 and 2018 are as follow:

	Balance June 30, 2018	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2019
Cherokee Health Partners, LLC	\$ 1,883,737	\$ 730,913	\$ (758,636)	\$ -	\$ 1,856,014
Platte Dialysis, LLC	4,879,171	972,360	(1,090,373)	-	4,761,158
	<u>\$ 6,762,908</u>	<u>\$ 1,703,273</u>	<u>\$ (1,849,009)</u>	<u>\$ -</u>	<u>\$ 6,617,172</u>
	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
	<u>\$ 6,407,776</u>	<u>\$ 1,627,280</u>	<u>\$ (1,272,148)</u>	<u>\$ -</u>	<u>\$ 6,762,908</u>

#### 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 2019 and 2018, the Authority was paid \$1,023,001 and \$1,230,966 for services and building space provided to CHP. These amounts are included in operating revenues. The Authority was owed \$1,110,549 and \$429,483 for the years ended June 30, 2019 and 2018. 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. In addition, the Authority is being reimbursed \$661,683 for the note payable at 3.85%, 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 2019 and 2018, the Authority was paid \$10,740,969 and \$11,059,805 for services provided to NOHC. These amounts are included in operating revenues. The Authority was owed \$638,854 and \$1,210,967 at June 30, 2019 and 2018. 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 \$32,333 for services provided during the years ended June 30, 2019 and 2018. The receivables are included in related party receivable.

## **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, 2019 and 2018, the Authority owns 100% 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, 2019 and 2018, 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.

**Northeastern Wound Management, LLC**

NWM, a limited liability company, was established in November 2015, to provide wound management services. During the years ended June 30, 2019 and 2018, the Authority owns a 60% share of 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.

**Northeastern Vascular Services, LLC**

NVS, a limited liability company, was established in August 2015, to provide vascular services. There was no activity for NVS until fiscal year 2019. During the years ended June 30, 2019 and 2018, the Authority owns a 100% share NWM.

As the Authority has majority ownership interest and management control over NVS, the balance of the investment in NVS 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, 2019 and 2018 for all operating leases was approximately \$501,000 and \$501,000. The capitalized leases assets consist of:

	2019	2018
Major moveable equipment	\$ 106,000	\$ 106,000
Accumulated depreciation	(47,700)	(26,500)
	\$ 58,300	\$ 79,500



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Minimum future lease payments for the leases are as follows:

Year Ending June 30,	Capital Lease	Operating Lease
2020	\$ 44,625	\$ 12,975
2021	28,688	11,700
2022	-	8,775
Total minimum lease payments	\$ 73,313	\$ 33,450

**Note 8 - Long-Term Debt**

Long-term debt consists of:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Notes from					
Direct Borrowings	\$ 28,286,964	\$ 1,698,733	\$ (1,649,739)	\$ 28,335,958	\$ 1,707,640
Capital lease (Note 7)	98,812	-	(25,499)	73,313	44,625
Total long-term debt	\$ 28,385,776	\$ 1,698,733	\$ (1,675,238)	\$ 28,409,271	\$ 1,752,265
	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Notes from					
Direct Borrowings	\$ 24,595,291	\$ 18,235,474	\$ (14,543,801)	\$ 28,286,964	\$ 1,691,458
Capital lease (Note 7)	148,000	-	(49,188)	98,812	31,875
Total long-term debt	\$ 24,743,291	\$ 18,235,474	\$ (14,592,989)	\$ 28,385,776	\$ 1,723,333

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The terms, due dates, and securing collateral of the Authority's long-term debt, including capital lease obligation, at June 30, 2019 and 2018 follow:

	2019	2018
Notes from Direct Borrowings		
4.39% 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	\$ 13,969,041	\$ 14,702,064
4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2027, secured by property	445,354	462,449
4.1% note payable, due in monthly installments of \$4,268 including interest, through April 2024, secured by land	224,025	265,254
4.1% note payable, due in monthly installments of \$6,431 including interest, through April 2024, secured by land	337,745	399,643
4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	463,400	502,320
2.99% note payable, due in monthly installments of \$9,606 including interest, through February 2022, secured by associated equipment	295,080	401,013
4.5% note payable, due in monthly installments of \$29,359 including interest, through December 2031, secured by property	3,350,678	3,545,251
5.0% note payable, due in monthly installments of \$5,876 including interest, through August 2033, secured by building	713,563	750,121
3.92% note payable up to \$7,400,000, due in monthly installments of \$44,531 including interest, through September 2021, secured by building	7,167,741	6,484,970
2.75% note payable, due in monthly installments of \$10,258 including interest, through July 2023, secured by equipment	474,896	583,307
3.2% note payable, due in monthly installments of \$5,426 including interest, through July 2021, secured by property and equipment	130,689	190,572
3.85% note payable, due in monthly installments of \$7,875 including interest, through March 2029, secured by property and equipment	763,746	-
Total notes payable/mortgage loans	28,335,958	28,286,964
Capital Lease		
Capital lease obligation with imputed interest of 0%, with a maturity date of April 2021, collateralized by equipment	73,313	98,812
Less current maturities	(1,752,265)	(1,723,333)
Long-term debt, less current maturities	\$ 26,657,006	\$ 26,662,443

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

Year Ending June 30,	Capital Lease		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2020	\$ 44,625	\$ -	\$ 1,707,640	\$ 1,162,144
2021	28,668	-	1,869,878	1,091,958
2022	-	-	8,579,422	816,266
2023	-	-	1,521,592	678,673
2024	-	-	1,463,179	602,528
2025 to 2029	-	-	12,112,032	1,752,034
2030 to 2034	-	-	1,082,235	78,526
Total	\$ 73,293	\$ -	\$ 28,335,978	\$ 6,182,129

The provisions of the 3.72% note payable, contain covenants pertaining to reporting requirements and debt service ratio.

#### Interest Rate Swap

The Authority entered the interest rate swap agreement in January 2018. The Authority receives a floating rate of 1-month LIBOR, plus 184 basis points, in return for the fixed rate outlined above. The swaps expire January 2028. The objective of the swap is for the Authority to offset the variability of the overall cash flows on its fixed rate debt attributable to changes in market interest rates.

Notional Value			
Original	2019	2018	Interest Paid
15,000,000	13,969,041	14,702,064	4.390%

The change in fair value of the swap is included as deferred outflows of resources in the statement of net position. The fair market value of the swap is determined using quoted market prices based upon observable interest rates and yield curves (Level 2 inputs), and the swap is a liability totaling \$637,715 and \$0 at June 30, 2019 and 2018 and was included in noncurrent liabilities.

#### Credit Risk

The Authority is exposed to credit risk on hedging derivative instruments that are in asset positions. As of June 30, 2019 and 2018, the Authority did not have hedging derivative instruments in asset positions.

#### Interest Rate Risk

The Authority is exposed to interest rate risk on its interest rate swap. As the LIBOR swap index decreases, the Authority's net payment on the swap increases.

### **Termination Risk**

The Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. If at the time of termination, a hedging derivative instrument is in a liability position, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

### **Rollover Risk**

The Authority is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Authority will be re-exposed to the risks being hedged by the hedging derivative instrument.

### **Note 9 - Pension Plan**

During 2019, the Authority terminated the 403(b) defined contribution pension plan and replaced it with a 401(a) defined contribution pension plan. The Authority contributes to a defined contribution pension plan 401(a) 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 401(a) 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, 2019, 2018, and 2017 was \$1,168,831, \$702,247, and \$868,550.

### **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, 2019 and 2018, the value of deferred compensation totaled \$788,153 and \$644,888.

**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, 2019 and 2018 was as follows:

	2019	2018
Medicare	26%	24%
Medicaid	6%	6%
Other third-party payors	39%	53%
Patients	29%	17%
	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), 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-Funded Health Plan**

The Authority is self-funded for health benefits for eligible employees and their dependents. The Authority, 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 but 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, 2019.

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:

<u>Year</u>	<u>Beginning Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2019	\$ 302,000	\$ 3,372,938	\$ (3,328,938)	\$ 346,000
2018	266,000	2,889,198	(2,853,198)	302,000

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**Note 13 - Condensed Combining Information**

The following summarizes combining information for the Authority, and NOD, NWM, Foundation, NOCC, NOMSO, and NVS which have been presented as blended component units, as of and for the year ended June 30, 2019.

Statement of net position as of June 30, 2019:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
<b>Assets</b>									
Current assets	\$ 40,142,144	\$ 1,305,765	\$ 359,875	\$ 1,099,149	\$ 1,162,839	\$ 126,657	\$ 12,000	\$ (2,417,686)	\$ 41,790,743
Capital assets, net	25,715,728	1,485,022	3,221	17,892,653	67,276	-	-	-	45,163,900
Other noncurrent assets	32,526,248	-	-	69,342	-	-	229,315	(11,019,706)	21,805,199
Total assets	98,384,120	2,790,787	363,096	19,061,144	1,230,115	126,657	241,315	(13,437,392)	108,759,842
Deferred Outflows of Resources	637,715	-	-	-	-	-	-	-	637,715
Total assets and deferred outflows of resources	<u>\$ 99,021,835</u>	<u>\$ 2,790,787</u>	<u>\$ 363,096</u>	<u>\$ 19,061,144</u>	<u>\$ 1,230,115</u>	<u>\$ 126,657</u>	<u>\$ 241,315</u>	<u>\$ (13,437,392)</u>	<u>\$ 109,397,557</u>
<b>Liabilities</b>									
Current liabilities	\$ 13,909,566	\$ 407,112	\$ 690,130	\$ 1,189,502	\$ 426,523	\$ 5,426	\$ 283,658	\$ (2,152,567)	\$ 14,759,350
Deferred compensation	788,153	-	-	-	-	-	-	-	788,153
Long-term debt, less current maturities	18,039,861	363,495	68,862	9,156,965	-	-	-	(334,462)	27,294,721
Total liabilities	32,737,580	770,607	758,992	10,346,467	426,523	5,426	283,658	(2,487,029)	42,842,224
<b>Net Position</b>									
Net investment in capital assets	7,189,560	1,010,126	3,221	7,615,705	67,276	-	-	-	15,885,888
Unrestricted	59,094,695	1,010,054	(399,117)	1,098,972	736,316	121,231	(42,343)	(11,557,453)	50,062,355
Noncontrolling interest in joint ventures	-	-	-	-	-	-	-	607,090	607,090
Total net position	66,284,255	2,020,180	(395,896)	8,714,677	803,592	121,231	(42,343)	(10,950,363)	66,555,333
Total liabilities and net position	<u>\$ 99,021,835</u>	<u>\$ 2,790,787</u>	<u>\$ 363,096</u>	<u>\$ 19,061,144</u>	<u>\$ 1,230,115</u>	<u>\$ 126,657</u>	<u>\$ 241,315</u>	<u>\$ (13,437,392)</u>	<u>\$ 109,397,557</u>

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Operating results and changes in net position for the year ended June 30, 2019:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Northeast Hospital Vascular Services	Reclassifications or Eliminations	Combined
Operating Revenues									
Net patient service revenue	\$ 107,925,872	\$ 1,491,787	\$ -	\$ -	\$ 2,183,479	\$ -	\$ -	\$ (1,491,787)	\$ 110,109,351
Other revenue	6,523,339	427,029	568,294	2,034,250	-	482,084	-	(1,308,144)	8,726,852
Total operating revenues	<u>114,449,211</u>	<u>1,918,816</u>	<u>568,294</u>	<u>2,034,250</u>	<u>2,183,479</u>	<u>482,084</u>	<u>-</u>	<u>(2,799,931)</u>	<u>118,836,203</u>
Operating Expenses									
Depreciation and amortization	2,470,226	472,668	537	345,744	5,600	-	-	-	3,294,775
Other operating expenses	111,406,878	768,357	581,403	362,778	1,940,065	389,006	54,343	(2,231,931)	113,270,899
Total operating expenses	<u>113,877,104</u>	<u>1,241,025</u>	<u>581,940</u>	<u>708,522</u>	<u>1,945,665</u>	<u>389,006</u>	<u>54,343</u>	<u>(2,231,931)</u>	<u>116,565,674</u>
Operating Income (Loss)	572,107	677,791	(13,646)	1,325,728	237,814	93,078	(54,343)	(568,000)	2,270,529
Nonoperating Revenues (Expenses)	<u>3,344,624</u>	<u>143,096</u>	<u>-</u>	<u>(362,076)</u>	<u>4,499</u>	<u>-</u>	<u>-</u>	<u>(1,291,532)</u>	<u>1,838,611</u>
Revenues in Excess of (Less Than) Expenses	3,916,731	820,887	(13,646)	963,652	242,313	93,078	(54,343)	(1,859,532)	4,109,140
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(241,806)</u>	<u>(241,806)</u>
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	3,916,731	820,887	(13,646)	963,652	242,313	93,078	(54,343)	(2,101,338)	3,867,334
Net Position, Beginning of Year	62,367,524	1,856,040	(382,250)	7,751,025	561,279	28,153	-	(10,100,862)	62,080,909
Members' Contributions	-	-	-	-	-	-	12,000	(12,000)	-
Members' Distributions	-	(656,747)	-	-	-	-	-	656,747	-
Noncontrolling Interest in Joint Ventures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>607,090</u>	<u>607,090</u>
Net Position, End of Year	<u>\$ 66,284,255</u>	<u>\$ 2,020,180</u>	<u>\$ (395,896)</u>	<u>\$ 8,714,677</u>	<u>\$ 803,592</u>	<u>\$ 121,231</u>	<u>\$ (42,343)</u>	<u>\$ (10,950,363)</u>	<u>\$ 66,555,333</u>



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Cash flows for the year ended June 30, 2019:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
Net cash from (used for) operating activities	\$ 923,548	\$ 847,385	\$ 52,197	\$ 622,038	\$ 70,552	\$ (86,107)	\$ -	\$ (500,000)	\$ 1,929,613
Net cash used for capital and related financing activities	(5,782,549)	(382,987)	-	(773,318)	(65,194)	-	-	500,000	(6,504,048)
Net cash from (used for) noncapital financing activities	(4,903)	-	(74,077)	(23,300)	-	-	12,000	-	(90,280)
Net cash from (used for) investing activities	5,333,000	(498,968)	-	33,432	4,499	-	-	-	4,871,963
Net change in cash and cash equivalents	469,096	(34,570)	(21,880)	(141,148)	9,857	(86,107)	12,000	-	207,248
Cash and cash equivalents, beginning of year	5,021,226	946,489	109,952	1,020,427	339,354	159,118	-	-	7,596,566
Cash and cash equivalents, end of year	<u>\$ 5,490,322</u>	<u>\$ 911,919</u>	<u>\$ 88,072</u>	<u>\$ 879,279</u>	<u>\$ 349,211</u>	<u>\$ 73,011</u>	<u>\$ 12,000</u>	<u>\$ -</u>	<u>\$ 7,803,814</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, 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
<b>Assets</b>								
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
<b>Total assets</b>	<b>\$ 93,856,274</b>	<b>\$ 2,845,967</b>	<b>\$ 178,030</b>	<b>\$ 17,600,727</b>	<b>\$ 1,173,921</b>	<b>\$ 203,867</b>	<b>\$ (11,611,002)</b>	<b>\$ 104,247,784</b>
<b>Liabilities</b>								
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
<b>Total liabilities</b>	<b>31,488,750</b>	<b>989,927</b>	<b>560,280</b>	<b>9,849,702</b>	<b>612,642</b>	<b>175,714</b>	<b>(2,072,446)</b>	<b>41,604,569</b>
<b>Net Position</b>								
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
<b>Total net position</b>	<b>62,367,524</b>	<b>1,856,040</b>	<b>(382,250)</b>	<b>7,751,025</b>	<b>561,279</b>	<b>28,153</b>	<b>(9,538,556)</b>	<b>62,643,215</b>
<b>Total liabilities and net position</b>	<b>\$ 93,856,274</b>	<b>\$ 2,845,967</b>	<b>\$ 178,030</b>	<b>\$ 17,600,727</b>	<b>\$ 1,173,921</b>	<b>\$ 203,867</b>	<b>\$ (11,611,002)</b>	<b>\$ 104,247,784</b>

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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	3,640,791	177,934	417,083	1,502,706	-	371,498	(831,341)	5,278,671
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	102,967,712	530,860	515,092	414,124	1,810,342	506,798	(1,824,927)	104,920,001
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)	2,094,735	(6,265)	-	(96,316)	10,477	-	(864,313)	1,138,318
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>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Notes to Financial Statements  
June 30, 2019 and 2018

Cash flows 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
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 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 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>

**Note 14 - Subsequent Events**

Subsequent to year end, the Authority approved a \$10,000,000 line of credit which matures in July 2020. The Authority is to make one payment of outstanding principal and accrued interest on July 20, 2020. The line of credit is secured by all assets of the Authority.



Supplementary Information  
June 30, 2019 and 2018

## 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, 2019 and 2018 and our report thereon dated November 15, 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.

*Eide Bailly LLP*

Oklahoma City, Oklahoma  
November 15, 2019

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Combining Schedule – Statement of Net Position Information  
June 30, 2019

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
<b>Assets</b>									
<b>Current Assets</b>									
Cash and cash equivalents	\$ 5,064,625	\$ 911,919	\$ 88,072	\$ 879,279	\$ 349,211	\$ 73,011	\$ 12,000	\$ -	\$ 7,378,117
Board designated cash	425,697	-	-	-	-	-	-	-	425,697
Receivables									
Patient, net	21,217,845	-	-	-	640,842	-	-	-	21,858,687
Other	5,009,139	-	39,084	202,170	-	52,337	-	(219,833)	5,082,897
Current portion of lease receivable	-	-	-	4,968	-	-	-	(4,968)	-
Related parties	2,965,842	341,821	218,353	-	-	-	-	(2,192,885)	1,333,131
Estimated third-party payor settlements	1,443,974	-	-	-	-	-	-	-	1,443,974
Supplies	2,616,140	-	11,725	-	2,948	-	-	-	2,630,813
Prepaid expenses	1,398,882	52,025	2,641	12,732	169,838	1,309	-	-	1,637,427
<b>Total current assets</b>	<b>40,142,144</b>	<b>1,305,765</b>	<b>359,875</b>	<b>1,099,149</b>	<b>1,162,839</b>	<b>126,657</b>	<b>12,000</b>	<b>(2,417,686)</b>	<b>41,790,743</b>
<b>Capital Assets, Net</b>	<b>25,715,728</b>	<b>1,485,022</b>	<b>3,221</b>	<b>17,892,653</b>	<b>67,276</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,163,900</b>
<b>Other Assets</b>									
Investment in NOD	806,603	-	-	-	-	-	-	(806,603)	-
Interest in Foundation	8,738,965	-	-	-	-	-	-	(8,738,965)	-
Investment in NOMSO	121,233	-	-	-	-	-	-	(121,233)	-
Investment in CHP	1,856,014	-	-	-	-	-	-	-	1,856,014
Investment in NOCC	1,283,563	-	-	-	-	-	-	(1,283,563)	-
Investment in Platte Dialysis	4,761,158	-	-	-	-	-	-	-	4,761,158
<b>Total investments in joint ventures</b>	<b>17,567,536</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,950,364)</b>	<b>6,617,172</b>
Assets held under deferred compensation agreement	813,327	-	-	-	-	-	-	-	813,327
Investments	12,784,484	-	-	-	-	-	-	-	12,784,484
Investment in captive insurance	584,761	-	-	-	-	-	-	-	584,761
Lease receivable, net of current portion	-	-	-	69,342	-	-	-	(69,342)	-
Other	776,140	-	-	-	-	-	229,315	-	1,005,455
<b>Total other assets</b>	<b>32,526,248</b>	<b>-</b>	<b>-</b>	<b>69,342</b>	<b>-</b>	<b>-</b>	<b>229,315</b>	<b>(11,019,706)</b>	<b>21,805,199</b>
<b>Deferred Outflows of Resources</b>	<b>637,715</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>637,715</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 99,021,835</b>	<b>\$ 2,790,787</b>	<b>\$ 363,096</b>	<b>\$ 19,061,144</b>	<b>\$ 1,230,115</b>	<b>\$ 126,657</b>	<b>\$ 241,315</b>	<b>\$ (13,437,392)</b>	<b>\$ 109,397,557</b>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Combining Schedule – Statement of Net Position Information  
June 30, 2019

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
<b>Liabilities and Net Position</b>									
<b>Current Liabilities</b>									
Current maturities of long-term debt	\$ 1,124,022	\$ 111,401	\$ 61,827	\$ 1,119,983	\$ -	\$ -	\$ -	\$ (664,968)	\$ 1,752,265
Accounts payable	7,716,863	295,711	628,303	-	426,523	5,426	-	(1,140,483)	7,932,343
Accrued expenses									
Salaries and benefits payable	1,166,975	-	-	-	-	-	-	-	1,166,975
Vacation	2,372,422	-	-	-	-	-	-	-	2,372,422
Payroll taxes and other	1,529,284	-	-	-	-	-	-	-	1,529,284
Due to related parties	-	-	-	69,519	-	-	283,658	(347,116)	6,061
<b>Total current liabilities</b>	<b>13,909,566</b>	<b>407,112</b>	<b>690,130</b>	<b>1,189,502</b>	<b>426,523</b>	<b>5,426</b>	<b>283,658</b>	<b>(2,152,567)</b>	<b>14,759,350</b>
Deferred Compensation	788,153	-	-	-	-	-	-	-	788,153
<b>Long-Term Liabilities</b>									
Long-term debt, less current maturities	17,402,146	363,495	68,862	9,156,965	-	-	-	(334,462)	26,657,006
Other liabilities	637,715	-	-	-	-	-	-	-	637,715
<b>Total long-term liabilities</b>	<b>18,039,861</b>	<b>363,495</b>	<b>68,862</b>	<b>9,156,965</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(334,462)</b>	<b>27,294,721</b>
<b>Total liabilities</b>	<b>32,737,580</b>	<b>770,607</b>	<b>758,992</b>	<b>10,346,467</b>	<b>426,523</b>	<b>5,426</b>	<b>283,658</b>	<b>(2,487,029)</b>	<b>42,842,224</b>
<b>Net Position</b>									
Net investment in capital assets	7,189,560	1,010,126	3,221	7,615,705	67,276	-	-	-	15,885,888
Unrestricted	59,094,695	1,010,054	(399,117)	1,098,972	736,316	121,231	(42,343)	(11,557,453)	50,062,355
Noncontrolling interest in joint ventures	-	-	-	-	-	-	-	607,090	607,090
<b>Total net position</b>	<b>66,284,255</b>	<b>2,020,180</b>	<b>(395,896)</b>	<b>8,714,677</b>	<b>803,592</b>	<b>121,231</b>	<b>(42,343)</b>	<b>(10,950,363)</b>	<b>66,555,333</b>
<b>Total liabilities and net position</b>	<b>\$ 99,021,835</b>	<b>\$ 2,790,787</b>	<b>\$ 363,096</b>	<b>\$ 19,061,144</b>	<b>\$ 1,230,115</b>	<b>\$ 126,657</b>	<b>\$ 241,315</b>	<b>\$ (13,437,392)</b>	<b>\$ 109,397,557</b>



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
<b>Assets</b>								
<b>Current Assets</b>								
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)	-
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
<b>Total current assets</b>	<b>34,931,039</b>	<b>1,144,513</b>	<b>174,272</b>	<b>1,084,776</b>	<b>1,166,239</b>	<b>203,867</b>	<b>(1,998,135)</b>	<b>36,706,571</b>
Capital Assets, Net	24,977,475	1,701,454	3,758	16,441,641	7,682	-	-	43,132,010
<b>Other Assets</b>								
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 Platte Dialysis	4,879,171	-	-	-	-	-	-	4,879,171
Total investments in joint ventures	16,301,465	-	-	-	-	-	(9,538,557)	6,762,908
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
<b>Total other assets</b>	<b>33,947,760</b>	<b>-</b>	<b>-</b>	<b>74,310</b>	<b>-</b>	<b>-</b>	<b>(9,612,867)</b>	<b>24,409,203</b>
<b>Total assets</b>	<b>\$ 93,856,274</b>	<b>\$ 2,845,967</b>	<b>\$ 178,030</b>	<b>\$ 17,600,727</b>	<b>\$ 1,173,921</b>	<b>\$ 203,867</b>	<b>\$ (11,611,002)</b>	<b>\$ 104,247,784</b>

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
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	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

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, 2019

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
<b>Operating Revenue</b>									
Net patient service revenue	\$ 107,925,872	\$ 1,491,787	\$ -	\$ -	\$ 2,183,479	\$ -	\$ -	\$ (1,491,787)	\$ 110,109,351
Other revenue	<u>6,523,339</u>	<u>427,029</u>	<u>568,294</u>	<u>2,034,250</u>	<u>-</u>	<u>482,084</u>	<u>-</u>	<u>(1,308,144)</u>	<u>8,726,852</u>
Total operating revenue	<u>114,449,211</u>	<u>1,918,816</u>	<u>568,294</u>	<u>2,034,250</u>	<u>2,183,479</u>	<u>482,084</u>	<u>-</u>	<u>(2,799,931)</u>	<u>118,836,203</u>
<b>Expenses</b>									
Nursing services	29,400,541	-	-	-	-	-	-	(1,491,787)	27,908,754
Other professional services	56,510,337	28,928	-	6,200	239,657	-	-	(1,067,845)	55,717,277
General services	6,026,471	-	581,403	-	1,624,329	389,006	-	426,626	9,047,835
Administrative services	19,469,529	166,293	-	96,980	76,079	-	-	-	19,808,881
Other expenses	-	573,136	-	259,598	-	-	54,343	(98,925)	788,152
Depreciation and amortization	<u>2,470,226</u>	<u>472,668</u>	<u>537</u>	<u>345,744</u>	<u>5,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,294,775</u>
Total expenses	<u>113,877,104</u>	<u>1,241,025</u>	<u>581,940</u>	<u>708,522</u>	<u>1,945,665</u>	<u>389,006</u>	<u>54,343</u>	<u>(2,231,931)</u>	<u>116,565,674</u>
Operating Income (Loss)	<u>572,107</u>	<u>677,791</u>	<u>(13,646)</u>	<u>1,325,728</u>	<u>237,814</u>	<u>93,078</u>	<u>(54,343)</u>	<u>(568,000)</u>	<u>2,270,529</u>

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, 2019

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Cancer Center	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
<b>Nonoperating Revenues (Expenses)</b>									
Investment income	\$ 1,224,099	\$ 157,779	\$ -	\$ 28,659	\$ 4,499	\$ -	\$ -	\$ -	\$ 1,415,036
Income from NOD	574,621	-	-	-	-	-	-	(574,621)	-
Income from Foundation	961,520	-	-	-	-	-	-	(961,520)	-
Income from NOMSO	93,078	-	-	-	-	-	-	(93,078)	-
Income from CHP	730,912	-	-	-	-	-	-	-	730,912
Income from NOCC	242,313	-	-	-	-	-	-	(242,313)	-
Income from Platte	972,361	-	-	-	-	-	-	-	972,361
Interest expense	(852,026)	(14,683)	-	(390,735)	-	-	-	-	(1,257,444)
Loss on disposal	1,046	-	-	-	-	-	-	-	1,046
Contributions expense	(603,300)	-	-	-	-	-	-	580,000	(23,300)
Total non operating revenue (expense), net	<u>3,344,624</u>	<u>143,096</u>	<u>-</u>	<u>(362,076)</u>	<u>4,499</u>	<u>-</u>	<u>-</u>	<u>(1,291,532)</u>	<u>1,838,611</u>
Revenues in Excess of (Less Than) Expenses	3,916,731	820,887	(13,646)	963,652	242,313	93,078	(54,343)	(1,859,532)	4,109,140
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	-	(241,806)	(241,806)
Change in Net Position, Excluding Noncontrolling Interest in Joint Ventures	3,916,731	820,887	(13,646)	963,652	242,313	93,078	(54,343)	(2,101,338)	3,867,334
Net Position, Beginning of Year	62,367,524	1,856,040	(382,250)	7,751,025	561,279	28,153	-	(10,100,862)	62,080,909
Members' Contributions	-	-	-	-	-	-	12,000	(12,000)	-
Members' Distributions	-	(656,747)	-	-	-	-	-	656,747	-
Noncontrolling Interest in Joint Ventures	-	-	-	-	-	-	-	607,090	607,090
Net Position, End of Year	<u>\$ 66,284,255</u>	<u>\$ 2,020,180</u>	<u>\$ (395,896)</u>	<u>\$ 8,714,677</u>	<u>\$ 803,592</u>	<u>\$ 121,231</u>	<u>\$ (42,343)</u>	<u>\$ (10,950,363)</u>	<u>\$ 66,555,333</u>

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
<b>Operating Revenue</b>								
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
<b>Total operating revenue</b>	<b>104,886,877</b>	<b>1,671,521</b>	<b>417,083</b>	<b>1,502,706</b>	<b>2,067,285</b>	<b>371,498</b>	<b>(2,324,928)</b>	<b>108,592,042</b>
<b>Expenses</b>								
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
<b>Total expenses</b>	<b>105,489,246</b>	<b>882,187</b>	<b>515,655</b>	<b>718,783</b>	<b>1,821,252</b>	<b>506,798</b>	<b>(1,824,927)</b>	<b>108,108,994</b>
<b>Operating Income (Loss)</b>	<b>(602,369)</b>	<b>789,334</b>	<b>(98,572)</b>	<b>783,923</b>	<b>246,033</b>	<b>(135,300)</b>	<b>(500,001)</b>	<b>483,048</b>

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
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 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>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Schedules of Hospital Net Patient Service Revenue  
Years Ended June 30, 2019

	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 13,840,645	\$ 2,450,685	\$ 16,291,330
Intensive care unit	15,980,969	184,516	16,165,485
Nursery	889,354	17,441	906,795
	<u>30,710,968</u>	<u>2,652,642</u>	<u>33,363,610</u>
Other nursing services			
Central service supplies	311,105	73,000	384,105
Emergency room	4,901,834	22,334,683	27,236,517
Wound Care	-	750,184	750,184
Observation	76,611	2,106,126	2,182,737
Operating room	26,850,721	26,855,339	53,706,060
	<u>32,140,271</u>	<u>52,119,332</u>	<u>84,259,603</u>
Other professional services			
Ambulance	198	4,178,407	4,178,605
Anesthesiology	1,036,917	7,241,725	8,278,642
Brain institute	21,586	83,150	104,736
Cardiac cath lab	11,388,978	13,993,319	25,382,297
Complex lab	12,187	4,266,747	4,278,934
Electrocardiography	821,760	2,819,119	3,640,879
Geriatric psychology	2,873,765	-	2,873,765
Hyperbaric	7,632	665,861	673,493
Laboratory	7,817,665	13,617,901	21,435,566
Nephrology	372,042	37,475	409,517
Occupational therapy	108,253	83,602	191,855
Obstetrics	2,297,685	228,203	2,525,888
Oncology	34,447	19,113,694	19,148,141
Pharmacy	11,617,632	6,087,390	17,705,022
Physical therapy	335,378	615,669	951,047
Physician	4,137	22,603,199	22,607,336
Radiology	5,674,422	38,370,756	44,045,178
Rehabilitation	2,285,298	290,492	2,575,790
Respiratory therapy	8,337,531	2,258,069	10,595,600
Sleep Study	7,030	1,535,920	1,542,950
Speech therapy	166,851	243,601	410,452
	<u>55,221,394</u>	<u>138,334,299</u>	<u>193,555,693</u>
	<u>\$ 118,072,633</u>	<u>\$ 193,106,273</u>	311,178,906
Charity care			<u>(4,252,557)</u>
Total patient service revenue			<u>306,926,349</u>
Deductions from Revenue			
Contractual Adjustments			(184,691,034)
Provision for Bad Debts			<u>(14,309,443)</u>
Total reductions from revenue			<u>(199,000,477)</u>
Net Patient Service Revenue			<u>\$ 107,925,872</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

	Inpatient	Outpatient	Total
Patient Service Revenue			
Daily patient services			
Medical and surgical	\$ 11,912,015	\$ 1,550,614	\$ 13,462,629
Intensive care unit	18,635,588	68,519	18,704,107
Nursery	683,976	14,079	698,055
	31,231,579	1,633,212	32,864,791
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
	28,060,743	44,236,713	72,297,456
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
	57,117,828	133,028,567	190,146,395
	\$ 116,410,150	\$ 178,898,492	295,308,642
Charity care			(1,575,539)
Total patient service revenue			293,733,103
Deductions from Revenue			
Contractual Adjustments			(175,101,379)
Provision for Bad Debts			(17,385,638)
Total reductions from revenue			(192,487,017)
Net Patient Service Revenue			\$ 101,246,086



Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Schedules of Hospital Other Revenue  
Years Ended June 30, 2019 and 2018

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	<u>2019</u>	<u>2018</u>
Other Revenue		
Rental income	\$ 691,099	\$ 724,851
Service contract billing	1,539,368	1,507,985
Cafeteria	296,205	263,794
Kiosk (The Coffee House)	584,597	540,601
340B program revenue	2,477,565	203,442
Miscellaneous	<u>934,505</u>	<u>400,118</u>
Total Other Revenue	<u>\$ 6,523,339</u>	<u>\$ 3,640,791</u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Schedules of Hospital Expenses  
Years Ended June 30, 2019

	Salaries	Supplies and Expenses	Total
<b>Nursing Services</b>			
Central service supplies	\$ 300,176	\$ 153,972	\$ 454,148
Emergency room	1,796,187	2,086,744	3,882,931
Wound care	1,923	268,801	270,724
Intensive care unit	3,057,097	1,209,358	4,266,455
Labor and delivery	789,269	320,072	1,109,341
Medical and surgical	3,040,298	2,664,496	5,704,794
Nursery	-	1,275	1,275
Nursing administration	872,792	58,233	931,025
Observation	300,607	392,920	693,527
Operating room	2,815,390	9,270,931	12,086,321
	<u>12,973,739</u>	<u>16,426,802</u>	<u>29,400,541</u>
<b>Other Professional Services</b>			
Ambulance	1,139,149	196,458	1,335,607
Anesthesiology	-	1,759,419	1,759,419
Bio Med	182,511	24,288	206,799
Brain institute	647	698,965	699,612
Cardiology	68,555	2,835,426	2,903,981
Cath lab	-	9,260,099	9,260,099
Complex lab	147,531	269,592	417,123
Electrocardiography	86,067	106,247	192,314
Geriatric psychology	1,091,317	198,295	1,289,612
Health education	187,860	86,380	274,240
Hyperbarics	-	302,073	302,073
Laboratory	1,294,812	3,344,067	4,638,879
Nephrology	-	369,946	369,946
Occupational therapy	69,306	39,542	108,848
Oncology	342,751	6,301,504	6,644,255
Pharmacy	1,415,989	3,464,127	4,880,116
Physical therapy	310,785	212,037	522,822
Physician	6,483,131	3,571,720	10,054,851
Radiology	1,908,494	1,994,623	3,903,117
Rehabilitation inpatient	608,572	925,568	1,534,140
Respiratory therapy	727,313	649,528	1,376,841
Sallisaw	2,911,979	1,197	2,913,176
Social services	377,841	38,377	416,218
Speech therapy	115,214	38,010	153,224
Sleep Study	-	182,810	182,810
Vascular	-	170,215	170,215
	<u>19,469,824</u>	<u>37,040,513</u>	<u>56,510,337</u>
<b>General Services</b>			
Dietary	806,958	674,110	1,481,068
Housekeeping	575,290	173,515	748,805
Laundry and linen	-	348,302	348,302
Medical records	1,146,903	371,074	1,517,977
Plant operations	606,791	1,323,528	1,930,319
	<u>3,135,942</u>	<u>2,890,529</u>	<u>6,026,471</u>
<b>Administrative Services</b>			
Administration and office	6,439,756	6,919,187	13,358,943
Employee benefits	-	6,110,586	6,110,586
	<u>6,439,756</u>	<u>13,029,773</u>	<u>19,469,529</u>
<b>Depreciation</b>	<u>-</u>	<u>2,470,226</u>	<u>2,470,226</u>
	<u>\$ 42,019,261</u>	<u>\$ 71,857,843</u>	<u>\$ 113,877,104</u>

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

	Salaries	Supplies and Expenses	Total
<b>Nursing Services</b>			
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>
<b>Other Professional Services</b>			
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>
<b>General Services</b>			
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>
<b>Administrative Services</b>			
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>
<b>Depreciation</b>	<u>-</u>	<u>2,521,534</u>	<u>2,521,534</u>
	<u>\$ 38,750,643</u>	<u>\$ 66,738,603</u>	<u>\$ 105,489,246</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, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 15, 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2019-A that we consider to be a significant deficiency.

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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 Sully LLP".

Oklahoma City, Oklahoma  
November 15, 2019

**Finding – Financial Statements Audit – Internal Controls over Financial Reporting**

**Significant Deficiency**

**2019-A Interest Rate Swap**

**Criteria** – Accounting standards requires an entity to record the change in the fair value of interest rate swap.

**Condition** – The fair value of the interest rate swap was not properly adjusted during the year.

**Cause** – The Authority did not have a process in place to adjust the fair value of the interest rate swap during the year.

**Effect** – The deficiency resulted in an audit entry to the financial statements.

**Recommendation** – The Authority should implement a process to review and adjust the fair value on a regular basis.

**Views of Responsible Officials** – Management agrees with the finding.