Financial Statements
December 31, 2017

Atoka County Healthcare Authority

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Trustees
Atoka County Healthcare Authority
Atoka, Oklahoma

Report on the Financial Statements
We have audited the accompanying statement of net position of Atoka County Healthcare Authority (the Authority) and the related footnotes (the Financial Statement), as of December 31, 2017.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Opinion
In our opinion, the statement of net position referred to above present fairly, in all material respects, the financial position of the Atoka County Healthcare Authority as of December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on the Statement of Revenues, Expenses, and Changes in Net Position and Cash Flows
Because we were not engaged to audit the statements of revenues, expenses, and changes in net position and cash flows, we did not extend our auditing procedures to enable us to express an opinion on the results of operations and cash flows for the year ended December 31, 2017. Accordingly, we express no opinion on the results of operations and cash flows for the year ended December 31, 2017.

Emphasis of Matter Regarding Going Concern
The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 9 to the financial statement, the Authority has suffered recurring losses from operations, has a net deficiency, and is going through bankruptcy. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. The financial statement do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matter
Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2019 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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.

Eide Bailly LLP

Eide Bailly Signature

Oklahoma City, Oklahoma
February 7, 2019

(This page left blank intentionally.)

	2017
Assets	
Current Assets	
Cash and cash equivalents	$ 297,827
Restricted for debt service	198,207
Receivables	
Patient, net of estimated uncollectibles of approximately $2,180,000	605,911
Estimated third-party payor settlements	243,288
Sales tax	239,657
Other	1,500
Supplies and prepaid expenses	257,828
Total current assets	1,844,218
Capital Assets	
Capital assets not being depreciated	158,508
Capital assets being depreciated, net	8,950,234
Total capital assets	9,108,742
Total assets	$ 10,952,960

	2017
Liabilities and Net Deficit	
Current Liabilities	
Current maturities of long-term debt	$ 15,375,884
Accounts payable	
Trade	2,640,823
Accrued expenses	
Salaries and wages	1,024,598
Interest	444,380
Other	155,034
Total current liabilities	19,640,719
Long-Term Debt, Less Current Maturities	147,110
Deferred Revenue	127,892
Total liabilties	19,915,721
Net Position (Deficit)	
Net investment in capital assets	(7,056,839)
Restricted - expendable for debt service	55,768
Unrestricted	(1,961,690)
Total net deficit	(8,962,761)
Total liabilities and net deficit	$ 10,952,960

	2017
Operating Revenues	
Net patient service revenue (net of provision for bad debts of $2,800,474 in 2017)	$ 6,576,120
Other revenue	65,467
Total operating revenues	6,641,587
Operating Expenses	
Salaries and wages	3,101,811
Employee benefits	467,798
Professional fees and purchased services	1,766,840
Supplies	590,431
Insurance	121,424
Depreciation and amortization	1,312,671
Other	533,798
Total operating expenses	7,894,773
Operating Loss	(1,253,186)
Nonoperating Revenues (Expenses)	
Sales tax income	1,163,524
Investment income	351
Interest expense	(859,859)
Other	30,726
Net nonoperating revenues	334,742
Change in Net Deficit	(918,444)
Net Deficit, Beginning of Year	(8,044,317)
Net Deficit, End of Year	$ (8,962,761)

	2017
Operating Activities	
Receipts from and on behalf of patients	$ 6,009,671
Payments to suppliers and contractors	35,842
Payments to and on behalf employees	(3,571,765)
Other receipts and payments, net	(3,080,428)
Net Cash used for Operating Activities	(606,680)
Noncapital Financing Activities	
Sales taxes received	1,233,049
Other	30,726
Net Cash from Noncapital Financing Activities	1,263,775
Capital and Capital Related Financing Activities	
Principal payments on long-term debt	(339,074)
Interest paid	(606,591)
Purchase of capital assets	(30,999)
Net Cash used for Capital and Capital Related Financing Activities	(976,664)
Investing Activites	
Investment income	351
Net Cash from Investing Activities	351
Net Change in Cash and Cash Equivalents	(319,218)
Cash and Cash Equivalents, Beginning of Year	815,252
Cash and Cash Equivalents, End of Year	$ 496,034

	2017
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position	
Cash and cash equivalents	$ 297,827
Restricted for debt service	198,207
Total cash and cash equivalents	$ 496,034
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	$ (1,253,186)
Adjustments to reconcile operating loss to net cash from operating activities	
Depreciation on capital assets	1,312,671
Provision for bad debts	2,800,474
Changes in assets and liabilities	
Patient receivables	(2,721,230)
Other receivables	9,375
Supplies and prepaid expenses	2,137
Accounts payable	327,929
Estimated third-party payor settlements	(645,693)
Accrued expenses	(400,157)
Deferred revenue	(39,000)
Net Cash from Operating Activities	$ (606,680)

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Atoka County Healthcare Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

The Authority is a 25-bed critical access hospital located in Atoka, Oklahoma. Atoka County Healthcare Authority primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Atoka, Oklahoma, area. The Authority operates physician clinics in the same geographic area.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. (The Authority does not have a component unit which meets the GASB criteria.)

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets, deferred outflows, liabilities, and deferred inflows, 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.

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. 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.

Sales Tax

In 1985, a County ordinance was passed granting Atoka County Healthcare Authority a one percent sales tax upon the gross proceeds or receipts derived from certain sales in Atoka County. This sales tax shall continue to be received until rescinded by vote of the citizens of Atoka County. The Authority received approximately 15% of its financial support from county appropriations related to sales tax in 2017. These funds were used for operations, maintenance, and improvement of the Authority and its facilities.

Supplies

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

Investment Income

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

Capital Assets

Property and equipment 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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

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

Bond Discounts

Bonds payable are reported net of the applicable bond discount. Bond discounts are amortized over the life debt using the straight-line method, which approximates the effective interest method. Amortization is included in interest expense.

Compensated Absences

The Authority's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued salaries and wages in the accompanying financial statements.

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.

Note 2 - Net Patient Service Revenue - Unaudited

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: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended December 31, 2014. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge or established fee schedules.

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 patent (and resident) service revenues for the year ended December 31, 2017:

	2017
Medicare	52%
Medicaid	17%
Commercial payors	20%
Self pay and other	11%
	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2017 is as follows:

	2017
Carrying Amount	
Cash and deposits	$ 297,827
Money market funds	198,207
Total	$ 496,034

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

	2017
Cash and cash equivalents	$ 297,827
Restricted for debt service	198,207
	$ 496,034

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 December 31, 2017 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

Investment Income

Investment income on cash and other investments consists primarily of interest income for the year ended December 31, 2017.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2017 is as follows:

	Balance December 31, 2016	Additions	Transfers and Retirements	Balance December 31, 2017
Capital assets not being depreciated				
Land	$ 158,508	$ -	$ -	$ 158,508
Capital assets being depreciated				
Land improvements	$ 50,500	$ -	$ -	$ 50,500
Building and improvements	17,014,817	-	-	17,014,817
Equipment	3,706,633	30,999	-	3,737,632
Total capital assets being depreciated	20,771,950	$ 30,999	$ -	20,802,949
Less accumulated depreciation for				
Land improvements	(16,987)	$ (3,367)	$ -	(20,354)
Building and improvements	(7,764,655)	(909,932)	-	(8,674,587)
Equipment	(2,758,402)	(399,372)	-	(3,157,774)
Total accumulated depreciation	(10,540,044)	$ (1,312,671)	$ -	(11,852,715)
Net capital assets being depreciated	$ 10,231,906			$ 8,950,234
Capital assets, net	$ 10,390,414			$ 9,108,742

Note 5 - Lease Obligations

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the year ended December 31, 2017 for all operating leases was 77,062. The capitalized leased assets consist of:

	2017
Major movable equipment	$ 590,301
Less accumulated amortization	(245,849)
	$ 344,452

Minimum future lease payments for the capital leases are as follows:

Years Ending December 31,	Capital Leases
2018	$ 167,780
2019	88,669
2020	47,088
2021	23,774
Total minimum lease payments	327,311
Less interest	(31,081)
Present value of minimum lease payments - Note 6	$ 296,230

Note 6 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2017 is as follows:

	Balance December 31, 2016	Additions	Payments	Balance December 31, 2017	Due Within One Year
Bonds Payable					
Series 2007 Bonds	$ 8,835,000	$ -	$ (210,000)	$ 8,625,000	$ 8,625,000
Discount	(14,782)	-	704	(14,078)	(14,078)
Total bonds	8,820,218	-	(209,296)	8,610,922	8,610,922
Note Payable	428,653	-	(19,671)	408,982	408,931
USDA Mortgage	6,206,860	-	-	6,206,860	6,206,860
Capital Leases (1)	406,337	-	(110,107)	296,230	149,171
Total long-term debt	$ 15,862,068	$ -	$ (339,074)	$ 15,522,994	$ 15,375,884

(1) Capital lease obligations with various interest rates from 6.8% to 8.2%, collateralized by associated equipment, with varying maturity dates from December 2018 through June 2021.

Revenue Bonds

The Authority issued Hospital Revenue Bonds, Series 2007 (the Bonds) in the original amount of $10,000,000 and sold at a discount of $21,118, dated September 6, 2007. The Bonds are payable with principal payments due annually and interest payments at interest rates of 5.875% to 6.625% due semiannually through October 2037. The Authority is required to make monthly payments to the debt service fund held by the trustee in the amount of 1/6 the next semiannual interest payment due and 1/12 the amount of the next annual principal payment due. All of the Bonds outstanding may be redeemed at the Authority's option at par value. The Bonds are secured by the revenues, including county appropriations, and certain assets of the Authority as described in the mortgage and security agreement.

The Bond Indenture (the Indenture) requires that certain funds be established with the trustee. Accordingly, these funds are included as current cash and investments held by trustee for debt service in the accompanying statement of net position. The Indenture also requires the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a debt service coverage ratio of at least 1.25 to 1.00, restrictions on incurrence of additional debt, maintaining minimum days cash on hand of 45 days and maintaining a minimum current ratio of 2.0 to 1.0.

During 2017, the Authority declared Chapter 9 bankruptcy, which is considered an Event of Default as defined by the Indenture. The Indenture stipulates that, as a result of the Event of Default, the bond trustee may declare that the principal and accrued interest on the Bonds become due and payable immediately. The bond trustee has not formally waived this Event of Default. Under accounting principles generally accepted in the United States of America, debt subject to acceleration should be classified on the balance sheet as a current liability. The discount on the Bonds is being amortized over the term of the Bonds using the straight-line method.

USDA Mortgage

The Authority issued a real estate mortgage note payable to USDA in 2007 (the Mortgage) to fund construction of a new hospital, due September 6, 2047. Collateral also includes the real and personal property of the new hospital and any and all contracts entered into by the Authority.

During 2017, the Authority declared Chapter 9 bankruptcy, which is considered an Event of Default as defined by the Mortgage. The Mortgage stipulates that, as a result of the Event of Default, the Government may declare that the principal and accrued interest on the Mortgage become due and payable immediately. Under accounting principles generally accepted in the United States of America, debt subject to acceleration should be classified on the statement of net position as a current liability.

Note Payable to Bank

During 2016, The Authority entered into a note payable with a bank in the amount of $450,000 at 4.00% (the Note). The note is payable in monthly installments of principal and interest of $8,288. During 2017, the Authority declared Chapter 9 bankruptcy, which is considered an Event of Default as defined by the Note. The Note stipulates that, as a result of the Event of Default, the bank may declare that the principal and accrued interest on the Note become due and payable immediately. Under accounting principles generally accepted in the United States of America, debt subject to acceleration should be classified on the statement of net position as a current liability.

Note 7 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2017 was as follows:

	2017
Medicare	17%
Medicaid	5%
Commercial insurance	21%
Other third-party payors and patients	57%
	100%

Note 8 - Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the two preceding years.

Malpractice Insurance

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.

Litigation, 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 and resident services.

Note 9 - Going Concern and Management Plans

The authority did not meet the required covenants required by debt agreements as described in Note 6 for the year ended December 31, 2017, and the Authority is in default on three debt obligations.

On January 9, 2017, the Authority filed a petition for relief under Chapter 9 of the Bankruptcy Code in the United States Bankruptcy Court of the Eastern District of Oklahoma. Management is petitioning for relief in order to restrict certain contracts and obligations. As of January 21, 2019, management is unable to assess the impact of the filing of Chapter 9 bankruptcy. The Authority is looking into areas to reduce cost without impacting patient care. In addition, the Authority has entered into a new management agreement with a large health system in Southeastern Oklahoma.

The financial statement does not include any adjustments that might be necessary should the Authority be unable to continue as a going concern.

Note 10 - Subsequent Events

Subsequent to year end, the Authority approved a 4% note payable in the amount of $83,383. The Authority is required to make monthly payments of $3,621 starting November 2018 and a balloon payment in January 2020.

EideBailly

CPAs & BUSINESS ADVISORS

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*

To the Board of Trustees
Atoka County Healthcare Authority
Atoka, 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 statement of net position of the Atoka County Healthcare Authority (Authority) as of December 31, 2017, and the related notes to the financial statements (the Financial Statement), and have issued our report thereon dated February 7, 2019.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses: 2017-A through 2017-C.

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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Responses as item of 2017-001.

Authority's Response to Findings
The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

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

Eide Bailly LLP

Oklahoma City, Oklahoma
February 7, 2019

Material Weaknesses In Internal Control Over Financial Reporting:

2017-A Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Authority does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, misstatements to the financial statements were identified, which, in total, were material.

Cause: This weakness is due to the limited resources in the financial reporting process due to budgetary constraints. In addition, there is no established review processes.

Effect: The effect of this condition is that year-end financial reporting is prepared by a party outside of the Authority. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to interim financial statements.

Auditor's Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Views of Responsible Officials: We agree with the Auditor's Recommendation to obtain the maximum internal control over financial reporting under the circumstances to enable staff to draft the financial statements internally. Given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to utilize the expertise of our outside auditors regarding these matters.

2017-B Segregation of Duties

Criteria: A properly designed system of internal control segregates the initiation, record keeping, and authorization of transactions.

Condition: During the course of our engagement, we noted that the Authority has limited staff completing incompatible accounting functions due to the size of the entity. The Chief Financial Officer prepares journal entries and is no review of these journal entries.

Cause: A limited number of office personnel prevent a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Auditor's Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management and board involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Views of Responsible Officials: Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

2017-C Reconciliation of Accounts

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

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

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

Cause: Areas with differences that resulted in significant adjustments to the financial statements included capital assets, long-term debt, and net position.

Auditor's Recommendation: We recommend management prepare account reconciliations on a timely basis as well as a review of these reconciliations, in order to identify potential misstatements and reconciling items. Significant accounts should be reconciled from a sub-ledger or other detail or support to the general ledger at least on a monthly basis. Any variances should also be reconciled on a periodic basis to ensure that these balances are fairly stated.

Views of Responsible Officials: Management will develop a process to reconcile accounts on a regular basis and investigate any variances.

2017-001 Payroll Taxes

Criteria: An employer is required to withhold federal and state income and payroll taxes from its employees' wages and pay them to the taxing authority. Withheld taxes are called trust fund taxes because the employer holds the employee's money (federal and state income taxes and the employee portion Federal Insurance Contributions Act taxes) in trust until federal and state deposits of the amounts are made.

Condition: During the course of our engagement, we noted that the Authority did not make timely federal income and payroll tax deposits during the year.

Cause: Failure to monitor and pay trust taxes timely.

Effect: Potential violation of federal and state laws, which could result in significant penalties and interest.

Auditor's Recommendation: It is recommended that the Authority establish policies and procedures to ensure trust tax deposits are made in a timely manner.

Views of Responsible Officials: A payment and monitoring plan has been arranged with the taxing authorities to maintain current payroll tax deposits. The Authority is working to secure short-term financing for the purpose of providing additional funds to cover cash short falls and to help with delays in cash flow timing issues.