Management's Discussion and Analysis
and Financial Statements
December 31, 2021 and 2020

Atoka County Healthcare Authority

EideBailly®

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Atoka County Healthcare Authority (Authority), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and statement of cash flows for the years then ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

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 December 31, 2021 and 2020, 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 (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 12 to the financial statements, the Authority has suffered recurring losses from operations, has a net deficit, and has stated that substantial doubt exists about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 12. 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 this matter.

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 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 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 5 through 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022 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 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 Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
June 30, 2022

This discussion and analysis of the financial performance of Atoka County Healthcare Authority (Authority), provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2021, 2020 and 2019. 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 deficit decreased in 2021 by $2,766,417 or 28% and increased in 2020 by $248,535 or 3%.
- The Authority reported operating loss for the year ended December 31, 2021 totaling $949,662 and operating loss for the year ended December 31, 2020 totaling $1,304,150.
- Sales tax income during the years ended December 31, 2021 and 2020 totaled $1,404,208 and $1,255,857.
- The Authority's total assets increased $300,720 or 2% in 2021 compared to 2020. Total assets increased $3,385,641 or 33% in 2020 compared to 2019.
- The Authority received $629,514 and $3,567,323 of Coronavirus Aid, Relief, and Economic Security Act Provider Relief Funds and recognized $3,044,223 and $523,100 as revenue during 2021 and 2020.

Using This Annual Report

The Authority's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses, and 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 Statement of Net Position and Statement of Revenues, 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 Statement of Net Position and the Statement of Revenues, 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 and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position the difference between assets and liabilities as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where 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

The Authority's net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Authority's net deficit decreased by $2,766,417 or 28% in 2021 and increased by $248,535 or 3% in 2020, as shown in Table 1.

Condensed Financial Statements

Table 1: Assets, Liabilities and Net Deficit

	2021	2020	2019
Assets			
Current assets	$ 7,385,289	$ 6,429,833	$ 2,893,979
Capital assets, net of accumulated depreciation	6,417,994	7,072,730	7,222,943
Total assets	$ 13,803,283	$ 13,502,563	$ 10,116,922
Liabilities			
Current liabilities	$ 20,717,256	$ 23,090,447	$ 19,647,117
Long-term debt, less current maturities	191,260	263,874	37,028
Deferred revenue	-	19,892	55,892
Total liabilities	20,908,516	23,374,213	19,740,037
Net Position (Deficit)			
Net investment in capital assets	(7,695,332)	(7,417,142)	(7,260,903)
Restricted - expendable for debt service	426,443	333,402	217,896
Unrestricted	163,656	(2,787,910)	(2,580,108)
Total net deficit	(7,105,233)	(9,871,650)	(9,623,115)
Total liabilities and net deficit	$ 13,803,283	$ 13,502,563	$ 10,116,922

A significant component of the change in the Authority's assets is the change in its patient receivables, restricted cash, and cash and cash equivalents.

- Patient receivables decreased $54,269 or 3% in 2021, compared to an increase of $502,428 or 39% in 2020. The decrease in 2021 is the result of a decrease in services at year end. The increase in 2020 is the result of an increase in services provided at year end.

- Restricted cash decreased $2,414,709 or 79% in 2021, compared to an increase of $3,044,223 or 100% in 2020. The decrease in 2021 is the result of the Authority utilizing the funds to pay for COVID related expenses. The increase in 2020 is the result of the Authority receiving Coronavirus Aid, Relief, and Economic Security Act Provider Relief Funds.
- Cash and cash equivalents increased $3,157,518 or 744% in 2021, compared to a decrease of $317,596 or 43% in 2020.

The Authority's current liabilities decreased $2,373,191 or 10% in 2021, compared to an increase of $3,443,330 or 18% in 2020. The decrease in 2021 is due to the Authority utilizing the Provider Relief Funds. The increase in 2020 is due to the Provider Relief Funds of $3,011,494 recorded as refundable advances.

Table 2: Operating Results and Changes in Net Deficit

	2021	2020	2019
Operating Revenues			
Net patient service revenue	$ 11,229,083	$ 9,816,928	$ 8,495,627
Other operating revenue	95,148	115,723	111,176
Total operating revenue	11,324,231	9,932,651	8,606,803
Operating Expenses			
Salaries, wages, and employee benefits	6,579,798	6,006,402	4,642,881
Supplies and other	4,703,377	4,313,059	3,532,683
Depreciation and amortization	990,718	917,340	910,628
Total operating expenses	12,273,893	11,236,801	9,086,192
Operating Loss	(949,662)	(1,304,150)	(479,389)
Nonoperating Revenues (Expenses)			
Sales tax income	1,404,208	1,255,857	1,172,868
Investment income	22,440	24,093	6,251
Interest expense	(799,219)	(847,430)	(937,268)
Provider Relief Funds	3,044,223	523,100	-
Other	44,427	99,995	30,202
Nonoperating revenues, net	3,716,079	1,055,615	272,053
Change in Net Deficit	2,766,417	(248,535)	(207,336)
Net Deficit, Beginning of Year	(9,871,650)	(9,623,115)	(9,415,779)
Net Deficit, End of Year	$ (7,105,233)	$ (9,871,650)	$ (9,623,115)

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 $949,662 for the year ended December 31, 2021 compared to an operating loss of $1,304,150 for the year ended December 31, 2020.

The primary components of the operating loss are:

- Net patient service revenue increased $1,412,155 or 14% in 2021 and increased $1,321,301 or 16% in 2020. The increase in 2021 and 2020 is due to an overall increase in inpatient and outpatient volume.
- Salaries, wages and employee benefits increased $573,396 or 10% in 2021 and increased $1,363,521 or 29% in 2020. The increase in 2021 is due to paying due to paying bonuses as a result
- of the COVID pandemic. The increase in 2020 is due to having additional employees.
- Supplies and other expenses increased in 2021 by $390,318 or 9% and increased in 2020 by $780,376 or 22%. The increases in 2021 and 2020 is due to the Authority purchasing supplies to treat COVID-19.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax income, interest expense, and Provider Relief Funds. Sales tax income increased $148,351 in 2021 and increased $82,989 in 2020. Interest expense decreased $48,211 in 2021 and decreased $89,839 in 2020. The Authority recognized revenue from Provider relief of $3,044,223 in 2021 compared to $523,100 in 2020.

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:

- Net cash used for operating activities decreased in 2021 by $808,899 and increased in 2020 by $583,314.
- Net cash from noncapital financing activities decreased in 2021 by $2,947,757 and increased in 2020 by $3,701,813.
- Net cash used for capital and capital related financing activities decreased in 2021 by $90,762 and increased in 2020 by $277,242.
- Net cash from investing activities decreased in 2021 by $1,653 and increased in 2020 by $17,842.

Capital Assets

During 2021, the Authority purchased $335,982 of capital assets and had $6,417,994 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. During 2020, the Authority purchased $767,127 of capital assets and had $7,072,730 invested in capital assets, net of accumulated depreciation. This investment in capital assets includes land, land improvements, buildings and improvements, and equipment.

Long-Term Debt

The Authority had $14,522,308 and $14,898,764 in long-term debt at December 31, 2021 and 2020 as detailed in Note 7 to the financial statements. The Authority incurred no additional debt for the years ending December 31, 2021 and 2020. The Authority did not meet the required debt covenants during 2021 and 2020. Also, as a result of the Chapter 9 bankruptcy, the Authority is considered in default of the debt agreements. The Revenue Bonds, USDA mortgage and notes payable to bank are listed as current liabilities.

Bankruptcy

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 as a result of the continued losses and increase in liabilities. The Bankruptcy Court approved management's plan in June 2022.

Requests for Information

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 Atoka County Healthcare Authority; 1501 S. Virginia; Atoka, Oklahoma 74525.

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	$ 3,582,192	$ 424,674
Restricted cash for Provider Relief Funds	629,514	3,044,223
Restricted cash for debt service	559,868	471,183
Receivables		
Patient, net of estimated uncollectibles of approximately $1,706,000 in 2021 and $1,614,000 in 2020	1,743,403	1,797,672
Sales tax	372,733	249,611
Other	71,710	119,875
Supplies and prepaid expenses	425,869	322,595
Total current assets	7,385,289	6,429,833
Capital Assets		
Capital assets not being depreciated	158,508	158,508
Capital assets being depreciated, net	6,259,486	6,914,222
Total capital assets	6,417,994	7,072,730
Total assets	$ 13,803,283	$ 13,502,563

	2021	2020
Liabilities and Net Deficit		
Current Liabilities		
Current maturities of long-term debt	$ 14,331,048	$ 14,634,890
Accounts payable	2,349,679	2,760,703
Estimated third-party settlements	621,791	72,880
Accrued expenses		
Salaries and wages	1,359,834	1,335,704
Interest	1,425,015	1,206,769
Other	375	35,278
Refundable advance - Provider Relief Fund	629,514	3,044,223
Total current liabilities	20,717,256	23,090,447
Long-Term Debt, Less Current Maturities	191,260	263,874
Unearned Revenue	-	19,892
Total liabilities	20,908,516	23,374,213
Net Position (Deficit)		
Net investment in capital assets	(7,695,332)	(7,417,142)
Restricted - expendable for debt service	426,443	333,402
Unrestricted	163,656	(2,787,910)
Total net deficit	(7,105,233)	(9,871,650)
Total liabilities and net deficit	$ 13,803,283	$ 13,502,563

	2021	2020
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $2,325,216 in 2021 and $2,882,314 in 2020)	$ 11,229,083	$ 9,816,928
Other revenue	95,148	115,723
Total operating revenues	11,324,231	9,932,651
Operating Expenses		
Salaries and wages	5,667,676	5,131,047
Employee benefits	912,122	875,355
Professional fees and purchased services	2,363,909	2,234,707
Supplies	1,417,631	1,077,524
Insurance	149,064	172,090
Depreciation and amortization	990,718	917,340
Other	772,773	828,738
Total operating expenses	12,273,893	11,236,801
Operating Loss	(949,662)	(1,304,150)
Nonoperating Revenues (Expenses)		
Sales tax income	1,404,208	1,255,857
Investment income	22,440	24,093
Interest expense	(799,219)	(847,430)
Provider Relief Funds	3,044,223	523,100
Other	44,427	99,995
Net nonoperating revenues	3,716,079	1,055,615
Change in Net Deficit	2,766,417	(248,535)
Net Deficit, Beginning of Year	(9,871,650)	(9,623,115)
Net Deficit, End of Year	$ (7,105,233)	$ (9,871,650)

	2021	2020
Operating Activities		
Receipts from and on behalf of patients	$ 11,832,263	$9,417,482
Payments to suppliers and contractors	(5,252,578)	(4,092,123)
Payments to and on behalf employees	(6,555,668)	(5,955,241)
Other receipts and payments, net	123,421	(31,579)
Net Cash from (used for) Operating Activities	147,438	(661,461)
Noncapital Financing Activities		
Sales taxes received	1,281,086	1,235,466
Receipt of Provider Relief Funds	629,514	3,567,323
Other	44,427	99,995
Net Cash from Noncapital Financing Activities	1,955,027	4,902,784
Capital and Capital Related Financing Activities		
Principal payments on long-term debt	(376,456)	(342,242)
Interest payments on long-term debt	(580,973)	(623,072)
Purchase of capital assets	(335,982)	(418,859)
Net Cash used for Capital and Capital Related Financing Activities	(1,293,411)	(1,384,173)
Investing Activities		
Investment income	22,440	24,093
Net Change in Cash and Cash Equivalents	831,494	2,881,243
Cash and Cash Equivalents, Beginning of Year	3,940,080	1,058,837
Cash and Cash Equivalents, End of Year	$ 4,771,574	$ 3,940,080
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	$ 3,582,192	$ 424,674
Restricted cash	629,514	3,044,223
Restricted for debt service	559,868	471,183
Total cash and cash equivalents	$ 4,771,574	$ 3,940,080

	2021	2020
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (949,662)	$ (1,304,150)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	990,718	917,340
Provision for bad debts	2,325,216	2,882,314
Changes in assets and liabilities		
Patient receivables	(2,270,947)	(3,384,742)
Other receivables	48,165	(111,302)
Supplies and prepaid expenses	(103,274)	(50,592)
Accounts payable	(411,024)	271,508
Estimated third-party payor settlements	548,911	102,982
Accrued expenses	(10,773)	51,181
Unearned revenue	(19,892)	(36,000)
Net Cash from (used for) Operating Activities	$ 147,438	$ (661,461)

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

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 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, 2021 and 2020.

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.

Restricted Cash

Cash that has restrictions which change the nature or normal understanding of the availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets.

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 11% of its financial support from county appropriations related to sales tax in 2021 and 2020. 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, 2021 and 2020, the Authority recognized revenue of $55,517 and $36,000. The Authority has unearned revenue related to the prepaid rent of $375 and $55,892 remaining at December 31, 2021 and 2020.

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 were $126,000 and $55,000 for the years ended December 31, 2021 and 2020. Total costs related to these foregone charges were approximately $55,000 and $28,000 at December 31, 2021 and 2020, 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, 2021 and 2020:

	2021	2020
Medicare	61%	65%
Medicaid	11%	10%
Commercial payors	21%	16%
Self pay and other	7%	9%
	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 decreased approximately $203,000 for theyear ended December 31, 2021 for the difference in amounts collected compared to amounts originally estimated.

Note 3 - Provider Relief Fund

The Authority received $629,514 and $3,567,323 for the years ended December 31, 2021 and 2020 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Authority received the funds. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As of December 31, 2021 and 2020, the Authority had a liability of $629,514 and $3,044,223, which is included in current liabilities on the accompanying statement of net position under refundable advance-Provider Relief Fund, as well as restricted cash totaling $629,514 and $3,044,223, which is subject to the restrictions imposed by HHS. During the year ended December 31, 2021 and 2020, the Authority recognized $3,044,223 and $523,100 as revenue, included as nonoperating activities on the statements of revenues, expenses, and changes in net position.

Note 4 - Deposits

Cash and cash equivalents, restricted cash for Provider Relief Funds and restricted cash for debt service consisted of cash, deposits and money market funds as of December 31, 2021 and 2020.

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, 2021 and 2020 were entirely covered by federal depository insurance or by collateral held by the Authority’s custodial bank in the Authority’s name.

Note 5 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2021 is as follows:

	Balance December 31, 2020	Additions	Transfers and Retirements	Balance December 31, 2021
Capital assets not being depreciated				
Land	$ 158,508	$ -	$ -	$ 158,508
Capital assets being depreciated				
Land improvements	$ 50,500	$ -	$ -	$ 50,500
Building and improvements	17,063,194	226,632	-	17,289,826
Equipment	4,612,796	109,350	-	4,722,146
Total capital assets being depreciated	21,726,490	$ 335,982	$ -	22,062,472
Less accumulated depreciation for				
Land improvements	(30,455)	$ (3,367)	$ -	(33,822)
Building and improvements	(11,083,743)	(753,841)	-	(11,837,584)
Equipment	(3,698,070)	(233,510)	-	(3,931,580)
Total accumulated depreciation	(14,812,268)	$ (990,718)	$ -	(15,802,986)
Net capital assets being depreciated	$ 6,914,222			$ 6,259,486
Capital assets, net	$ 7,072,730			$ 6,417,994

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2020 is as follows:

	Balance December 31, 2019	Additions	Transfers and Retirements	Balance December 31, 2020
Capital assets not being depreciated				
Land	$ 158,508	$ -	$ -	$ 158,508
Capital assets being depreciated				
Land improvements	$ 50,500	$ -	$ -	$ 50,500
Building and improvements	17,032,142	31,052	-	17,063,194
Equipment	3,876,721	736,075	-	4,612,796
Total capital assets being depreciated	20,959,363	$ 767,127	$ -	21,726,490
Less accumulated depreciation for				
Land improvements	(56,747)	$ (3,367)	$ 29,659	(30,455)
Building and improvements	(10,306,532)	(747,552)	(29,659)	(11,083,743)
Equipment	(3,531,649)	(166,421)	-	(3,698,070)
Total accumulated depreciation	(13,894,928)	$ (917,340)	$ -	(14,812,268)
Net capital assets being depreciated	$ 7,064,435			$ 6,914,222
Capital assets, net	$ 7,222,943			$ 7,072,730

Note 6 - 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, 2021 and 2020 for all operating leases was $149,020 and $121,036. The capitalized leased assets consist of:

	2021	2020
Major movable equipment	$ 572,013	$ 572,013
Less accumulated amortization	(312,915)	(219,033)
	$ 259,098	$ 352,980

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

Years Ending December 31,	Capital Leases	Operating Leases
2022	$ 85,722	$ 6,864
2023	85,721	5,148
2024	78,440	-
2025	23,183	-
2026	17,653	-
Thereafter	5,359	-
Total minimum lease payments	296,078	$ 12,012
Less interest	(31,238)	
Present value of minimum lease payments - Note 7	$ 264,840	

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the year ended December 31, 2021 is as follows:

	Balance December 31, 2020	Additions	Payments	Balance December 31, 2021	Due Within One Year
Note from Direct Placement					
Series 2007 Bonds	$ 7,920,000	$ -	$ (265,000)	$ 7,655,000	$ 7,655,000
Discount	(13,374)	-	-	(13,374)	(13,374)
Total note from direct placement	7,906,626	-	(265,000)	7,641,626	7,641,626
Notes from Direct Borrowings					
USDA Mortgage	6,206,860	-	-	6,206,860	6,206,860
Note Payable (A)	408,982	-	-	408,982	408,982
Note Payable (B)	13,947	-	(13,947)	-	-
Total notes from direct borrowings	6,629,789	-	(13,947)	6,615,842	6,615,842
Capital Leases	362,349	-	(97,509)	264,840	73,580
Total long-term debt	$ 14,898,764	$ -	$ (376,456)	$ 14,522,308	$ 14,331,048

A schedule of changes in the Authority's long-term debt for the year ended December 31, 2020 is as follows:

	Balance December 31, 2019	Additions	Payments	Balance December 31, 2020	Due Within One Year
Note from Direct Placement					
Series 2007 Bonds	$ 8,170,000	$ -	$ (250,000)	$ 7,920,000	$ 7,920,000
Discount	(13,374)	-	-	(13,374)	(13,374)
Total note from direct placement	8,156,626	-	(250,000)	7,906,626	7,906,626
Notes from Direct Borrowings					
USDA Mortgage	6,206,860	-	-	6,206,860	6,206,860
Note Payable (A)	408,982	-	-	408,982	408,982
Note Payable (B)	35,192	-	(21,245)	13,947	13,947
Total notes from direct borrowings	6,651,034	-	(21,245)	6,629,789	6,629,789
Capital Leases	85,078	348,268	(70,997)	362,349	98,475
Total long-term debt	$ 14,892,738	$ 348,268	$ (342,242)	$ 14,898,764	$ 14,634,890

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 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, maturing in September 1, 2021. 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, maturing in April 2021. 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 3.8% to 10.0%, collateralized by associated equipment, with varying maturity dates from September 2024 through March 2027.

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 stipulate 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 8 - 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, 2021 and 2020 was as follows:

	2021	2020
Medicare	36%	42%
Medicaid	5%	7%
Commercial insurance	26%	18%
Other third-party payors and patients	33%	33%
	100%	100%

Note 9 - 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, 2016. 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, 2021 and 2020, the Authority has accrued $883,262 and $845,306 in delinquent taxes, penalties and interest, which is included in accrued salaries and wages on the statements of net position.

Note 10 - 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 $651,392 and $524,472 during the years ended December 31, 2021 and 2020.

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

Note 11 - Management Agreement

Effective October 1, 2019, the Authority entered into a long-term management contract with Carrus Healthcare, LLC. The contract was terminated in August 2021. The Authority expensed $175,000 and $303,624 for management services for the years ended December 31, 2021 and 2020. As of December 31, 2021 and 2020, the Authority owes Carrus Healthcare, LLC $-0- and $50,000 for management services.

Note 12 - Going Concern and Management Plans

The Authority has incurred operating losses during the years ended December 31, 2021 and 2020. For the years ended December 31, 2021 and 2020 the Authority experienced a decrease in net deficit of $2,766,417 and an increase of $248,535. In addition, the Authority did not meet the required terms and covenants required by debt agreements as described in Note 7 for the years ended December 31, 2021 and 2020. 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. Additionally, the Authority is looking into areas to reduce cost without impacting patient care. In June 2022, the Bankruptcy Court approved management's plan. The outcome of the approval has not been determined.

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

Note 13 - Subsequent Events

The Authority has evaluated subsequent events through June 30, 2022 the date which the financial statements were available to be issued.

On June 2, 2022, the Authority entered into an agreement to lease a CT machine. The Authority will pay $3,423 a month for five years.

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 financial statements of Atoka County Healthcare Authority (Authority), as of and for the year then ended December 31, 2021, the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 30, 2022.

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.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 and significant deficiencies.

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 deficiency described in the accompanying Schedule of Findings and Responses as item 2021-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2021-002 to be a significant deficiency.

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 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 2021-003 and 2021-004.

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.

Eide Bailly LLP

Oklahoma City, Oklahoma
June 30, 2022

Material Weakness In Internal Control Over Financial Reporting:

2021-001 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.

Significant Deficiencies In Internal Control Over Financial Reporting:

2021-002 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 deficiency 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 adjustments to record capital leases. 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.

Instances of Noncompliance:

2021-003 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 reserve fund and 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.

2021-004 Written Agreements

Criteria: The Authority should have written agreements with contracted entities to ensure compliance with laws and regulations.

Condition: The Authority is not reviewing agreement to ensure they have current terms.

Cause: The Authority has several agreements that are outdated.

Effect: The Authority could be out of compliance with laws and regulations for not having proper agreements in place.

Auditor's Recommendation: It is recommended that the Authority routinely review for and update outdated agreements to ensure compliance with laws and regulations.

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