



Management's Discussion and Analysis  
and Financial Statements  
June 30, 2023 and 2022

**Tahlequah Hospital Authority**  
**dba Northeastern Health System**  
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, 2023 and 2022

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## Independent Auditor's Report

The Board of Trustees  
Tahlequah Hospital Authority  
dba Northeastern Health System  
A Component Unit of the City of Tahlequah, Oklahoma  
Tahlequah, Oklahoma

### Report on Audit of the Financial Statements

#### ***Opinion***

We have audited the financial statements of Tahlequah Hospital Authority, dba Northeastern Health System (Authority), a Component Unit of the City of Tahlequah, Oklahoma, as of and for the years then ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Adoption of New Accounting Standard***

As discussed in Note 8 to the financial statements, the Authority has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the year ended June 30, 2022. Accordingly, no restatement has been made to the Authority's capital assets and long-term liabilities as of July 1, 2021. Our opinion is not modified with respect to this matter.

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### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 6, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, professional style.

Oklahoma City, Oklahoma  
November 6, 2023

This discussion and analysis of the financial performance of Tahlequah Hospital Authority, dba Northeastern Health System (Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended June 30, 2023, 2022 and 2021. 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, including noncontrolling interest, decreased by \$5,938,741 or 9% in 2023 and increased \$2,104,308 or 3% in 2022.
- The Authority reported an operating loss in 2023 of \$7,774,815 and operating loss in 2022 of \$2,781,548. Operating loss increased \$4,993,267 or 180% in 2023 over 2022. Operating loss decreased \$1,734,686 or 38% in 2022 over 2021.
- The Authority's total assets decreased \$5,675,364 or 5% in 2023 and decreased \$13,597,172 or 11% in 2022.
- The Authority's total liabilities decreased \$158,373 or 0.3% in 2023 and decreased \$16,782,309 or 27% in 2022.

### **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 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 as 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 operating, investing and financing activities. It provides answers to such questions as where cash came 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, liabilities, and deferred inflows of resources reported in the Statement of Net Position. The Authority's net position decreased by \$5,938,741 or 9% in 2023 and increased \$2,104,308 or 3% in 2022, as shown in Table 1.

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

	2023	2022	2021
<b>Assets</b>			
Current assets	\$ 48,290,074	\$ 48,905,607	\$55,284,095
Capital assets	40,094,173	42,285,670	45,701,974
Other noncurrent assets	21,586,314	24,454,648	28,257,028
Total assets	109,970,561	115,645,925	129,243,097
<b>Deferred Outflows of Resources</b>	-	-	950,110
Total assets and deferred outflows of resources	\$ 109,970,561	\$ 115,645,925	\$ 130,193,207
<b>Liabilities</b>			
Current liabilities	\$ 25,531,025	\$ 24,126,077	\$31,183,736
Long-term liabilities	20,964,030	22,527,351	32,252,001
Total liabilities	46,495,055	46,653,428	63,435,737
<b>Deferred Inflows of Resources</b>	552,469	130,719	-
<b>Net Position</b>			
Invested in capital assets, net of related debt	19,410,009	20,139,031	21,640,999
Unrestricted	43,101,247	48,405,786	44,593,799
Restricted, nonexpendable net position noncontrolling interest	411,781	316,961	522,672
Total net position	62,923,037	68,861,778	66,757,470
Total liabilities, deferred inflows of resources and net position	\$ 109,970,561	\$ 115,645,925	\$ 130,193,207

A significant component of the change in the Authority's assets are the changes in internally designated cash equivalents, patient receivables, other receivables, and capital assets. Internally designated investments decreased in 2023 by \$5,337,254 or 100% and increased in 2022 by \$5,337,254 or 100%. During 2022, the Authority sold investments for \$5,337,254. These funds were used in 2023 for the recoupment of CMS advance payments. Patient receivables increased in 2023 by \$3,274,810 or 16% and decreased in 2022 by \$1,212,818 or 5%. The increase in 2023 is due to an increase in services provided by the Authority. The decrease in 2022 is due to an increase in collections by Authority. Other receivables increased in 2023 by \$3,336,346 or 46% and decreased in 2022 by \$191,378 or 3%. The increase in 2023 is due to an increase in services provided by the Authority. The decrease in 2022 is due to an increase in collections by Authority. Capital assets decreased in 2023 by \$2,191,497 or 5% and decreased in 2022 by \$3,416,304 or 7%. The decreases in 2023 and 2022 is due to depreciation expense being greater than the purchase of capital assets.

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

Significant components of the change in the Authority's liabilities are the changes in long-term debts, CMS advance payments, and accounts payable. Long-term debt, including current maturities, decreased in 2023 by \$1,462,475 or 7% and decreased in 2022 by \$1,914,336 or 9%, due to the Authority making scheduled debt payments. CMS advance payment decreased in 2023 by \$5,219,425 or 100% and decreased in 2022 by \$12,915,424 or 71%, due to CMS recouping the advance payments. Accounts payable increased in 2023 by \$6,017,525 or 62% and decreased in 2022 by \$1,201,351 or 11%. The increase in 2023 is due to the increase in cost of supplies and timing of payments.

**Table 2: Operating Results**

	2023	2022	2021
Operating Revenues			
Net patient service revenue	\$ 134,616,664	\$ 129,295,010	\$ 113,102,573
Other revenue	8,587,064	7,536,755	7,294,485
Total operating revenues	<u>143,203,728</u>	<u>136,831,765</u>	<u>120,397,058</u>
Expenses			
Nursing services	45,071,173	40,162,703	35,830,601
Other professional services	65,066,820	62,275,085	56,196,873
General services	9,418,553	9,001,231	8,374,158
Administrative services	25,555,688	22,422,931	19,290,821
Other expenses	917,842	709,556	593,992
Depreciation and amortization	4,948,467	5,041,807	4,626,847
Total expenses	<u>150,978,543</u>	<u>139,613,313</u>	<u>124,913,292</u>
Operating Loss	<u>(7,774,815)</u>	<u>(2,781,548)</u>	<u>(4,516,234)</u>
Nonoperating Revenue (Expense)			
Investment income (loss)	485,979	(1,744,304)	1,514,328
Provider relief funds	-	4,742,631	350,961
Income from joint ventures	2,617,077	2,736,326	1,936,392
Interest expense	(930,297)	(1,016,188)	(1,162,260)
Gain (loss) on disposal of capital assets	(84,745)	394,671	5,691
Contributions expense	(57,144)	(48,200)	(14,400)
Nonoperating revenues, net	<u>2,030,870</u>	<u>5,064,936</u>	<u>2,630,712</u>
Revenues in Excess of (Less Than) Expenses	(5,743,945)	2,283,388	(1,885,522)
Noncontrolling Interest	<u>(289,616)</u>	<u>26,631</u>	<u>(136,971)</u>
Change in Net Position, Excluding Noncontrolling Interest	<u>\$ (6,033,561)</u>	<u>\$ 2,310,019</u>	<u>\$ (2,022,493)</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 loss of \$7,774,815 in 2023 compared to operating loss of \$2,781,548 in 2022 and operating loss of \$4,516,234 in 2021. The operating losses in 2022 and 2021 were offset by \$4,742,631 and \$350,961 of CARES ACT funds recorded under nonoperating revenues in 2022 and 2021.

The primary components of the operating loss are:

- Net patient service revenue increased \$5,321,654 or 4% in 2023 and increased \$16,192,437 or 14% in 2022. The increase in 2023 and 2022 is attributed to an increase in patient procedures by the Authority.
- Other professional services expenses increased \$2,791,735 or 4% in 2023 and increased \$6,078,212 or 11% in 2022. The increase in 2023 and 2022 is attributed to the increase in services provided.
- Nursing services expenses increased \$4,908,470 or 12% in 2023 and increased \$4,332,102 or 12% in 2022. The increases in 2023 and 2022 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 (loss), provider relief funds, income from joint ventures and interest expense. Investment income increased \$2,230,283 in 2023 and decreased \$3,258,632 in 2022. Provider relief funds decreased \$4,742,631 in 2023 and increased \$4,391,670 in 2022. Income from joint ventures decreased \$119,249 in 2023 and increased \$799,934 in 2022. Interest expense decreased \$85,891 in 2023 and decreased \$146,072 in 2022.

### 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 cash flows were as follows:

- Net cash used for operating activities was \$2,617,375 in 2023 compared to net cash from operating activities of \$2,230,976 in 2022 for a decrease of \$4,848,351.
- Net cash used for non-capital financing activities was \$5,276,569 in 2023 compared net cash used for non-capital financing activities was \$8,220,993 in 2022 for a decrease of \$2,944,424. The change in 2023 is a result of the decreased recoupments of the CMS advance program payments and receipt of provide relief funds.
- Net cash used for capital and capital related financing activities was \$5,115,694 in 2023 compared to net cash used for capital and capital related financing activities of \$4,462,559 in 2022 for an increase of \$653,135. The change in 2023 consisted of a decrease in proceeds from the sale of capital assets.

- Net cash from investing activities was \$6,674,491 in 2023 compared to net cash from investing activities of \$16,182,341 in 2022 for a decrease of \$9,507,850. The change in 2023 is a result of a decrease in proceeds from sale of investments.

### **Capital Assets**

At the end of 2023, the Authority had \$40,094,173 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2023, the Authority purchased new capital assets costing \$2,939,116. At the end of 2022, the Authority had \$42,285,670 invested in capital assets, net of accumulated depreciation. In 2022, the Authority purchased new capital assets costing \$3,080,528.

### **Debt**

At June 30, 2023 and 2022, the Authority had outstanding long-term debt, right to use leased assets and right to use subscription IT assets of \$22,228,117 and \$23,571,799 as detailed in Notes 8, 9 and 10 to the financial statements. The Authority issued \$464,508 debt during 2023 and no new debt in 2022.

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

The Authority continues to monitor costs throughout the year. The 2024 fiscal year operating budget indicates conservative net revenue of approximately \$145,921,000. 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, 2023 and 2022

	2023	2022
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,796,244	\$ 8,608,437
Board designated cash	23,592	209,292
Internally designated investments for CMS Advance Program	-	5,337,254
<b>Receivables</b>		
Patient, net of estimated uncollectibles of \$14,824,000 in 2023 and \$13,188,000 in 2022	24,256,392	20,981,582
Other	10,567,794	7,231,448
Related parties	398,071	7,850
Estimated third-party payor settlements	975,160	984,806
Supplies	3,257,908	3,613,561
Prepaid expenses	1,014,913	1,931,377
	<b>48,290,074</b>	<b>48,905,607</b>
<b>Capital Assets, Net</b>		
Non-depreciable capital assets	2,038,813	2,085,248
Depreciable capital assets, net	36,365,541	37,889,085
Right to use leased assets, net of accumulated amortization	403,559	-
Right to use subscription IT assets, net of accumulated amortization	1,286,260	2,311,337
	<b>40,094,173</b>	<b>42,285,670</b>
<b>Other Assets</b>		
Investments in joint ventures	7,888,160	7,348,978
Assets held under deferred compensation agreement	729,282	729,256
Investments	9,405,451	13,710,890
Investment in captive insurance	1,265,700	1,265,700
Other	2,297,721	1,399,824
	<b>21,586,314</b>	<b>24,454,648</b>
<b>Total other assets</b>	<b>21,586,314</b>	<b>24,454,648</b>
<b>Total assets</b>	<b>\$ 109,970,561</b>	<b>\$ 115,645,925</b>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Net Position  
June 30, 2023 and 2022

	2023	2022
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,527,561	\$ 1,463,788
Current maturities of CMS Advance Program	-	5,219,425
Current maturities of right to use leased assets	127,037	-
Current maturities of right to use subscription IT assets	309,916	309,916
Accounts payable	15,796,492	9,778,967
Accrued expenses		
Salaries and benefits payable	2,403,799	2,160,431
Vacation	3,318,351	3,108,537
Payroll taxes and other	787,470	934,546
Related party payable	1,260,399	1,150,467
	25,531,025	24,126,077
<b>Long-Term Liabilities</b>		
Long-term debt, less current maturities	19,156,603	20,682,851
Right to use leased assets, less current maturities	304,860	-
Right to use subscription IT assets, less current maturities	802,140	1,115,244
Deferred compensation	700,427	729,256
	20,964,030	22,527,351
Total long-term liabilities	46,495,055	46,653,428
Deferred Inflows of Resources	552,469	130,719
<b>Net Position</b>		
Net investment in capital assets	19,410,009	20,139,031
Unrestricted	43,101,247	48,405,786
Restricted, nonexpendable net position noncontrolling interest	411,781	316,961
	62,923,037	68,861,778
Total net position	62,923,037	68,861,778
Total liabilities, deferred inflows of resources and net position	\$ 109,970,561	\$ 115,645,925

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Revenues and Expenses  
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$13,582,118 in 2023 and \$20,673,012 in 2022)	\$ 134,616,664	\$ 129,295,010
Other revenue	8,587,064	7,536,755
Total operating revenue	143,203,728	136,831,765
Expenses		
Nursing services	45,071,173	40,162,703
Other professional services	65,066,820	62,275,085
General services	9,418,553	9,001,231
Administrative services	25,555,688	22,422,931
Other expenses	917,842	709,556
Depreciation and amortization	4,948,467	5,041,807
Total expenses	150,978,543	139,613,313
Operating Loss	(7,774,815)	(2,781,548)
Nonoperating Revenues (Expenses)		
Investment income (loss)	485,979	(1,744,304)
Provider relief funds	-	4,742,631
Income from joint ventures	2,617,077	2,736,326
Interest expense	(930,297)	(1,016,188)
Gain (loss) on disposal of capital assets	(84,745)	394,671
Contributions expense	(57,144)	(48,200)
Nonoperating revenues (expenses), net	2,030,870	5,064,936
Revenues in Excess of (Less Than) Expenses and Change in Net Position	(5,743,945)	2,283,388
Less Income Attributable to Noncontrolling Interest	(289,616)	26,631
Change in Net Position, Excluding Noncontrolling Interest	\$ (6,033,561)	\$ 2,310,019

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Changes in Net Position  
Years Ended June 30, 2023 and 2022

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	<u>Noncontrolling Interest</u>	<u>Controlling Interest</u>	<u>Total</u>
Net Position, June 30, 2021	522,672	66,234,798	66,757,470
Member Distributions	(179,080)	-	(179,080)
Change in Net Position	<u>(26,631)</u>	<u>2,310,019</u>	<u>2,283,388</u>
Net Position, June 30, 2022	316,961	68,544,817	68,861,778
Member Distributions	(194,796)	-	(194,796)
Change in Net Position	<u>289,616</u>	<u>(6,033,561)</u>	<u>(5,743,945)</u>
Net Position, June 30, 2023	<u>\$ 411,781</u>	<u>\$ 62,511,256</u>	<u>\$ 62,923,037</u>

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Cash Flows  
Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Cash received from patient services	\$ 131,351,500	\$ 130,550,501
Other operating receipts	4,860,497	8,180,686
Cash payments to suppliers for goods and services	(85,598,650)	(87,050,496)
Cash payments to and on behalf of employees for services	(53,230,722)	(49,449,715)
Net Cash from (used for) Operating Activities	(2,617,375)	2,230,976
Noncapital Financing Activities		
Contributions made	(57,144)	(48,200)
Provider relief funds	-	4,742,631
CMS advance program payments	(5,219,425)	(12,915,424)
Net Cash used for Noncapital Financing Activities	(5,276,569)	(8,220,993)
Capital and Capital Related Financing Activities		
Payments on long-term debt	(1,462,475)	(2,217,068)
Payment of interest on long-term debt	(930,297)	(1,016,188)
Purchase of property and equipment	(2,377,207)	(3,080,529)
Proceeds from sale of capital assets	-	1,851,226
Principal payments of subscription IT	(313,104)	-
Principal payments of right to use lease liabilities	(32,611)	-
Net Cash used for Capital and Capital Related Financing Activities	(5,115,694)	(4,462,559)
Investing Activities		
Distribution to noncontrolling interest	(194,796)	(179,080)
Distributions received from joint ventures	2,077,895	2,029,594
Investment income	663,800	161,327
Purchase of investments	-	(1,228,910)
Proceeds from sale of investments	4,127,592	15,399,410
Net Cash from Investing Activities	6,674,491	16,182,341
Net Change in Cash and Cash Equivalents	(6,335,147)	5,729,765
Cash and Cash Equivalents, Beginning of Year	14,154,983	8,425,218
Cash and Cash Equivalents, End of Year	\$ 7,819,836	\$ 14,154,983

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
Statements of Cash Flows  
Years Ended June 30, 2023 and 2022

	2023	2022
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 7,796,244	\$ 8,608,437
Board designated cash	23,592	209,292
Internally designated cash equivalents	-	5,337,254
	<u>\$ 7,819,836</u>	<u>\$ 14,154,983</u>
Total Cash and Cash Equivalents		
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (7,774,815)	\$ (2,781,548)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	4,948,467	5,041,807
Provision for bad debts	13,582,118	20,673,012
Changes in assets and liabilities		
Patient receivables	(16,856,928)	(19,460,194)
Other receivables	(3,336,346)	191,378
Due from related parties	(390,221)	321,834
Supplies	355,653	(291,337)
Prepays	916,464	(873,527)
Other assets	(476,147)	66,585
Accounts payable	6,017,525	(1,201,351)
Accrued expenses	306,106	(612,298)
Deferred compensation	(28,829)	(18,040)
Estimated third-party payor settlement	9,646	42,673
Due to related parties	109,932	1,131,982
	<u>\$ (2,617,375)</u>	<u>\$ 2,230,976</u>
Net Cash from (used for) Operating Activities		
Supplemental Disclosure of Non-cash Capital and Capital Related Financing and Investing Activities		
Income from joint venture	<u>\$ 2,617,077</u>	<u>\$ 2,736,326</u>
Right to use leased asset	<u>\$ 464,508</u>	<u>\$ -</u>
Vested in other investments	<u>\$ -</u>	<u>\$ 270,251</u>
Vested in captive insurance	<u>\$ -</u>	<u>\$ 45,670</u>



**Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of the Tahlequah Hospital Authority, dba Northeastern Health System (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 activities include operation of a 98-bed general acute care hospital located in Tahlequah, Oklahoma and other healthcare facilities throughout Oklahoma. The Authority primarily earns revenues by providing general acute care, psychiatric, and other ancillary services to residents in and around Northeast Oklahoma. The trustees of the Authority consist of one councilman of the City of Tahlequah, Oklahoma, one physician, 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.

**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 by remaining board members.

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 2026. During 2021, the Authority transferred the operations from NOCC to the Hospital and ceased operations.

The Authority has a controlling interest in Northeast Oklahoma Management Service Organization (NOMS), which was established as a limited liability company in September 2013. NOMS provides billing, accounting, and other various consulting services to other joint ventures of Tahlequah Hospital Authority and other Oklahoma facilities.

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, 2023 and 2022.

*Restricted – nonexpendable net position* is subject to externally imposed stipulations which require them to be maintained permanently by the Authority.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

### **Patient Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. The Authority does maintain a material allowance for doubtful accounts from third party payors; the methodology has not changed from the previous year. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### **Notes Receivable**

The Authority issues notes to employees and physicians as part of its recruitment process. Notes are receivable over a minimum of a one-year period to a maximum of a ten-year period and are issued at current interest rates ranging from 6% to 9%. The notes are issued with forgiveness provisions over the life of the notes to encourage retention. Based on historical analysis, it is anticipated that the balance of the notes will be forgiven.

At June 30, 2023 and 2022, notes receivable from physicians and employees totaled \$2,382,454 and \$1,904,687 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,		
2024	\$	637,202
2025		625,636
2026		444,750
2027		296,750
2028		180,750
2029 to 2033		180,750
2034		16,616
		16,616
Total	\$	2,382,454

**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.

**Internally Designated Investments and Cash Equivalents for CMS Advance Program**

Internally designated investments and cash equivalents for CMS Advance Program include assets set aside by the Board of Trustees to match the current obligations of the CMS advance payments, over which the Board retains control and may at its discretion subsequently use for other purposes. Internally designated investments and cash equivalents for CMS Advance Program that are available for obligations classified as current liabilities are reported in current assets.

**Capital Assets**

Capital asset acquisitions in excess of \$5,000 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. The estimated useful lives of capital assets are as follows:

Land improvements	3-15 years
Buildings and improvements	5-40 years
Equipment	1-20 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.

Right to use leased assets are recognized at the lease commencement date and represent the Authority's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 1 to 5 years.

Right to use subscription-based information technology (IT) agreement assets are recognized at the subscription commencement date and represent the Authority's right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period is for 10 years.

### **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 the Authority withdraws from the insurance captive subsequent to the initial three-year commitment, the Authority will be entitled to its paid in capital and surplus account five years from the termination date. As of June 30, 2023 and 2022, the Hospital is entitled to a full refund of its investment.

### **Long-term Obligations**

Lease Liabilities represent the Authority's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the Authority.

Subscription Liabilities represent Authority's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments are discounted based on a borrowing rate determined by the Authority.

### **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. 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.

### **Deferred Inflows of Resources**

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The Authority has only one item that qualifies for reporting in this category, which is the interest rate swap.

### **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 \$3,213,000 and \$3,759,000 for the years ended June 30, 2023 and 2022. Total direct and indirect cost related to those forgone charges were approximately \$1,232,000 and \$1,383,000 at June 30, 2023 and 2022, 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 SHOPP is currently scheduled to sunset on December 31, 2025, however, may be significantly reduced due to the State of Oklahoma's expected shift to managed care Medicaid, which is expected in fiscal year 2024. In August 2023, the Authority received approximately \$3,524,000 as a result of a funding provision in Oklahoma Senate Bill 32x for hospitals participating in the SHOPP program. The SHOPP 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 \$3,273,900 and \$2,229,624 included in administrative services, for the years ended June 30, 2023 and 2022. In return, the Authority received \$11,202,318 and \$9,677,343 included in net patient service revenue, for the years ended June 30, 2023 and 2022.

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

### **Implementation of GASB Statement No. 96**

As of July 1, 2022, the Authority adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset -an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The Authority has previously recognized the related asset and liability of \$5,131,001 when the asset was placed into service in October 2019. As a result of these adjustments there was no effect on beginning net position. The additional disclosures required by this standard are included in Notes 6 and 8.

### **Reclassifications**

Reclassifications have been made to the June 30, 2022 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.



**Note 2 - Net Patient Service Revenue**

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

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority’s Medicare cost reports have been audited by the MAC through the year ended June 30, 2019.

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

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority’s patient service revenues for the years ended June 30, 2023 and 2022:

	2023	2022
Medicare	32%	34%
Medicaid	19%	17%
Blue Cross and other commercial payors	47%	46%
Self pay and other	2%	3%
	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.

**CMS Advanced Payments**

The CMS Advanced Payment balance consists of advanced payments received from the Centers for Medicare & Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by the COVID-19 pandemic. The Authority received \$19,952,520 in advanced payments during April 2020. The advanced payments balance is non-interest bearing through the 29-month repayment period. The Authority’s CMS Advance payment obligation have been fully recouped or repaid during the year ended June 30, 2023.

**Note 3 - Provider Relief Funds**

The Authority received \$-0- and \$4,742,631 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) in fiscal years 2022 and 2021. The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

During the years ended June 30, 2023 and 2022, the Authority recognized \$-0- and \$4,742,631 as revenue, included as nonoperating revenues.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues and expenses as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were issued.

**Note 4 - Deposits, Investments and Investment Income**

The carrying amounts of deposits and investments as of June 30, 2023 and 2022 are as follows:

	2023	2022
Carrying amount		
Cash and deposits	\$ 7,819,836	\$ 14,154,983
Investments	9,405,451	13,710,890
	\$ 17,225,287	\$ 27,865,873

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

	2023	2022
Cash and cash equivalents	\$ 7,796,244	\$ 8,608,437
Board designated cash	23,592	209,292
Internally designated cash equivalents for CMS Advance Program	-	5,337,254
Long-term investments	9,405,451	13,710,890
Total	\$ 17,225,287	\$ 27,865,873

**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.

The Authority's deposits in banks at June 30, 2023 and 2022 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

**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, 2023:

Type	Fair Value	Ratings	Investment Maturities (in Years)		
			Less than 1	1 - 5	6-10
Domestic fixed income	\$ 4,525,515	Baa1 - Aaa	<u>\$ 1,477,193</u>	<u>\$ 2,961,617</u>	<u>\$ 86,705</u>
Closed end mutual funds and EFT's - fixed income	2,822,190				
Domestic equities	1,408,975				
International equities	648,771				
	<u>\$ 9,405,451</u>				

The Authority had the following investments and maturities at June 30, 2022:

Type	Fair Value	Ratings	Investment Maturities (in Years)		
			Less than 1	1 - 5	6-10
Domestic fixed income	\$ 2,065,803	Ba2 - Aaa	<u>\$ 197,586</u>	<u>\$ 1,283,858</u>	<u>\$ 584,359</u>
Closed end mutual funds and EFT's - fixed income	8,635,335				
Domestic equities	2,157,771				
International equities	851,981				
	<u>\$ 13,710,890</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, 2023 and 2022, 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, 2023 and 2022, 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 (including mutual funds) may range from 10% to 40%, fixed income (including mutual funds) may range from 60% to 90% and cash equivalents (including mutual funds) may range from 0% to 30% of the total investment portfolio. As of June 30, 2023 and 2022, 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, 2023 and 2022:

	2023	2022
Interest and dividend income	\$ 570,156	\$ 982,617
Change in unrealized gains and losses on investments	(84,177)	(2,726,921)
Total	\$ 485,979	\$ (1,744,304)

**Note 5 - 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.

The following table presents fair value measurements the Authority’s investments as of June 30, 2023:

	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	\$ 4,525,515	\$ -	\$ 4,525,515	\$ -
Closed end mutual funds and EFT's - fixed income	2,822,190	-	2,822,190	-
Corporate stocks	2,057,746	1,111,364	-	946,382
Total investments by fair value level	<u>\$ 9,405,451</u>	<u>\$ 1,111,364</u>	<u>\$ 7,347,705</u>	<u>\$ 946,382</u>

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The following table presents fair value measurements of Authority's investments as of June 30, 2022:

	<u>Total</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments				
Bonds - domestic	\$ 2,065,803	\$ -	\$ 2,065,803	\$ -
Closed end mutual funds and EFT's - fixed income	8,635,335	-	8,635,335	-
Corporate stocks	<u>3,009,752</u>	<u>2,060,513</u>	<u>-</u>	<u>949,239</u>
Total investments by fair value level	<u>\$ 13,710,890</u>	<u>\$ 2,060,513</u>	<u>\$ 10,701,138</u>	<u>\$ 949,239</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 6 - Capital Assets**

Capital assets additions, retirements, and balances for the year ended June 30, 2023 are as follows:

	Balance June 30, 2022	Additions	Transfers and Retirements	Balance June 30, 2023
Non-depreciable capital assets				
Land	\$ 1,665,428	\$ -	\$ (22,392)	\$ 1,643,036
Construction in progress	<u>419,820</u>	<u>482,158</u>	<u>(506,201)</u>	<u>395,777</u>
Total non-depreciable capital assets	<u>\$ 2,085,248</u>	<u>\$ 482,158</u>	<u>\$ (528,593)</u>	<u>\$ 2,038,813</u>
Depreciable capital assets				
Land improvements	\$ 634,672	\$ 221,937	\$ (671)	\$ 855,938
Buildings and fixed equipment	48,471,215	612,808	(395,952)	48,688,071
Major movable equipment	<u>37,863,563</u>	<u>1,090,648</u>	<u>(4,564,885)</u>	<u>34,389,326</u>
Total depreciable capital assets	<u>86,969,450</u>	<u>\$ 1,925,393</u>	<u>\$ (4,961,508)</u>	<u>83,933,335</u>
Less accumulated depreciation for				
Land and improvements	(548,525)	\$ (24,260)	\$ 16,367	(556,418)
Buildings and fixed equipment	(19,536,948)	(1,083,975)	767,139	(19,853,784)
Major movable equipment	<u>(28,994,892)</u>	<u>(2,786,818)</u>	<u>4,624,118</u>	<u>(27,157,592)</u>
Total accumulated depreciation	<u>(49,080,365)</u>	<u>\$ (3,895,053)</u>	<u>\$ 5,407,624</u>	<u>(47,567,794)</u>
Net capital assets being depreciated	<u>\$ 37,889,085</u>			<u>\$ 36,365,541</u>
Right to use leased assets being amortized				
Equipment	\$ -	\$ 358,975	\$ -	\$ 358,975
Office space	<u>-</u>	<u>72,921</u>	<u>-</u>	<u>72,921</u>
Total right of use leased assets being amortized	<u>-</u>	<u>431,896</u>	<u>-</u>	<u>431,896</u>
Accumulated amortization				
Equipment	<u>-</u>	<u>(28,337)</u>	<u>-</u>	<u>(28,337)</u>
Net right to use leased assets	<u>\$ -</u>	<u>\$ 403,559</u>	<u>\$ -</u>	<u>\$ 403,559</u>
Subscription based IT assets being amortized	\$ 5,131,001	\$ -	\$ -	\$ 5,131,001
Accumulated amortization	<u>(2,819,664)</u>	<u>(1,025,077)</u>	<u>-</u>	<u>(3,844,741)</u>
Net right to use subscription based IT assets	<u>2,311,337</u>	<u>\$ (1,025,077)</u>	<u>\$ -</u>	<u>1,286,260</u>
Total capital assets, net	<u>\$ 42,285,670</u>			<u>\$ 40,094,173</u>

The majority of construction in progress at June 30, 2023 represents the construction of minor projects with various completion dates.

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Capital assets additions, retirements, and balances for the year ended June 30, 2022 are as follows:

	Balance June 30, 2021	Additions	Transfers and Retirements	Balance June 30, 2022
Non-depreciable capital assets				
Land	\$ 3,011,411	\$ -	\$ (1,345,983)	\$ 1,665,428
Construction in progress	499,859	1,121,032	(1,201,071)	419,820
Total non-depreciable capital assets	<u>\$ 3,511,270</u>	<u>\$ 1,121,032</u>	<u>\$ (2,547,054)</u>	<u>\$ 2,085,248</u>
Depreciable capital assets				
Land improvements	\$ 634,672	\$ -	\$ -	\$ 634,672
Buildings and fixed equipment	47,016,701	477,847	976,667	48,471,215
Major movable equipment	36,410,202	1,481,649	(28,288)	37,863,563
Total depreciable capital assets	<u>84,061,575</u>	<u>\$ 1,959,496</u>	<u>\$ 948,379</u>	<u>86,969,450</u>
Less accumulated depreciation for				
Land and improvements	(525,117)	\$ (23,408)	\$ -	(548,525)
Buildings and fixed equipment	(18,416,329)	(923,476)	(197,143)	(19,536,948)
Major movable equipment	(26,265,839)	(3,069,846)	340,793	(28,994,892)
Total accumulated depreciation	<u>(45,207,285)</u>	<u>\$ (4,016,730)</u>	<u>\$ 143,650</u>	<u>(49,080,365)</u>
Net capital assets being depreciated	<u>\$ 38,854,290</u>			<u>\$ 37,889,085</u>
Subscription based IT assets being amortized	\$ 5,131,001	\$ -	\$ -	\$ 5,131,001
Accumulated amortization	(1,794,587)	(1,025,077)		(2,819,664)
Net right to use subscription based IT assets	<u>\$ 3,336,414</u>	<u>\$ (1,025,077)</u>	<u>\$ -</u>	<u>\$ 2,311,337</u>
Capital assets, net	<u>\$ 45,701,974</u>			<u>\$ 42,285,670</u>



**Note 7 - Joint Ventures and Blended Component Units**

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2023 and 2022, the Authority's investment in joint ventures consisted of the following:

	2023	2022
Cherokee Health Partners, LLC	\$ 3,048,097	\$ 2,272,148
Platte Dialysis, LLC	4,840,063	5,076,830
Total investment in joint ventures	\$ 7,888,160	\$ 7,348,978

Joint venture activity for the years ended June 30, 2023 and 2022 are as follow:

	Balance June 30, 2022	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2023
Cherokee Health Partners, LLC	\$ 2,272,148	\$ 775,949	\$ -	\$ -	\$ 3,048,097
Platte Dialysis, LLC	5,076,830	1,841,128	(2,077,895)	-	4,840,063
	\$ 7,348,978	\$ 2,617,077	\$ (2,077,895)	\$ -	\$ 7,888,160
	Balance June 30, 2021	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2022
Cherokee Health Partners, LLC	\$ 1,664,517	\$ 607,631	\$ -	\$ -	\$ 2,272,148
Platte Dialysis, LLC	4,977,729	2,128,695	(2,029,594)	-	5,076,830
	\$ 6,642,246	\$ 2,736,326	\$ (2,029,594)	\$ -	\$ 7,348,978

**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 stroke 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 2023 and 2022, the Authority was paid \$371,661 and \$189,398 for services and building space provided to CHP. These amounts are included in operating revenues. The Authority was owed \$747,471 and \$1,224,219 for the years ended June 30, 2023 and 2022. The receivable is included in related party amounts.

A component unit of CHP, Northeast Oklahoma Heart Center (NOHC), provides cardiovascular management services to the Tahlequah Hospital Authority. During 2023 and 2022, the Authority was paid \$2,453,705 and \$2,813,409 for services provided to NOHC. These amounts are included in operating revenues. The Authority owed \$490,927 and \$1,566,915 at June 30, 2023 and 2022. The amount is included in related party amounts.

### **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.

### **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 ended June 30, 2023 and 2022, the Authority owns 70% of the outstanding units of NOD.

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 by remaining board members.

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, 2023 and 2022, the Authority owns 100% of the outstanding units of NOCC.

As the Authority has majority ownership interest and management control over NOCC, the balance of the investment in NOCC is eliminated in the combining process as reflected in the combining statements of net position and statements of revenues and expenses and changes in net position included in the supplementary schedules. During 2021, the Authority began the process of transferring the operations of NOCC into the Authority with an inter-governmental transfer. As of June 30, 2022, the authority completed the process of transferring the operations of NOCC into the Authority. The Authority is evaluating terminating the limited liability company.

**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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022, the Authority owns a 100% share NVS.

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 8 - Subscription-Based Information Technology Arrangements (SBITAs)**

The Authority entered into a SBITA contract for use of a management software. The Authority is required to make principal and interest payments through June 2027. The subscription liability was valued using implicit rate of 4.5% based on the Authority’s incremental borrowing rate at the inception of the subscriptions.

A summary of the changes in subscription IT liabilities during the year ended June 30, 2023 is as follows:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due Within One Year
Software	\$ 1,425,160	\$ -	\$ (313,104)	\$ 1,112,056	\$ 309,916
	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Due Within One Year
Software	\$ 1,737,454	\$ -	\$ (312,294)	\$ 1,425,160	\$ 309,916

Scheduled payments on the SBITA are as follows:

Year Ending June 30,					
2024				\$	309,916
2025					313,104
2026					313,104
2027					175,932
Total				\$	1,112,056

**Note 9 - Leases**

During the current year, the Authority entered into a lease agreement as lessee for the use of medical equipment. The Authority is required to make annual principal and interest payments through August 2027. The lease liabilities were valued using discount rates between 4.5% and 5.0% based on the Authority’s incremental borrowing rate at the inception of the leases.

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Right to use leased asset obligations additions, payments and balances for the year ended June 30, 2023 is as follows:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due Within One Year
Medical equipment	\$ -	\$ 379,826	\$ (20,850)	\$ 358,976	\$ 101,952
Office space	-	84,682	(11,761)	72,921	25,085
	<u>\$ -</u>	<u>\$ 464,508</u>	<u>\$ (32,611)</u>	<u>\$ 431,897</u>	<u>\$ 127,037</u>

As of June 30, 2023, the value of the lease liabilities are \$431,897 and the leased assets are \$403,559 and consisted of the following for right to use assets:

- Right to use medical equipment with a lease liability value of \$171,326. The Authority is required to make quarterly principal and interest payments of \$14,277 through August 2025. The lease liability was valued using a discount rate of 4.5% based on the Authority's incremental borrowing rate. The lease contains a purchase option for fair market value.
- Right to use medical equipment with a lease liability value of \$187,650. The Authority is required to make monthly principal and interest payments of \$3,475 through August 2027. The lease liability was valued using a discount rate of 4.5% based on the Authority's incremental borrowing rate. The lease contains a purchase option for fair market value.
- Right to use facility with a lease liability value of \$72,921. The Authority is required to make monthly principal and interest payments of \$2,352 through January 2026. The lease liability was valued using a discount rate of 5.0% based on the Authority's incremental borrowing rate.

Remaining principal and interest payments on leases are as follows:

Year Ending June 30,	Principal	Interest
2024	\$ 127,037	\$ 15,702
2025	116,515	10,457
2026	124,018	4,987
2027	39,196	2,504
2028	25,131	244
Total	<u>\$ 431,897</u>	<u>\$ 33,894</u>

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**Note 10 - Notes Payable and Long-Term Debt**

Long-term debt consists of:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due Within One Year
Notes from					
Direct Borrowings	\$ 22,146,639	\$ -	\$ (1,462,475)	\$ 20,684,164	\$ 1,527,561
	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Amounts Due Within One Year
Notes from					
Direct Borrowings	\$ 24,060,975	\$ -	\$ (1,914,336)	\$ 22,146,639	\$ 1,463,788

The terms, due dates, and securing collateral of the Authority's long-term debt at June 30, 2023 and 2022 follow:

	2023	2022
Notes from Direct Borrowings		
Hospital 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	\$ 10,764,063	\$ 11,636,263
Foundation 4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2027, secured by property	312,790	349,083
Foundation 4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	291,158	335,960
Hospital 4.5% note payable, due in monthly installments of \$29,359 including interest, through December 2031, secured by property	2,477,874	2,710,401
Foundation 5.0% note payable, due in monthly installments of \$5,876 including interest, through August 2033, secured by building	559,760	606,860
Foundation 3.87% note payable up to \$7,400,000, due in monthly installments of \$40,096 including interest, through October 2031, secured by building	6,278,519	6,508,072
	20,684,164	22,146,639
Total notes payable/mortgage loans		
Less current maturities	(1,527,561)	(1,463,788)
Long-term debt, less current maturities	\$ 19,156,603	\$ 20,682,851

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 1,527,561	\$ 856,419
2025	1,595,424	787,164
2026	1,862,809	716,350
2027	1,698,888	636,601
2028	7,547,591	472,981
2029 to 2033	6,448,007	716,681
2034	3,884	53
Total	<u>\$ 20,684,164</u>	<u>\$ 4,186,249</u>

The provisions of the 4.39% note payable, contain covenants pertaining to reporting requirements and debt service ratio. The Authority was not in compliance the debt service coverage ratio as of and for the year ended June 30, 2023. The Authority corrected with in 30days of notifying the lender and is not considered to be in default per the terms of the note payable agreement.

### 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.

<u>Notional Value</u>			
<u>Original</u>	<u>2023</u>	<u>2022</u>	<u>Interest Paid</u>
15,000,000	10,690,370	11,565,866	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 receivable totaling \$552,469 and \$130,719 at June 30, 2023 and 2022 and was included in other assets and noncurrent liabilities.

### Credit Risk

The Authority is exposed to credit risk on hedging derivative instruments that are in asset positions. As of June 30, 2023 and 2022, the Authority has 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 11 - Pension Plan**

The Authority has 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. Employee contributions to the plan fully vest at the date of contribution.

The Authority has a discretionary 457b contribution plan which allows the Authority to match employee 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.

Total pension expense for the years ended June 30, 2023, 2022, and 2021 was \$1,855,042, \$1,835,674 and \$0.

### **Note 12 - 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, 2023 and 2022, the value of deferred compensation totaled \$700,427 and \$729,256.



**Note 13 - 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, 2023 and 2022 was as follows:

	2023	2022
Medicare	16%	18%
Medicaid	9%	10%
Other third-party payors	45%	48%
Patients	30%	24%
	100%	100%

**Note 14 - 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 \$70,000 per claim for the plan year ended December 31, 2023.

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>
2023	\$ 302,000	\$ 773,826	\$ (593,826)	\$ 482,000
2022	333,000	3,628,761	(3,659,761)	302,000

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**Note 15 - 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, 2023.

Statement of net position as of June 30, 2023:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
<b>Assets</b>								
Current assets	\$ 40,627,290	\$ 2,373,771	\$ 134,404	\$ 4,956,299	\$ 585,335	\$ -	\$ (387,025)	\$ 48,290,074
Capital assets, net	24,425,284	642,289	22,509	15,004,091	-	-	-	40,094,173
Other noncurrent assets	35,261,227	-	-	47,362	-	-	(13,722,275)	21,586,314
<b>Total assets</b>	<b>\$ 100,313,801</b>	<b>\$ 3,016,060</b>	<b>\$ 156,913</b>	<b>\$ 20,007,752</b>	<b>\$ 585,335</b>	<b>\$ -</b>	<b>\$ (14,109,300)</b>	<b>\$ 109,970,561</b>
<b>Liabilities</b>								
Current liabilities	\$ 23,439,121	\$ 399,250	\$ 1,486,057	\$ 509,065	\$ 29,439	\$ 55,118	\$ (387,025)	\$ 25,531,025
Deferred compensation	700,427	-	-	-	-	-	-	700,427
Long-term debt, less current maturities	13,241,705	-	-	7,069,260	-	-	(47,362)	20,263,603
<b>Total liabilities</b>	<b>37,381,253</b>	<b>399,250</b>	<b>1,486,057</b>	<b>7,578,325</b>	<b>29,439</b>	<b>55,118</b>	<b>(434,387)</b>	<b>46,495,055</b>
Deferred Inflows of Resources	552,469	-	-	-	-	-	-	552,469
<b>Net Position</b>								
Net investment in capital assets	11,130,157	642,289	22,509	7,561,864	-	-	53,190	19,410,009
Unrestricted	51,249,922	1,031,083	(819,996)	4,867,563	555,896	(55,118)	(13,728,103)	43,101,247
Restricted, nonexpendable net position noncontrolling interest	-	943,438	(531,657)	-	-	-	-	411,781
<b>Total net position</b>	<b>62,380,079</b>	<b>2,616,810</b>	<b>(1,329,144)</b>	<b>12,429,427</b>	<b>555,896</b>	<b>(55,118)</b>	<b>(13,674,913)</b>	<b>62,923,037</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 100,313,801</b>	<b>\$ 3,016,060</b>	<b>\$ 156,913</b>	<b>\$ 20,007,752</b>	<b>\$ 585,335</b>	<b>\$ -</b>	<b>\$ (14,109,300)</b>	<b>\$ 109,970,561</b>

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Operating results and changes in net position for the year ended June 30, 2023:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
Operating Revenue								
Net patient service revenue	\$ 134,616,664	\$ 1,499,207	\$ -	\$ -	\$ -	\$ -	\$ (1,499,207)	\$ 134,616,664
Other revenue	6,264,576	278,268	441,466	2,570,760	714,991	-	(1,682,997)	8,587,064
Total operating revenue	<u>140,881,240</u>	<u>1,777,475</u>	<u>441,466</u>	<u>2,570,760</u>	<u>714,991</u>	<u>-</u>	<u>(3,182,204)</u>	<u>143,203,728</u>
Expenses								
Depreciation and amortization	4,133,496	271,695	5,471	537,805	-	-	-	4,948,467
Other operating expenses	145,825,358	838,583	725,535	568,610	582,191	-	(2,510,201)	146,030,076
Total operating expenses	<u>149,958,854</u>	<u>1,110,278</u>	<u>731,006</u>	<u>1,106,415</u>	<u>582,191</u>	<u>-</u>	<u>(2,510,201)</u>	<u>150,978,543</u>
Operating Income (Loss)	(9,077,614)	667,197	(289,540)	1,464,345	132,800	-	(672,003)	(7,774,815)
Nonoperating Revenues (Expenses)	3,215,454	156,259	-	(236,300)	-	-	(1,104,543)	2,030,870
Revenues in Excess of (Less Than) Expenses	(5,862,160)	823,456	(289,540)	1,228,045	132,800	-	(1,776,546)	(5,743,945)
Noncontrolling Interest	-	(210,636)	115,816	-	-	-	(194,796)	(289,616)
Change in Net Position, Excluding Noncontrolling Interest	(5,862,160)	612,820	(173,724)	1,228,045	132,800	-	(1,971,342)	(6,033,561)
Net Position, Beginning of Year	68,242,239	1,709,872	(623,763)	11,201,382	423,096	(43,118)	(12,364,891)	68,544,817
Members' Distributions	-	(649,320)	-	-	-	(12,000)	661,320	-
Noncontrolling Interest	-	943,438	(531,657)	-	-	-	-	411,781
Net Position, End of Year	<u>\$ 62,380,079</u>	<u>\$ 2,616,810</u>	<u>\$ (1,329,144)</u>	<u>\$ 12,429,427</u>	<u>\$ 555,896</u>	<u>\$ (55,118)</u>	<u>\$ (13,674,913)</u>	<u>\$ 62,923,037</u>

Tahlequah Hospital Authority  
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Cash flows for the year ended June 30, 2023:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
Net cash from (used for) operating activities	\$ (5,589,839)	\$ 841,686	\$ 16,684	\$ 2,040,720	\$ 73,374	\$ -	\$ -	\$ (2,617,375)
Net cash from (used for) noncapital financing activities	(5,264,569)	-	-	-	-	(12,000)	-	(5,276,569)
Net cash used for capital and related financing activities	(3,641,444)	(633,200)	-	(841,050)	-	-	-	(5,115,694)
Net cash from (used for) investing activities	7,096,565	(493,061)	-	70,987	-	-	-	6,674,491
Net change in cash and cash equivalents	(7,399,287)	(284,575)	16,684	1,270,657	73,374	(12,000)	-	(6,335,147)
Cash and cash equivalents, beginning of year	8,293,804	2,176,547	7,620	3,229,554	435,458	12,000	-	14,154,983
Cash and cash equivalents, end of year	<u>\$ 894,517</u>	<u>\$ 1,891,972</u>	<u>\$ 24,304</u>	<u>\$ 4,500,211</u>	<u>\$ 508,832</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,819,836</u>

Tahlequah Hospital Authority  
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The following summarized combining information for the Authority, NOD, NWM, Foundation, NOCC, NOMSO and NVS, which has been presented as blended component units, as of and for the year ended June 30, 2022.

Statement of net position as of June 30, 2022:

	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	\$ 44,044,244	\$ 2,373,439	\$ 108,329	\$ 3,669,493	\$ -	\$ 455,318	\$ 12,000	\$ (1,757,216)	\$ 48,905,607
Capital assets, net	26,618,953	280,784	27,981	15,357,952	-	-	-	-	42,285,670
Other noncurrent assets	36,819,542	-	-	53,191	-	-	-	(12,418,085)	24,454,648
<b>Total assets</b>	<b>107,482,739</b>	<b>2,654,223</b>	<b>136,310</b>	<b>19,080,636</b>	<b>-</b>	<b>455,318</b>	<b>12,000</b>	<b>(14,175,301)</b>	<b>115,645,925</b>
<b>Liabilities</b>									
Current liabilities	\$ 23,970,152	\$ 211,549	\$ 1,175,914	\$ 438,341	\$ -	\$ 32,222	\$ 55,118	\$ (1,757,219)	\$ 24,126,077
Deferred compensation	729,256	-	-	-	-	-	-	-	729,256
Long-term debt, less current maturities	14,410,373	-	-	7,440,913	-	-	-	(53,191)	21,798,095
<b>Total liabilities</b>	<b>39,109,781</b>	<b>211,549</b>	<b>1,175,914</b>	<b>7,879,254</b>	<b>-</b>	<b>32,222</b>	<b>55,118</b>	<b>(1,810,410)</b>	<b>46,653,428</b>
Deferred Inflows of Resources	130,719	-	-	-	-	-	-	-	130,719
<b>Net Position</b>									
Net investment in capital assets	12,213,498	280,784	27,981	7,557,977	-	-	-	58,791	20,139,031
Unrestricted	56,028,741	1,429,088	(651,744)	3,643,405	-	423,096	(43,118)	(12,423,682)	48,405,786
Restricted, nonexpendable net position noncontrolling interest	-	732,802	(415,841)	-	-	-	-	-	316,961
<b>Total net position</b>	<b>68,242,239</b>	<b>2,442,674</b>	<b>(1,039,604)</b>	<b>11,201,382</b>	<b>-</b>	<b>423,096</b>	<b>(43,118)</b>	<b>(12,364,891)</b>	<b>68,861,778</b>
<b>Total liabilities and net position</b>	<b>\$ 107,482,739</b>	<b>\$ 2,654,223</b>	<b>\$ 136,310</b>	<b>\$ 19,080,636</b>	<b>\$ -</b>	<b>\$ 455,318</b>	<b>\$ 12,000</b>	<b>\$ (14,175,301)</b>	<b>\$ 115,645,925</b>

Tahlequah Hospital Authority  
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Operating results and changes in net position for the year ended June 30, 2022:

	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
Operating Revenue									
Net patient service revenue	\$ 129,295,010	\$ 1,491,787	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,491,787)	\$ 129,295,010
Other revenue	5,287,074	273,524	365,976	2,455,879	-	600,860	-	(1,446,558)	7,536,755
Total operating revenue	134,582,084	1,765,311	365,976	2,455,879	-	600,860	-	(2,938,345)	136,831,765
Expenses									
Depreciation and amortization	4,086,341	410,660	5,520	539,286	-	-	-	-	5,041,807
Other operating expenses	134,441,542	699,190	590,672	488,668	-	629,303	-	(2,277,869)	134,571,506
Total operating expenses	138,527,883	1,109,850	596,192	1,027,954	-	629,303	-	(2,277,869)	139,613,313
Operating Income (Loss)	(3,945,799)	655,461	(230,216)	1,427,925	-	(28,443)	-	(660,476)	(2,781,548)
Nonoperating Revenues (Expenses)	6,097,898	90,706	-	(318,185)	-	-	-	(805,483)	5,064,936
Revenues in Excess of (Less Than) Expenses	2,152,099	746,167	(230,216)	1,109,740	-	(28,443)	-	(1,465,959)	2,283,388
Noncontrolling Interest	-	(65,455)	92,086	-	-	-	-	-	26,631
Change in Net Position, Excluding Noncontrolling Interest	2,152,099	680,712	(138,130)	1,109,740	-	(28,443)	-	(1,465,959)	2,310,019
Net Position, Beginning of Year	66,090,140	1,626,094	(485,633)	10,091,642	478	451,539	(43,118)	(11,496,344)	66,234,798
Members' Distributions	-	(596,934)	-	-	(478)	-	-	597,412	-
Noncontrolling Interest	-	732,802	(415,841)	-	-	-	-	-	316,961
Net Position, End of Year	\$ 68,242,239	\$ 2,442,674	\$ (1,039,604)	\$ 11,201,382	\$ -	\$ 423,096	\$ (43,118)	\$ (12,364,891)	\$ 68,861,778

Tahlequah Hospital Authority  
A Component Unit of the City of Tahlequah, Oklahoma  
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Cash flows for the year ended June 30, 2022:

	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	\$ (776,827)	\$ 1,174,616	\$ (4,859)	\$ 1,771,291	\$ -	\$ 66,755	\$ -	\$ -	\$ 2,230,976
Net cash used for noncapital financing activities	(8,220,515)	-	-	-	(478)	-	-	-	(8,220,993)
Net cash used for capital and related financing activities	(4,118,950)	(324,254)	(5,026)	(14,329)	-	-	-	-	(4,462,559)
Net cash from (used for) investing activities	<u>16,664,155</u>	<u>(501,269)</u>	<u>-</u>	<u>19,455</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,182,341</u>
Net change in cash and cash equivalents	3,547,863	349,093	(9,885)	1,776,417	(478)	66,755	-	-	5,729,765
Cash and cash equivalents, beginning of year	<u>4,745,941</u>	<u>1,827,454</u>	<u>17,505</u>	<u>1,453,137</u>	<u>478</u>	<u>368,703</u>	<u>12,000</u>	<u>-</u>	<u>8,425,218</u>
Cash and cash equivalents, end of year	<u>\$ 8,293,804</u>	<u>\$ 2,176,547</u>	<u>\$ 7,620</u>	<u>\$ 3,229,554</u>	<u>\$ -</u>	<u>\$ 435,458</u>	<u>\$ 12,000</u>	<u>\$ -</u>	<u>\$ 14,154,983</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  
dba Northeastern Health System  
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 dba Northeastern Health System (Authority), a Component Unit of the City of Tahlequah, Oklahoma, as of and for the year then ended June 30, 2023, 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 6, 2023.

**Report on 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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## **Report on 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 financial statements. 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*.

### **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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
November 6, 2023