



Management's Discussion and Analysis
and Financial Statements
June 30, 2024 and 2023

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, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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 (*Government Auditing Standards*). 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.

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 January 24, 2025 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 "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
January 24, 2025

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

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, 2024, 2023 and 2022. 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, increased by \$805,272 or 1% in 2024 and decreased by \$5,938,741 or 9% in 2023.
- The Authority reported an operating loss in 2024 of \$1,325,452 and operating loss in 2023 of \$7,774,815. Operating loss decreased \$6,449,363 or 83% in 2024 over 2023. Operating loss increased \$4,993,267 or 180% in 2023 over 2022.
- The Authority's total assets and deferred outflows increased \$8,120,986 or 7% in 2024 and decreased \$5,675,364 or 5% in 2023.
- The Authority's total liabilities increased \$7,407,987 or 16% in 2024 and decreased \$158,373 or 0.3% in 2023.

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, liabilities, and deferred inflows of resources 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 increased by \$805,272 or 1% in 2024 and decreased by \$5,938,741 or 9% in 2023, as shown in Table 1.

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

	2024	2023	2022
Assets			
Current assets	\$ 59,684,797	\$ 48,290,074	\$ 48,905,607
Capital assets	37,391,697	40,094,173	42,285,670
Other noncurrent assets	17,017,712	21,586,314	24,454,648
Total assets	114,094,206	109,970,561	115,645,925
Deferred Outflows of Resources	3,997,341	-	-
Total assets and deferred outflows of resources	<u>\$ 118,091,547</u>	<u>\$ 109,970,561</u>	<u>\$ 115,645,925</u>
Liabilities			
Current liabilities	\$ 31,544,019	\$ 25,531,025	\$ 24,126,077
Long-term liabilities	22,359,023	20,964,030	22,527,351
Total liabilities	53,903,042	46,495,055	46,653,428
Deferred Inflows of Resources	460,196	552,469	130,719
Net Position			
Invested in capital assets, net of related debt	15,641,349	19,410,009	20,139,031
Unrestricted	47,610,683	43,101,247	48,405,786
Restricted, nonexpendable net position noncontrolling interest	476,277	411,781	316,961
Total net position	63,728,309	62,923,037	68,861,778
Total liabilities, deferred inflows of resources and net position	<u>\$ 118,091,547</u>	<u>\$ 109,970,561</u>	<u>\$ 115,645,925</u>

A significant component of the change in the Authority's assets are the changes in patient receivables, other receivables, and capital assets. Patient receivables increased in 2024 by \$3,111,712 or 13% and increased in 2023 by \$3,274,810 or 16%. Other receivables increased in 2024 by \$1,208,885 or 11% and increased in 2023 by \$3,336,346 or 46%. The increases in receivables are due to an increase in services provided by the Authority during 2024 and 2023. Capital assets decreased in 2024 by \$2,702,476 or 7% and decreased in 2023 by \$2,191,497 or 5%. The decreases in 2024 and 2023 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 and accounts payable. Long-term debt, including current maturities, increased in 2024 by \$4,327,615 or 21%, due to the purchase of Cherokee Health Partners, LLC and decreased in 2023 by \$1,462,475 or 7%, due to the Authority making scheduled debt payments. Accounts payable increased in 2024 by \$1,737,646 or 11% and increased in 2023 by \$6,017,525 or 62%. The increases in 2024 and 2023 are due to the increase in cost of supplies.

Table 2: Operating Results

	2024	2023	2022
Operating Revenues			
Net patient service revenue	\$ 140,664,363	\$ 134,616,664	\$ 129,295,010
Other revenue	8,802,545	8,587,064	7,536,755
Total operating revenues	149,466,908	143,203,728	136,831,765
Expenses			
Nursing services	43,942,566	45,071,173	40,162,703
Other professional services	65,519,417	65,066,820	62,275,085
General services	9,560,059	9,418,553	9,001,231
Administrative services	25,934,152	25,555,688	22,422,931
Other expenses	786,797	917,842	709,556
Depreciation and amortization	5,049,369	4,948,467	5,041,807
Total expenses	150,792,360	150,978,543	139,613,313
Operating Loss	(1,325,452)	(7,774,815)	(2,781,548)
Nonoperating Revenue (Expense)			
Investment income (loss)	717,599	485,979	(1,744,304)
Provider relief funds	-	-	4,742,631
Income from joint ventures	2,627,682	2,617,077	2,736,326
Interest expense	(892,288)	(930,297)	(1,016,188)
Gain (loss) on disposal of capital assets	(17,687)	(84,745)	394,671
Contributions expense	(46,600)	(57,144)	(48,200)
Nonoperating revenues, net	2,388,706	2,030,870	5,064,936
Revenues in Excess of (Less Than) Expenses	1,063,254	(5,743,945)	2,283,388
Noncontrolling Interest	(322,478)	(289,616)	26,631
Change in Net Position, Excluding Noncontrolling Interest	\$ 740,776	\$ (6,033,561)	\$ 2,310,019

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 \$1,325,452 in 2024 compared to operating loss of \$7,774,815 in 2023 and operating loss of \$2,781,548 in 2022. The operating loss in 2022 was offset by \$4,742,631 of CARES ACT funds recorded under nonoperating revenues in 2022.

The primary components of the operating loss are:

- Net patient service revenue increased \$6,047,699 or 4% in 2024 and increased \$5,321,654 or 4% in 2023. The increase in 2024 and 2023 is attributed to an increase in patient procedures by the Authority.
- Other professional services expenses increased \$452,597 or 1% in 2024 and increased \$2,791,735 or 4% in 2023. The increase in 2024 and 2023 is attributed to the increase in services provided.
- Nursing services expenses decreased \$1,128,607 or 3% in 2024 and increased \$4,908,470 or 12% in 2023. The decrease in 2024 is attributed to cost reduction measures placed into service. The increase in 2023 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), income from joint ventures and interest expense. Investment income increased \$231,620 in 2024 and increased \$2,230,283 in 2023. Income from joint ventures increased \$10,605 in 2024 and decreased \$119,249 in 2023. Interest expense decreased \$38,009 in 2024 and decreased \$85,891 in 2023.

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 from operating activities was \$1,067,310 in 2024 compared to net cash used for operating activities of \$2,617,375 in 2023 for an increase of \$3,512,670.
- Net cash from non-capital financing activities was \$3,054,530 in 2024 compared net cash used for non-capital financing activities was \$5,276,569 in 2023 for an increase of \$8,331,099. The change in 2024 is a result of the decreased recoupments of the CMS advance program payments.
- Net cash used for capital and capital related financing activities was \$3,759,682 in 2024 compared to net cash used for capital and capital related financing activities of \$5,115,694 in 2023 for a decrease of \$1,528,027. The change in 2024 consisted of a decrease in purchase of property and equipment.
- Net cash from investing activities was \$5,187,767 in 2024 compared to net cash from investing activities of \$6,674,491 in 2023 for a decrease of \$1,486,724. The change in 2024 is a result of a decrease in proceeds from sale of investments.

Capital Assets

At the end of 2024, the Authority had \$37,391,697 invested in capital assets, net of accumulated depreciation and amortization, as detailed in Note 5 to the financial statements. In 2024, the Authority purchased new capital assets costing \$1,731,950. At the end of 2023, the Authority had \$40,094,173 invested in capital assets, net of accumulated depreciation. In 2023, the Authority purchased new capital assets costing \$2,839,447.

Subscription-Based Information Technology Arrangements

The Authority had \$854,324 and \$1,112,056 in right to use subscription IT liabilities at June 30, 2024 and 2023. The Authority had no additions to right to use subscription IT liabilities during the years ending June 30, 2024 and 2023. Note 7 to the financial statements details the changes and terms of the Authority's subscription-based information technology arrangements.

Leases

The Authority had \$684,245 and \$431,897 in right to use lease liabilities at June 30, 2024 and 2023. The Authority had \$558,102 and \$464,508 of additions to right to use lease liabilities during the years ending June 30, 2024 and 2023. Note 8 to the financial statements details the changes and terms of the Authority's right to use lease liabilities.

Long-Term Debt

At June 30, 2024 and 2023, the Authority had outstanding long-term debt of \$25,011,779 and \$20,684,164 as detailed in Note 9 to the financial statements. The Authority issued \$5,842,315 debt during 2024 and no new debt in 2023.

Economic Factors and Next Year's Budget

The Authority continues to monitor costs throughout the year. The 2025 fiscal year operating budget indicates conservative net revenue of approximately \$149,034,000. 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 74464.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 12,881,978	\$ 7,796,244
Board designated cash	487,783	23,592
Receivables		
Patient, net of estimated uncollectibles of		
\$10,885,000 in 2024 and \$14,824,000 in 2023	27,368,104	24,256,392
Other	11,776,679	10,567,794
Related parties	788,195	398,071
Estimated third-party payor settlements	-	975,160
Supplies	3,830,788	3,257,908
Prepaid expenses	2,551,270	1,014,913
Total current assets	<u>59,684,797</u>	<u>48,290,074</u>
Capital Assets		
Non-depreciable capital assets	2,061,869	2,038,813
Depreciable capital assets, net	34,474,795	36,365,541
Right to use leased assets, net of accumulated amortization	596,658	403,559
Right to use subscription IT assets, net of accumulated amortization	258,375	1,286,260
Total capital assets	<u>37,391,697</u>	<u>40,094,173</u>
Other Assets		
Investments in joint ventures	5,335,772	7,888,160
Assets held under deferred compensation agreement	936,446	729,282
Investments	7,593,860	9,405,451
Investment in captive insurance	1,007,709	1,265,700
Other	2,143,925	2,297,721
Total other assets	<u>17,017,712</u>	<u>21,586,314</u>
Total assets	<u>114,094,206</u>	<u>109,970,561</u>
Deferred Outflows of Resources	3,997,341	-
Total assets and deferred outflows of resources	<u>\$ 118,091,547</u>	<u>\$ 109,970,561</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 4,624,342	\$ 1,527,561
Current maturities of right to use leased assets	190,325	127,037
Current maturities of right to use subscription IT assets	313,104	309,916
Accounts payable		
Trade	17,534,138	15,796,492
Estimated third-party payor settlements	575,971	-
Accrued expenses		
Salaries and benefits payable	2,262,739	2,403,799
Vacation	3,339,920	3,318,351
Payroll taxes and other	2,588,354	787,470
Related party payable	115,126	1,260,399
Total current liabilities	<u>31,544,019</u>	<u>25,531,025</u>
Long-Term Liabilities		
Long-term debt, less current maturities	20,387,437	19,156,603
Right to use leased assets, less current maturities	493,920	304,860
Right to use subscription IT assets, less current maturities	541,220	802,140
Deferred compensation	936,446	700,427
Total long-term liabilities	<u>22,359,023</u>	<u>20,964,030</u>
Total liabilities	<u>53,903,042</u>	<u>46,495,055</u>
Deferred Inflows of Resources	<u>460,196</u>	<u>552,469</u>
Net Position		
Net investment in capital assets	15,641,349	19,410,009
Unrestricted	47,610,683	43,101,247
Restricted, nonexpendable net position		
noncontrolling interest	476,277	411,781
Total net position	<u>63,728,309</u>	<u>62,923,037</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 118,091,547</u>	<u>\$ 109,970,561</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Revenues and Expenses
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Revenue		
Net patient service revenue (net of provision for bad debts of \$13,351,284 in 2024 and \$13,582,118 in 2023)	\$ 140,664,363	\$ 134,616,664
Other revenue	8,802,545	8,587,064
Total operating revenue	149,466,908	143,203,728
Operating Expenses		
Nursing services	43,942,566	45,071,173
Other professional services	65,519,417	65,066,820
General services	9,560,059	9,418,553
Administrative services	25,934,152	25,555,688
Other expenses	786,797	917,842
Depreciation and amortization	5,049,369	4,948,467
Total operating expenses	150,792,360	150,978,543
Operating Loss	(1,325,452)	(7,774,815)
Nonoperating Revenues (Expenses)		
Investment income	717,599	485,979
Income from joint ventures	2,627,682	2,617,077
Interest expense	(892,288)	(930,297)
Loss on disposal of capital assets	(17,687)	(84,745)
Contributions expense	(46,600)	(57,144)
Nonoperating revenues (expenses), net	2,388,706	2,030,870
Revenues in Excess of (Less Than) Expenses and Change in Net Position	1,063,254	(5,743,945)
Less Income Attributable to Noncontrolling Interest	(322,478)	(289,616)
Change in Net Position, Excluding Noncontrolling Interest	\$ 740,776	\$ (6,033,561)

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Changes in Net Position
Years Ended June 30, 2024 and 2023

	Noncontrolling Interest	Controlling Interest	Total
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	411,781	62,511,256	62,923,037
Member Distributions	(257,982)	-	(257,982)
Change in Net Position	<u>322,478</u>	<u>740,776</u>	<u>1,063,254</u>
Net Position, June 30, 2024	<u><u>\$ 476,277</u></u>	<u><u>\$ 63,252,032</u></u>	<u><u>\$ 63,728,309</u></u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Activities		
Cash received from patient services	\$ 140,184,084	\$ 131,351,500
Other operating receipts	6,422,239	4,860,497
Cash payments to suppliers for goods and services	(93,183,715)	(85,598,650)
Cash payments to and on behalf of employees for services	(52,355,298)	(53,230,722)
Net Cash from (used for) Operating Activities	1,067,310	(2,617,375)
Noncapital Financing Activities		
Contributions made	(46,600)	(57,144)
Proceeds from acquisition of joint venture	3,101,130	-
CMS advance program payments	-	(5,219,425)
Net Cash from (used for) Noncapital Financing Activities	3,054,530	(5,276,569)
Capital and Capital Related Financing Activities		
Payments on long-term debt	(1,514,700)	(1,462,475)
Payment of interest on long-term debt	(892,288)	(930,297)
Purchase of property and equipment	(1,173,847)	(2,377,207)
Proceeds from sale of capital assets	213,313	-
Principal payments of subscription IT	(257,732)	(313,104)
Principal payments of right to use lease liabilities	(134,428)	(32,611)
Net Cash used for Capital and Capital Related Financing Activities	(3,759,682)	(5,115,694)
Investing Activities		
Distribution to noncontrolling interest	(239,059)	(194,796)
Distributions from joint ventures	2,865,732	2,077,895
Investment income	869,622	663,800
Purchase of investments	(1,058,528)	-
Proceeds from sale of investments	2,750,000	4,127,592
Net Cash from Investing Activities	5,187,767	6,674,491
Net Change in Cash and Cash Equivalents	5,549,925	(6,335,147)
Cash and Cash Equivalents, Beginning of Year	7,819,836	14,154,983
Cash and Cash Equivalents, End of Year	\$ 13,369,761	\$ 7,819,836

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 12,881,978	\$ 7,796,244
Board designated cash	<u>487,783</u>	<u>23,592</u>
Total Cash and Cash Equivalents	<u>\$ 13,369,761</u>	<u>\$ 7,819,836</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (1,325,452)	\$ (7,774,815)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	5,049,369	4,948,467
Provision for bad debts	13,351,284	13,582,118
Changes in assets and liabilities		
Patient receivables	(15,382,694)	(16,856,928)
Other receivables	(1,990,182)	(3,336,346)
Due from related parties	(390,124)	(390,221)
Supplies	(30,792)	355,653
Prepays	(1,316,891)	916,464
Other assets	61,523	(476,147)
Accounts payable	748,412	6,017,525
Accrued expenses	1,681,393	306,106
Deferred compensation	236,019	(28,829)
Estimated third-party payor settlement	1,551,131	9,646
Due to related parties	<u>(1,175,686)</u>	<u>109,932</u>
Net Cash from (used for) Operating Activities	<u>\$ 1,067,310</u>	<u>\$ (2,617,375)</u>
Supplemental Disclosure of Non-cash Capital and Capital Related Financing and Investing Activities		
Income from joint venture	<u>\$ 2,627,682</u>	<u>\$ 2,617,077</u>
Right to use leased asset	<u>\$ 558,102</u>	<u>\$ 464,508</u>
Vested in captive insurance	<u>\$ 257,991</u>	<u>\$ -</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Statements of Cash Flows
Year Ended June 30, 2024

	<u>2024</u>
Supplemental Disclosure of Cash Flow Information	
Acquisition of joint venture	
Cash	\$ 3,101,130
Receivables	
Patient	1,080,302
Supplies	542,088
Prepays	219,466
Capital assets	960,321
Excess consideration	1,683,000
Long-term debt	(1,042,314)
Payables	
Trade	(1,713,580)
Related party payable	<u>(30,413)</u>
Note payable for acquisition	<u><u>\$ 4,800,000</u></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 Directors are elected and approved by the Authority.

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 Management Service Organization (NOMSO), which was established as a limited liability company in September 2013. NOMSO 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. During 2024, NWM ceased operations.

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.

The Authority did not utilize any sales tax proceeds to create the blended component units. The blended component units were created from the Authority's operational proceeds.

Measurement Focus and Basis of Accounting

Measurement focus 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, liabilities and deferred inflows, a 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, 2024 and 2023.

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.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2024 and 2023

At June 30, 2024 and 2023, notes receivable from physicians and employees totaled \$2,600,465 and \$2,382,454 and are included in other receivables and other assets on the statements of net position. Schedule of anticipated amounts to be forgiven is as follows:

<u>Year Ending June 30,</u>	
2025	\$ 916,736
2026	715,667
2027	394,812
2028	253,750
2029	133,000
2030 to 2034	<u>186,500</u>
Total	<u><u>\$ 2,600,465</u></u>

Deferred Outflows of Resources

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

Supplies

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

Capital Assets

Capital asset acquisitions in excess of \$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

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 IT Assets

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.

Impairment of Long-Lived Assets

The Authority considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ending June 30, 2024 and 2023.

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, 2024 and 2023, the Hospital is entitled to a full refund of its investment.

Lease Liabilities

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 IT Liabilities

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.

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. A deferred outflow of resources results when consideration provided for the acquisition of assets exceeds the net position acquired. This amount is systematically and rationally amortized over a period of 10 years. At June 30, 2024, the deferred outflows of resources reported by the Hospital on the accompanying statements of net position consisted of excess of cost over net position on acquisitions.

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 \$1,918,000 and \$3,213,000 for the years ended June 30, 2024 and 2023. Total direct and indirect cost related to those forgone charges were approximately \$718,000 and \$1,232,000 at June 30, 2024 and 2023, 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 for the state of Oklahoma from federal sources. The SHOPP is currently set to sunset on December 31, 2025. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the Authority.

The Authority made SHOPP payments totaling \$4,306,576 and \$3,273,900 included in administrative services, for the years ended June 30, 2024 and 2023. In return, the Authority received \$9,700,853 and \$11,202,318 included in net patient service revenue, for the years ended June 30, 2024 and 2023.

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 expected to change in fiscal year 2025 due to the State of Oklahoma's shift to managed care Medicaid. Future changes in law or regulation at the federal or state level can affect or eliminate SHOPP.

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, 2021.

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, 2024 and 2023:

	2024	2023
Medicare	31%	32%
Medicaid	19%	19%
Blue Cross and other commercial payors	47%	47%
Self pay and other	3%	2%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2024, decreased approximately \$1,420,000, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations and changes in estimated settlements. Medicare regulations allow for previously closed cost reports to be reopened. The Centers for Medicare & Medicaid Services (CMS) reopened and adjudicated final settlement for cost reports ending in June 30, 2020 and June 30, 2021. Management believes that this change in settlement is an isolated occurrence.

CMS Advanced Payments

The CMS Advanced Payment balance consists of advanced payments received from 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 - Deposits, Investments and Investment Income

The carrying amounts of deposits and investments as of June 30, 2024 and 2023 are as follows:

	2024	2023
Carrying amount		
Cash and deposits	\$ 13,369,761	\$ 7,819,836
Investments	7,593,860	9,405,451
	<u>\$ 20,963,621</u>	<u>\$ 17,225,287</u>

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

	2024	2023
Cash and cash equivalents	\$ 12,881,978	\$ 7,796,244
Board designated cash	487,783	23,592
Long-term investments	7,593,860	9,405,451
Total	<u>\$ 20,963,621</u>	<u>\$ 17,225,287</u>

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, 2024 and 2023 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2024 and 2023

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, 2024:

Type	Fair Value	Ratings	Investment Maturities (in Years)		
			Less than 1	1 - 5	6-10
Domestic fixed income	\$ 6,473,386	Baa1 - Aaa	\$ 4,290,898	\$ 2,182,488	\$ -
International fixed income	155,169	Aa2	155,169	-	-
Total fixed income	6,628,555		<u>\$ 4,446,067</u>	<u>\$ 2,182,488</u>	<u>\$ -</u>
Domestic equities	965,305				
	<u>\$ 7,593,860</u>				

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>				

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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023, 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, 2024 and 2023:

	2024	2023
Interest and dividend income	\$ 424,166	\$ 570,156
Change in unrealized gains and losses on investments	293,433	(84,177)
Total	<u>\$ 717,599</u>	<u>\$ 485,979</u>

Note 4 - Fair Value Measurements

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

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

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

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2024 and 2023

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, 2024:

	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	\$ 6,473,386	\$ -	\$ 6,473,386	\$ -
Bonds - international	155,169	-	155,169	-
Corporate stocks	965,305	-	-	965,305
Total investments by fair value level	<u>\$ 7,593,860</u>	<u>\$ -</u>	<u>\$ 6,628,555</u>	<u>\$ 965,305</u>

The following table presents fair value measurements of 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>

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.

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2024 and 2023

Note 5 - Capital Assets

Capital assets additions, retirements, and balances for the year ended June 30, 2024 are as follows:

	Balance June 30, 2023	Additions	Transfers and Retirements	Balance June 30, 2024
Non-depreciable capital assets				
Land	\$ 1,643,036	\$ -	\$ -	\$ 1,643,036
Construction in progress	395,777	285,700	(262,644)	418,833
Total non-depreciable capital assets	<u>\$ 2,038,813</u>	<u>\$ 285,700</u>	<u>\$ (262,644)</u>	<u>\$ 2,061,869</u>
Depreciable capital assets				
Land improvements	\$ 855,938	\$ 24,750	\$ 32,790	\$ 913,478
Buildings and fixed equipment	48,688,071	361,208	59,638	49,108,917
Major movable equipment	34,389,326	502,190	(1,323,859)	33,567,657
Total depreciable capital assets	<u>83,933,335</u>	<u>888,148</u>	<u>(1,231,431)</u>	<u>83,590,052</u>
Less accumulated depreciation for				
Land and improvements	(556,418)	(34,946)	-	(591,364)
Buildings and fixed equipment	(19,853,784)	(2,253,380)	-	(22,107,164)
Major movable equipment	(27,157,592)	(1,547,648)	2,288,511	(26,416,729)
Total accumulated depreciation	<u>(47,567,794)</u>	<u>\$ (3,835,974)</u>	<u>\$ 2,288,511</u>	<u>\$ (49,115,257)</u>
Net capital assets being depreciated	<u>\$ 36,365,541</u>			<u>\$ 34,474,795</u>
Right to use leased assets being amortized				
Equipment	\$ 358,975	\$ 558,102	\$ (156,889)	\$ 760,188
Office space	72,921	-	-	72,921
Total right of use leased assets being amortized	<u>431,896</u>	<u>558,102</u>	<u>(156,889)</u>	<u>833,109</u>
Accumulated amortization				
Equipment	(28,337)	(179,887)	-	(208,224)
Office space	-	(28,227)	-	(28,227)
Total accumulated amortization	<u>(28,337)</u>	<u>(208,114)</u>	<u>-</u>	<u>(236,451)</u>
Net right to use leased assets	<u>\$ 403,559</u>	<u>\$ 349,988</u>	<u>\$ (156,889)</u>	<u>\$ 596,658</u>
Subscription based IT assets being amortized	\$ 5,131,001	\$ -	\$ -	\$ 5,131,001
Accumulated amortization	(3,844,741)	(1,027,885)	-	(4,872,626)
Net right to use subscription based IT assets	<u>\$ 1,286,260</u>	<u>\$ (1,027,885)</u>	<u>\$ -</u>	<u>\$ 258,375</u>
Total capital assets, net	<u>\$ 40,094,173</u>			<u>\$ 37,391,697</u>

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The majority of construction in progress at June 30, 2024 represents the construction of minor projects with various completion dates.

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	419,820	482,158	(506,201)	395,777
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	37,863,563	1,090,648	(4,564,885)	34,389,326
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	(28,994,892)	(2,786,818)	4,624,118	(27,157,592)
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	-	72,921	-	72,921
Total right to use leased assets being amortized	<u>-</u>	<u>431,896</u>	<u>-</u>	<u>431,896</u>
Accumulated amortization	<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	(2,819,664)	(1,025,077)	-	(3,844,741)
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>
Capital assets, net	<u>\$ 42,285,670</u>			<u>\$ 40,094,173</u>

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Note 6 - Joint Ventures and Blended Component Units

The Authority uses the equity method to account for the joint ventures listed below. At June 30, 2024 and 2023, the Authority's investment in joint ventures consisted of the following:

	2024	2023
Cherokee Health Partners, LLC	\$ -	\$ 3,048,097
Platte Dialysis, LLC	5,335,772	4,840,063
Total investment in joint ventures	<u>\$ 5,335,772</u>	<u>\$ 7,888,160</u>

Joint venture activity for the years ended June 30, 2024 and 2023 are as follow:

	Balance June 30, 2023	Joint Venture Income	Distributions	Contributions/ (Sales)	Balance June 30, 2024
Cherokee Health Partners, LLC	\$ 3,048,097	\$ 902,738	\$ (1,636,497)	\$ (2,314,338)	\$ -
Platte Dialysis, LLC	4,840,063	1,724,944	(1,229,235)	-	5,335,772
	<u>\$ 7,888,160</u>	<u>\$ 2,627,682</u>	<u>\$ (2,865,732)</u>	<u>\$ (2,314,338)</u>	<u>\$ 5,335,772</u>
	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
	<u>\$ 7,348,978</u>	<u>\$ 2,617,077</u>	<u>\$ (2,077,895)</u>	<u>\$ -</u>	<u>\$ 7,888,160</u>

Cherokee Health Partners, LLC

Cherokee Health Partners, LLC (CHP), a limited liability company, was incorporated as a tribal limited liability company in September 2004. The Authority is a 49% owner of CHP. CHP provides cardiac stroke and other imaging services. In its general appeal to capture all the business currently provided by the Authority, CHP solicits to serve everyone in the community. On June 30, 2024, the Authority closed on the purchase agreement for the remaining 51% of CHP. Accordingly, the results of operations for CHP have been included in the accompanying financial statements as of the date of the acquisition. The Authority recorded the acquired assets, deferred outflows of resources, and liabilities at its acquisition value of \$4,800,000. The total amount of net position acquired by the Authority as a result of the acquisition was \$3,997,341 as of June 30, 2024. During 2024 and 2023, the Authority was paid \$1,392,973 and \$371,661 for services and building space provided to CHP. These amounts are included in operating revenues. The Authority was owed \$747,471 for the year ended June 30, 2023. 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 2024 and 2023, the Authority was paid \$128,494 and \$2,453,705 for services provided to NOHC. These amounts are included in operating revenues. The Authority owed \$490,927 at June 30, 2023. 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, 2024 and 2023, 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 Note 14.

Tahlequah Hospital Foundation

The Foundation is a nonprofit corporation established in August 2001, to raise money for the Authority. The Foundation's Board of Directors are elected and approved by the Authority.

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 Note 14.

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, 2024 and 2023, 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 Note 14.

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, 2024 and 2023, the Authority owns a 60% share of NWM. During 2024, the owners approved to cease operations and dissolve 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 Note 14.

Northeastern Vascular Services, LLC

NVS, a limited liability company, was established in August 2015, to provide vascular services. During the years ended June 30, 2024 and 2023, 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 Note 14.

Note 7 - 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 years ended June 30, 2024 and 2023 is as follows:

	Balance June 30, 2023	Additions	Reductions	Balance June 30, 2024	Amounts Due Within One Year
Software	<u>\$ 1,112,056</u>	<u>\$ -</u>	<u>\$ (257,732)</u>	<u>\$ 854,324</u>	<u>\$ 313,104</u>
	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Due Within One Year
Software	<u>\$ 1,425,160</u>	<u>\$ -</u>	<u>\$ (313,104)</u>	<u>\$ 1,112,056</u>	<u>\$ 309,916</u>

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Scheduled payments on the SBITA are as follows:

<u>Year Ending June 30,</u>	
2025	\$ 313,104
2026	313,104
2027	<u>228,116</u>
Total	<u>\$ 854,324</u>

Note 8 - Leases

The Authority entered into a lease agreement as lessee for the use of medical equipment and office space. The Authority is required to make annual principal and interest payments through April 2029. The lease liabilities were valued using discount rates between 4.5% and 9.4% based on the Authority's incremental borrowing rate at the inception of the leases.

Right to use leased asset obligations additions, payments and balances for the years ended June 30, 2024 and 2023 is as follows:

	<u>Balance June 30, 2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2024</u>	<u>Amounts Due Within One Year</u>
Medical equipment	\$ 358,976	\$ 558,102	\$ (281,991)	\$ 635,087	\$ 162,098
Office space	72,921	-	(23,763)	49,158	28,227
	<u>\$ 431,897</u>	<u>\$ 558,102</u>	<u>\$ (305,754)</u>	<u>\$ 684,245</u>	<u>\$ 190,325</u>

	<u>Balance June 30, 2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2024</u>	<u>Amounts Due Within One Year</u>
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, 2024, the value of the lease liabilities are \$684,245 and the leased assets are \$596,658 and consisted of the following for right to use assets:

- Right to use medical equipment with a lease liability value of \$146,764. 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.

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- Right to use medical equipment with a lease liability value of \$93,813. The Authority is required to make monthly principal and interest payments of \$3,520 through March 2027. The lease liability was valued using a discount rate of 9.4% based on the Authority's incremental borrowing rate.
- Right to use medical equipment with a lease liability value of \$36,049. The Authority is required to make monthly principal and interest payments of \$1,767 through April 2026. The lease liability was valued using a discount rate of 8.0% based on the Authority's incremental borrowing rate.
- Right to use facility with a lease liability value of \$358,461. The Authority is required to make annual principal and interest payments of \$89,615 through April 2029. The lease liability was valued using a discount rate of 4.5% based on the Authority's incremental borrowing rate.

Right to use facility with a lease liability value of \$49,158. 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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2025	\$ 190,325	\$ 17,518
2026	176,140	34,204
2027	130,426	22,493
2028	104,674	1,578
2029	82,680	6,935
Total	<u>\$ 684,245</u>	<u>\$ 82,728</u>

Note 9 - Notes Payable and Long-Term Debt

Long-term debt consists of:

	<u>Balance June 30, 2023</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2024</u>	<u>Amounts Due Within One Year</u>
Notes from					
Direct Borrowings	\$ 20,684,164	\$ -	\$ (1,514,700)	\$ 19,169,464	\$ 1,582,027
Other note payable	-	4,800,000	-	4,800,000	2,000,000
Note payable assumed from acquisition	-	1,042,315	-	1,042,315	1,042,315
Total long-term debt	<u>\$ 20,684,164</u>	<u>\$ 5,842,315</u>	<u>\$ (1,514,700)</u>	<u>\$ 25,011,779</u>	<u>\$ 4,624,342</u>

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	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

The terms, due dates, and securing collateral of the Authority's long-term debt at June 30, 2024 and 2023 follow:

	2024	2023
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	\$ 9,853,481	\$ 10,764,063
Foundation 4.75% note payable, due in monthly installments of \$3,925 including interest, through January 2027, secured by property	275,301	312,790
Foundation 4.0% note payable, due in monthly installments of \$4,878 including interest, through December 2028, secured by land	245,892	291,158
Hospital 4.5% note payable, due in monthly installments of \$29,359 including interest, through December 2031, secured by property	2,243,601	2,477,874
Foundation 5.0% note payable, due in monthly installments of \$5,876 including interest, through August 2033, secured by building	510,740	559,760
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	6,040,449	6,278,519
Other note payable		
Hospital 0.0% note payable, due in monthly installments of \$200,000, through August 2026, unsecured	4,800,000	-
Note payable assumed from acquisition		
Hospital 3.85% note payable, due on demand; however, if no demand is made, monthly installments of \$7,785 including interest, through April 2031, within final unpaid balance of principal and interest due May 2031, secured by equipment	1,042,315	-
Total notes payable/mortgage loans	25,011,779	20,684,164
Less current maturities	(4,624,342)	(1,527,561)
Long-term debt, less current maturities	\$ 20,387,437	\$ 19,156,603

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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>
2025	\$ 1,582,027	\$ 787,164
2026	4,254,311	716,349
2027	2,098,917	636,600
2028	7,547,590	472,981
2029	689,298	247,601
2030 to 2034	<u>5,797,321</u>	<u>469,131</u>
Total	<u>\$ 21,969,464</u>	<u>\$ 3,329,826</u>

The provisions of the 4.39% note payable, contain covenants pertaining to reporting requirements and debt service ratio. The Authority was in compliance with the debt service coverage ratio as of and for the year ended June 30, 2024.

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>Original</u>	<u>Notional Value</u>		<u>Interest Paid</u>
	<u>2024</u>	<u>2023</u>	
15,000,000	9,776,334	10,690,397	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 \$460,196 and \$552,469 at June 30, 2024 and 2023 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, 2024 and 2023, 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 10 - 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, 2024, 2023, and 2022 was \$928,512, \$1,855,042 and \$1,835,674.

Note 11 - Deferred Compensation Plan

The Authority has adopted a non-qualified executive 457(f) deferred compensation plan. The Authority may make discretionary credits to the deferred compensation account of each active participant in an amount determined each plan year by the Authority. Eligible employees may elect to defer payment of federal and state income taxes on salaries deferred under this plan. Participants vest in their deferred compensation account either at a specific date as selected in writing by the Authority, upon involuntary separation from service from the Authority without cause, or upon the date of a change in a control event. At June 30, 2024 and 2023, the value of deferred compensation totaled \$936,446 and \$700,427.

Note 12 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2024 and 2023 was as follows:

	2024	2023
Medicare	13%	16%
Medicaid	10%	9%
Other third-party payors	56%	45%
Patients	21%	30%
	<u>100%</u>	<u>100%</u>

Note 13 - Contingencies

Risk Management

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

Malpractice Insurance

The Hospital has malpractice insurance coverage through Tecumseh Health Reciprocal Risk Retention Group (THRRRG), 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 by 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, 2024.

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>
2024	\$ 482,000	\$ 4,565,371	\$ (4,483,371)	\$ 564,000
2023	302,000	3,794,796	(3,614,796)	482,000

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Note 14 - 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, 2024.

Statement of net position as of June 30, 2024:

	Tahlequah Hospital Authority	Northeast Oklahoma Diagnostics	Northeastern Wound Management	Tahlequah Hospital Foundation	Northeast Oklahoma Management Service Organization	Northeast Vascular Services	Reclassifications or Eliminations	Combined
Assets								
Current assets	\$ 51,037,195	\$ 2,809,849	\$ -	\$ 5,456,747	\$ 696,427	\$ -	\$ (315,421)	\$ 59,684,797
Capital assets, net	22,419,422	478,478	-	14,493,797	-	-	-	37,391,697
Other noncurrent assets	31,603,686	-	-	41,297	-	-	(14,627,271)	17,017,712
Total assets	105,060,303	3,288,327	-	19,991,841	696,427	-	(14,942,692)	114,094,206
Deferred Outflows of Resources	3,997,341	-	-	-	-	-	-	3,997,341
Total assets	<u>\$ 109,057,644</u>	<u>\$ 3,288,327</u>	<u>\$ -</u>	<u>\$ 19,991,841</u>	<u>\$ 696,427</u>	<u>\$ -</u>	<u>\$ (14,942,692)</u>	<u>\$ 118,091,547</u>
Liabilities								
Current liabilities	\$ 30,527,392	\$ 456,531	\$ -	\$ 508,706	\$ 309,137	\$ 55,118	\$ (312,865)	\$ 31,544,019
Deferred compensation	936,446	-	-	-	-	-	-	936,446
Long-term debt, less current maturities	14,783,627	-	-	6,682,803	-	-	(43,853)	21,422,577
Total liabilities	46,247,465	456,531	-	7,191,509	309,137	55,118	(356,718)	53,903,042
Deferred Inflows of Resources	460,196	-	-	-	-	-	-	460,196
Net Position								
Net investment in capital assets	7,691,637	478,478	-	7,421,415	-	-	49,819	15,641,349
Unrestricted	54,658,346	1,877,041	-	5,378,917	387,290	(55,118)	(14,635,793)	47,610,683
Restricted, nonexpendable net position noncontrolling interest	-	476,277	-	-	-	-	-	476,277
Total net position	62,349,983	2,831,796	-	12,800,332	387,290	(55,118)	(14,585,974)	63,728,309
Total liabilities, deferred inflows of reserouces and net position	<u>\$ 109,057,644</u>	<u>\$ 3,288,327</u>	<u>\$ -</u>	<u>\$ 19,991,841</u>	<u>\$ 696,427</u>	<u>\$ -</u>	<u>\$ (14,942,692)</u>	<u>\$ 118,091,547</u>

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Operating results and changes in net position for the year ended June 30, 2024:

	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	\$ 140,664,363	\$ 1,496,033	\$ -	\$ -	\$ -	\$ -	\$ (1,496,033)	\$ 140,664,363
Other revenue	5,350,650	306,188	335,883	1,614,919	2,198,805	-	(1,003,900)	8,802,545
Total operating revenue	146,015,013	1,802,221	335,883	1,614,919	2,198,805	-	(2,499,933)	149,466,908
Expenses								
Depreciation and amortization	4,317,373	163,811	2,758	565,427	-	-	-	5,049,369
Other operating expenses	143,863,373	765,843	464,375	573,586	2,367,411	-	(2,291,597)	145,742,991
Total operating expenses	148,180,746	929,654	467,133	1,139,013	2,367,411	-	(2,291,597)	150,792,360
Operating Income (Loss)	(2,165,733)	872,567	(131,250)	475,906	(168,606)	-	(208,336)	(1,325,452)
Nonoperating Revenues (Expenses)	2,135,637	202,367	1,460,394	(105,001)	-	-	(1,304,691)	2,388,706
Revenues in Excess of (Less Than) Expenses	(30,096)	1,074,934	1,329,144	370,905	(168,606)	-	(1,513,027)	1,063,254
Noncontrolling Interest	-	467,161	(531,657)	-	-	-	(257,982)	(322,478)
Change in Net Position, Excluding Noncontrolling Interest	(30,096)	1,542,095	797,487	370,905	(168,606)	-	(1,771,009)	740,776
Net Position, Beginning of Year	62,380,079	1,673,372	(797,487)	12,429,427	555,896	(55,118)	(13,674,913)	62,511,256
Members' Distributions	-	(859,948)	-	-	-	-	859,948	-
Noncontrolling Interest	-	476,277	-	-	-	-	-	476,277
Net Position, End of Year	\$ 62,349,983	\$ 2,831,796	\$ -	\$12,800,332	\$ 387,290	\$ (55,118)	\$ (14,585,974)	\$ 63,728,309

Tahlequah Hospital Authority
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Cash flows for the year ended June 30, 2024:

	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	\$ (1,094,094)	\$ 1,195,696	\$ (44,054)	\$ 1,154,160	\$ (144,398)	\$ -	\$ -	\$ 1,067,310
Net cash from (used for) noncapital financing activities	3,054,530	-	-	-	-	-	-	3,054,530
Net cash used for capital and related financing activities	(3,061,937)	-	19,750	(717,495)	-	-	-	(3,759,682)
Net cash from (used for) investing activities	5,654,461	(657,581)	-	190,887	-	-	-	5,187,767
Net change in cash and cash equivalents	4,552,960	538,115	(24,304)	627,552	(144,398)	-	-	5,549,925
Cash and cash equivalents, beginning of year	894,517	1,891,972	24,304	4,500,211	508,832	-	-	7,819,836
Cash and cash equivalents, end of year	<u>\$ 5,447,477</u>	<u>\$ 2,430,087</u>	<u>\$ -</u>	<u>\$ 5,127,763</u>	<u>\$ 364,434</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,369,761</u>

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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, 2023.

Statement of net position as of June 30, 2023:

	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
Assets									
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
Total assets	<u>\$ 100,313,801</u>	<u>\$ 3,016,060</u>	<u>\$ 156,913</u>	<u>\$20,007,752</u>	<u>\$ -</u>	<u>\$ 585,335</u>	<u>\$ -</u>	<u>\$ (14,109,300)</u>	<u>\$ 109,970,561</u>
Liabilities									
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
Total liabilities	37,381,253	399,250	1,486,057	7,578,325	-	29,439	55,118	(434,387)	46,495,055
Deferred Inflows of Resources	552,469	-	-	-	-	-	-	-	552,469
Net Position									
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
Total net position	<u>62,380,079</u>	<u>2,616,810</u>	<u>(1,329,144)</u>	<u>12,429,427</u>	<u>-</u>	<u>555,896</u>	<u>(55,118)</u>	<u>(13,674,913)</u>	<u>62,923,037</u>
Total liabilities and net position	<u>\$ 100,313,801</u>	<u>\$ 3,016,060</u>	<u>\$ 156,913</u>	<u>\$20,007,752</u>	<u>\$ -</u>	<u>\$ 585,335</u>	<u>\$ -</u>	<u>\$ (14,109,300)</u>	<u>\$ 109,970,561</u>

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
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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	140,881,240	1,777,475	441,466	2,570,760	714,991	-	(3,182,204)	143,203,728
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	149,958,854	1,110,278	731,006	1,106,415	582,191	-	(2,510,201)	150,978,543
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	\$ 62,380,079	\$ 2,616,810	\$ (1,329,144)	\$ 12,429,427	\$ 555,896	\$ (55,118)	\$ (13,674,913)	\$ 62,923,037

Tahlequah Hospital Authority
A Component Unit of the City of Tahlequah, Oklahoma
Notes to Financial Statements
June 30, 2024 and 2023

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 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	<u>7,096,565</u>	<u>(493,061)</u>	<u>-</u>	<u>70,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,674,491</u>
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	<u>8,293,804</u>	<u>2,176,547</u>	<u>7,620</u>	<u>3,229,554</u>	<u>435,458</u>	<u>12,000</u>	<u>-</u>	<u>14,154,983</u>
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>

Note 15 - Subsequent Events

The Authority has evaluated subsequent events through January 24, 2025, the date which the financial statements were available to be issued.

Effective January 1, 2025, the Authority changed their health insurance from a self-funded to a fully funded plan.

On June 28, 2024, the Authority entered into a memorandum of understanding with Sequoyah County-City of Sallisaw Hospital Authority (Sallisaw Hospital Authority) where the Sallisaw Hospital Authority would make monthly payments of \$67,000 in order to reduce the obligation owed to the Authority. On December 17, 2024, the Board of City commissioners of the City of Sallisaw approved resolution 2024-06 which allows the Sallisaw Economic Authority to issue bonds not to exceed \$12,000,000 to provide funds for the retiring and refinancing certain obligations (which includes amounts owed to the Authority) of the Sallisaw Hospital Authority.



**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, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 24, 2025.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2024-001 that we consider to be a material weakness.

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*.

The Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
January 24, 2025

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

Material Weakness

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

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

***Cause:* Credit balances within patient accounts receivable were not being reviewed on a regular basis.**

Effect: An entry was made to record the mispostings of contractual adjustments and the credit balances (or negative receivables) as accounts payable for financial statement reporting purposes. In addition, an entry was made to adjust allowances on patient receivables.

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

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