Financial Statements
December 31, 2019 and 2018

Atoka County Healthcare Authority

EideBailly®

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 financial statements of Atoka County Healthcare Authority (Authority), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements or revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2019 and 2018, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 10 to the financial statements, the Authority has suffered recurring losses from operations, has a deficiency in net position, 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 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Required Supplementary Information
Management has omitted the management's discussion and analysis that 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 July 27, 2020 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, 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

Oklahoma City, Oklahoma
July 27, 2020

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 742,270	$ 747,260
Restricted for debt service	316,567	289,433
Receivables		
Patient, net of estimated uncollectibles of approximately $1,219,000 in 2019 and $1,531,000 in 2018	1,295,244	789,483
Estimated third-party payor settlements	30,102	366,967
Sales tax	229,220	227,121
Other	8,573	-
Supplies and prepaid expenses	272,003	188,547
Total current assets	2,893,979	2,608,811
Capital Assets		
Capital assets not being depreciated	158,508	158,508
Capital assets being depreciated, net	7,064,435	7,911,942
Total capital assets	7,222,943	8,070,450
Total assets	$ 10,116,922	$ 10,679,261

	2019	2018
Liabilities and Net Deficit		
Current Liabilities		
Current maturities of long-term debt	$ 14,855,710	$ 15,147,879
Accounts payable	2,489,195	2,805,046
Accrued expenses		
Salaries and wages	1,284,543	1,181,377
Interest	982,411	714,013
Other	35,258	35,034
Total current liabilities	19,647,117	19,883,349
Long-Term Debt, Less Current Maturities	37,028	119,799
Unearned Revenue	55,892	91,892
Total liabilties	19,740,037	20,095,040
Net Position (Deficit)		
Net investment in capital assets	(7,260,903)	(6,788,246)
Restricted - expendable for debt service	217,896	150,225
Unrestricted	(2,580,108)	(2,777,758)
Total net deficit	(9,623,115)	(9,415,779)
Total liabilities and net deficit	$ 10,116,922	$ 10,679,261

	2019	2018
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $2,592,902 in 2019 and $2,019,205 in 2018)	$ 8,495,627	$ 7,470,053
Other revenue	111,176	74,498
Total operating revenues	8,606,803	7,544,551
Operating Expenses		
Salaries and wages	3,981,307	3,436,108
Employee benefits	661,574	564,224
Professional fees and purchased services	1,977,296	1,742,813
Supplies	714,384	674,573
Insurance	164,259	166,343
Depreciation and amortization	910,628	1,168,585
Other	676,744	615,595
Total operating expenses	9,086,192	8,368,241
Operating Loss	(479,389)	(823,690)
Nonoperating Revenues (Expenses)		
Sales tax income	1,172,868	1,235,831
Investment income	6,251	4,098
Interest expense	(937,268)	(892,074)
Other	30,202	22,817
Net nonoperating revenues	272,053	370,672
Change in Net Deficit	(207,336)	(453,018)
Net Deficit, Beginning of Year	(9,415,779)	(8,962,761)
Net Deficit, End of Year	$ (9,623,115)	$ (9,415,779)

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	$ 8,326,731	$ 7,162,802
Payments to suppliers and contractors	(3,931,766)	(3,085,820)
Payments to and on behalf employees	(4,539,715)	(3,843,553)
Other receipts and payments, net	66,603	39,998
Net Cash from (used for) Operating Activities	(78,147)	273,427
Noncapital Financing Activities		
Sales taxes received	1,170,769	1,248,367
Other	30,202	22,817
Net Cash from Noncapital Financing Activities	1,200,971	1,271,184
Capital and Capital Related Financing Activities		
Principal payments on long-term debt	(374,940)	(356,303)
Interest payments on long-term debt	(668,870)	(621,737)
Purchase of capital assets	(63,121)	(30,010)
Net Cash used for Capital and Capital Related Financing Activities	(1,106,931)	(1,008,050)
Investing Activites		
Investment income	6,251	4,098
Net Change in Cash and Cash Equivalents	22,144	540,659
Cash and Cash Equivalents, Beginning of Year	1,036,693	496,034
Cash and Cash Equivalents, End of Year	$ 1,058,837	$ 1,036,693
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	$ 742,270	$ 747,260
Restricted for debt service	316,567	289,433
Total cash and cash equivalents	$ 1,058,837	$ 1,036,693

	2019	2018
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities		
Operating loss	$ (479,389)	$ (823,690)
Adjustments to reconcile operating loss to net cash from (used for) operating activities		
Depreciation and amortization	910,628	1,168,585
Provision for bad debts	2,592,902	2,019,205
Changes in assets and liabilities		
Patient receivables	(3,098,663)	(2,202,777)
Other receivables	(8,573)	1,500
Supplies and prepaid expenses	(83,456)	69,281
Accounts payable	(315,851)	164,223
Estimated third-party payor settlements	336,865	(123,679)
Accrued expenses	103,390	36,779
Unearned revenue	(36,000)	(36,000)
Net Cash from (used for) Operating Activities	$ (78,147)	$ 273,427
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	$ -	$ 17,000
Equipment financed through notes payable	$ -	$ 83,283

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 and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation reduced by related liabilities.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority had no restricted, nonexpendable net position at December 31, 2019 and 2018.

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Patient Receivables

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management’s estimate of amounts that will not be collected from patients and third-party payors. 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, the citizens of Atoka County, Oklahoma approved a 1% sales tax to be granted to the Authority 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 12% of its financial support from county appropriations related to sales tax in 2019 and 14% in 2018. 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 and dividends 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

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are reported after nonoperating revenues (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.

Bond Discounts

Bonds payable are reported net of the applicable bond discount. Bond discounts are amortized over the life of the 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.

Unearned Revenue

The Authority rents office space to a local physician. The Authority received prepayments of rent to assist with the construction of the office space. The prepayments are first recognized as an unearned revenue. Rent revenue is included in other operating revenue in the accompanying final statements. For the years ended December 31, 2019 and 2018, the Authority recognized revenue of $36,000. The Authority has unearned revenue related to the prepaid rent of $55,892 and $91,892 remaining at December 31, 2019 and 2018.

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 health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of these amounts, they are not reported as patient service revenue. The charges foregone was $0 and $46,000 for the years ended December 31, 2019 and 2018. Total costs related to these foregone charges were approximately $0 and $25,000 at December 31, 2019 and 2018, based on average ratio of cost to gross charges.

Grants and Contributions

The Authority may receive 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 revenue and expenses.

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: 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, 2017.

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 patient service revenues for the years ended December 31, 2019 and 2018:

	2019	2018
Medicare	63%	58%
Medicaid	12%	16%
Commercial payors	15%	16%
Self pay and other	10%	10%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue increased approximately $199,000 for the year ended December 31, 2019 due to removal of allowances previously estimated that are no longer necessary as a result of final cost report settlements, adjustments to previously estimated settlements and cost report periods that are no longer likely subject to audits, reviews, and investigations.

Note 3 - Deposits

Cash and cash equivalents and restricted for debt service consisted of cash, deposits and money market funds as of December 31, 2019 and 2018.

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, 2019 and 2018 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2019 are as follows:

	Balance December 31, 2018	Additions	Transfers and Retirements	Balance December 31, 2019
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	17,325	-	17,032,142
Equipment	3,867,925	45,796	(37,000)	3,876,721
Total capital assets being depreciated	20,933,242	$ 63,121	$ (37,000)	20,959,363
Less accumulated depreciation for				
Land improvements	(23,721)	$ (33,026)	$ -	(56,747)
Building and improvements	(9,577,099)	(729,433)	-	(10,306,532)
Equipment	(3,420,480)	(148,169)	37,000	(3,531,649)
Total accumulated depreciation	(13,021,300)	$ (910,628)	$ 37,000	(13,894,928)
Net capital assets being depreciated	$ 7,911,942			$ 7,064,435
Capital assets, net	$ 8,070,450			$ 7,222,943

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2018 are as follows:

	Balance December 31, 2017	Additions	Transfers and Retirements	Balance December 31, 2018
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	3,737,632	130,293	-	3,867,925
Total capital assets being depreciated	20,802,949	$ 130,293	$ -	20,933,242
Less accumulated depreciation for				
Land improvements	(20,354)	$ (3,367)	$ -	(23,721)
Building and improvements	(8,674,587)	(902,512)	-	(9,577,099)
Equipment	(3,157,774)	(262,706)	-	(3,420,480)
Total accumulated depreciation	(11,852,715)	$ (1,168,585)	$ -	(13,021,300)
Net capital assets being depreciated	$ 8,950,234			$ 7,911,942
Capital assets, net	$ 9,108,742			$ 8,070,450

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 years ended December 31, 2019 and 2018 for all operating leases was $112,498 and $101,017. The capitalized leased assets consist of:

	2019	2018
Major movable equipment	$ 487,051	$ 607,301
Less accumulated amortization	(294,375)	(341,159)
	$ 192,676	$ 266,142

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

Years Ending December 31,	Capital Leases	Operating Leases
2020	$ 53,411	$ 10,685
2021	29,579	4,179
2022	3,386	4,179
2023	3,386	4,179
2024	3,386	4,179
2025	395	696
Total minimum lease payments	93,543	$ 28,097
Less interest	(8,465)	
Present value of minimum lease payments - Note 6	$ 85,078	

Note 6 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the years ended December 31, 2019 and 2018 is as follows:

	Balance December 31, 2018	Additions	Payments	Balance December 31, 2019	Due Within One Year
Bonds Payable					
Series 2007 Bonds	$ 8,405,000	$ -	$ (235,000)	$ 8,170,000	$ 8,170,000
Discount	(13,374)	-	-	(13,374)	(13,374)
Total bonds	8,391,626	-	(235,000)	8,156,626	8,156,626
USDA Mortgage	6,206,860	-	-	6,206,860	6,206,860
Note Payable (A)	408,982	-	-	408,982	408,982
Note Payable (B)	76,537	-	(41,345)	35,192	35,192
Capital Leases	183,673	-	(98,595)	85,078	48,050
Total long-term debt	$ 15,267,678	$ -	$ (374,940)	$ 14,892,738	$ 14,855,710

	Balance December 31, 2017	Additions	Payments	Balance December 31, 2018	Due Within One Year
Bonds Payable					
Series 2007 Bonds	$ 8,625,000	$ -	$ (220,000)	$ 8,405,000	$ 8,405,000
Discount	(14,078)	-	704	(13,374)	(13,374)
Total bonds	8,610,922	-	(219,296)	8,391,626	8,391,626
USDA Mortgage	6,206,860	-	-	6,206,860	6,206,860
Note Payable (A)	408,982	-	-	408,982	408,982
Note Payable (B)	-	83,283	(6,746)	76,537	41,345
Capital Leases	296,230	17,000	(129,557)	183,673	99,066
Total long-term debt	$ 15,522,994	$ 100,283	$ (355,599)	$ 15,267,678	$ 15,147,879

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 rate of 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 sales tax, 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 statements of net position. The Indenture also requires the Authority to comply with certain restrictive covenants. The Authority did not meet all the required restrictive covenants.

USDA Mortgage

The Authority issued a real estate mortgage note payable in the amount of $6,750,000 at 4.25% in 2007 (the Mortgage) to fund construction of a new hospital. The Mortgage is payable in monthly installments of principal and interest of $30,432 with a maturity date of September 6, 2047. Collateral includes the real and personal property of the new hospital and any and all contracts entered into by the Authority.

Notes Payable to Bank

During 2016, the Authority entered into a note payable with a bank in the amount of $450,000 at 4.00% (Note A). The Note A is payable in monthly installments of principal and interest of $8,288. During 2018, the Authority entered into a note payable with a bank in the amount of $83,383 at 4.00% (Note B). The Note B is payable in monthly installments of principal and interest of $3,621 and a balloon payment of $35,192 in January 2020. An unrelated entity is guaranteeing Note B with a certificate of deposit held with the bank.

Capital Leases

The Authority has several capital lease obligations with various interest rates from 8.2% to 10.0%, collateralized by associated equipment, with varying maturity dates from June 2021 through February 2025.

During 2017, the Authority declared Chapter 9 bankruptcy, which is considered an Event of Default as defined by the Bonds, Mortgage and Note A. The debt agreements stipulates that, as a result of the Event of Default, the debt holder may declare that the principal and accrued interest on the debt 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, 2019 and 2018 was as follows:

	2019	2018
Medicare	40%	24%
Medicaid	4%	4%
Commercial insurance	17%	24%
Other third-party payors and patients	39%	48%
	100%	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. Settled claims have not exceeded this commercial coverage in any of the three 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 with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Payroll Tax

The Authority has been delinquent in paying federal and state payroll taxes from the year ending December 31, 2015 to December 31, 2018. Due to the delinquent amounts, the Authority has been assessed penalties and interest. There may be potential contingencies including additional fines, penalties or interest if the Authority does not determine a resolution either with the governments or through the Chapter 9 bankruptcy filing. As of December 31, 2019 and 2018, the Authority has accrued $823,630 and $811,545 in delinquent taxes, penalties and interest, which is included in accrued salaries and wages on the statements of net position.

Note 9 - 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 generated matching funds to the state of Oklahoma from federal sources. 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 or equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records receipts to net patient service revenue. The Authority received $512,595 and $611,394 during the years ended December 31, 2019 and 2018.

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

Note 10 - Going Concern and Management Plans

The Authority has incurred operating losses during the years ended December 31, 2019 and 2018. For the years ended December 31, 2019 and 2018 the Authority experienced an increase in net deficit of $162,440 and $453,018. In addition, the Authority did not meet the required terms and covenants required by debt agreements as described in Note 6 for the years ended December 31, 2019 and 2018. As a result, 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 on January 9, 2017. Management is petitioning for relief in order to restrict certain contracts and obligations. As of July 27, 2020, management is unable to assess the impact of the filing of Chapter 9 bankruptcy. Additionally, the Authority is looking into areas to reduce cost without impacting patient care. The Authority's board signed a management agreement with a surrounding hospital to manage the operations of the Authority effective April 1, 2019.

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

Note 11 - Subsequent Events

The Hospital has evaluated subsequent events through July 27, 2020 the date which the financial statements were available to be issued.

Subsequent to year end, the Hospital has been impacted by the effects of the world-wide coronavirus pandemic. The Hospital is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Hospital's financial position is not known.

During April and May 2020, the Hospital received two payments totaling $3,567,323 from the Department of Health and Human Services (HHS) as part of the CARES Act Provider Relief Fund to support healthcare related expenses or lost revenue attributable to COVID-19. These funds are subject to specific HHS terms and conditions.

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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 financial statements of the Atoka County Healthcare Authority (Authority) as of and for the year then ended December 31, 2019, the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated July 27, 2020.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses: 2019-001 through 2019-002.

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 are described in the accompanying Schedule of Findings and Responses as items 2019-003 through 2019-004.

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 statements and, accordingly, we express no opinion on them.

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

Eide Bailly LLP

Oklahoma City, Oklahoma
July 27, 2020

Material Weaknesses In Internal Control Over Financial Reporting:

2019-001 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. The Authority has made changes to their processes to reduce entries identified during the audit.

Cause: This weakness is due to the limited resources in the financial reporting process due to budgetary constraints. In addition, there are 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. The financial statements required material adjustments including an entry to reconcile net position. Additionally, during the audit, there were identified uncorrected misstatements.

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.

2019-002 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 (CFO) prepares journal entries, monthly financial statements, and reconciliations without detail review. In addition, the CFO has access to make on-line payments.

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.

Instances of Noncompliance:

2019-003 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: The Authority has outstanding state payroll tax balances from 2015 and 2016. In addition, the Authority had delinquent federal payroll taxes from 2015 to 2018.

Cause: The Authority was delinquent in paying payroll taxes due to the Authority not having adequate funds to make the required federal and state payroll taxes.

Effect: This resulted in penalties and interest being assessed against the Authority. In addition, the Authority was in violation of federal and state laws.

Auditor's Recommendation: It is recommended that the Authority make arrangements to pay outstanding tax balances and 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 pay outstanding balances and maintain current payroll tax deposits.

2019-004 Debt Covenants

Criteria: The Authority is required to meet debt covenants pertaining to reporting requirements and ratios as part of the debt agreements.

Condition: The Authority did not meet the required debt covenants set forth in the debt agreements.

Cause: The current year operations were not adequate to meet the required ratios set forth in the debt agreements.

Effect: This resulted in the Authority being in violation of the debt agreements.

Auditor's Recommendation: It is recommended that the Authority establish procedures to ensure covenants are met.

Views of Responsible Officials: We agree with the auditor's recommendation.