



Management's Discussion and Analysis and
Financial Statements
September 30, 2021 and 2020

**Wagoner Hospital Authority, an
Oklahoma Trust, d/b/a Wagoner
Community Hospital**

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Table of Contents
September 30, 2021 and 2020

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position.....	10
Statements of Cash Flows	11
Notes to Financial Statements	13
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 <i>Government Auditing Standards</i>	28
Schedule of Findings.....	30



Independent Auditor's Report

Board of Trustees
Wagoner Hospital Authority d/b/a Wagoner Community Hospital
Wagoner, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of net position of Wagoner Hospital Authority d/b/a Wagoner Community Hospital (Authority), as of September 30, 2021 and 2020, and the related statements of 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 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 opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2021 and 2020 and results of operations, changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such 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. 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 March 28, 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, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma

March 28, 2022

This discussion and analysis of the financial performance of Wagoner Hospital Authority d/b/a Wagoner Community Hospital (Authority) provides an overview of the Authority's financial activities and balances for the years ended September 30, 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 total assets decreased during the year by \$2,693,958 or 17% in 2021 compared with an increase during 2020 of \$6,878,082 or 76%.
- The Authority's total liabilities decreased during the year by \$4,812,220 or 35% in 2021 compared with an increase during 2020 of \$6,936,643 or 101% in 2020.
- The Authority reported an operating loss of \$1,179,478 and \$2,089,809 in 2021 and 2020. The operating loss decreased \$910,331 or 44% from 2020 to 2021. The operating loss increased \$4,029,974 or 208% from 2019 to 2020.

Using This Annual Report

The Authority's financial statements consist of three statements – statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The 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 statements of net position and the statements 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 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 aforementioned 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 operating, investing, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the 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 Statements of Net Position and are reflected in Table 1. The Authority's net position increased by \$2,118,262 or 99% in 2021 and decreased by \$58,561 or 3% in 2020.

Table 1: Statements of Net Position

	2021	2020	2019
Assets			
Current assets	\$ 7,521,273	\$ 11,367,769	\$5,366,597
Capital assets, net	5,459,433	4,601,082	3,724,172
Non current assets	294,187	-	-
Total assets	\$ 13,274,893	\$ 15,968,851	\$ 9,090,769
Liabilities			
Current liabilities	\$ 5,684,562	\$ 6,561,531	\$3,134,286
Non current liabilities	3,327,586	7,262,837	3,753,439
Total liabilities	9,012,148	13,824,368	6,887,725
Net Position			
Net investment in capital assets	2,021,296	1,289,494	575,860
Unrestricted	2,241,449	854,989	1,627,184
Total net position	4,262,745	2,144,483	2,203,044
Total liabilities and net position	\$ 13,274,893	\$ 15,968,851	\$ 9,090,769

The Authority's assets, liabilities and net position were significantly impacted by the Coronavirus 19 pandemic and related government relief programs.

- Patient receivables increased \$740,894 or 24% in 2021 and decreased \$844,680 or 22% in 2020. The 2021 increase is due to an increase in services provided. The 2020 increase is due to a decrease in services provided due to the COVID-19 pandemic.
- Current assets decreased \$3,846,496 or 34% in 2021, due to cash from CARES Provider Relief Funding being spent compared to an increase of \$6,001,172 or 112% in 2020, due to cash from CARES Provider Relief Funding being received.
- Accrued expenses decreased \$293,695 or 34% in 2021 and increased \$134,822 or 19% in 2020.
- Estimated third-party payor settlements decreased \$285,426 or 44% in 2021 and decreased \$187,691 or 22% in 2020.

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Management's Discussion and Analysis

- Current liabilities decreased \$876,969 or 13% in 2021 due to the decrease in refundable advance-Provider Relief Funds compared to an increase of \$3,427,245 or 109% in 2020, due to the increase in refundable advance-Provider Relief Funds.

Table 2: Statements of Revenues, Expenses, and Changes in Net Position

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues			
Net patient service revenue	\$ 24,253,207	\$ 21,378,389	\$23,433,735
Other operating revenue	179,026	197,883	188,696
Total operating revenues	<u>24,432,233</u>	<u>21,576,272</u>	<u>23,622,431</u>
Operating Expenses			
Salaries and wages	10,783,219	9,723,465	9,369,006
Employee benefits	2,054,582	1,798,238	1,766,028
Purchased services and professional fees	5,462,500	5,734,987	4,810,226
Supplies	3,057,168	2,280,383	1,934,636
Depreciation	906,812	806,617	820,201
Other expenses	3,347,430	3,322,391	2,982,169
Total operating expenses	<u>25,611,711</u>	<u>23,666,081</u>	<u>21,682,266</u>
Operating income (loss)	<u>(1,179,478)</u>	<u>(2,089,809)</u>	<u>1,940,165</u>
Nonoperating Revenues (Expenses)			
Investment income	5,923	679	273
Interest expense	(229,768)	(285,708)	(293,476)
Noncapital contributions	96,076	18,537	-
Contribution	(72,000)	(40,000)	(40,000)
Loss on sale of assets	(34,878)	(89,464)	(20,225)
Provider relief funds	1,722,387	2,427,204	-
PPP forgiveness	1,810,000	-	-
Total nonoperating revenues (expenses)	<u>3,297,740</u>	<u>2,031,248</u>	<u>(353,428)</u>
Change in Net Position	2,118,262	(58,561)	1,586,737
Net Position, Beginning of Year	<u>2,144,483</u>	<u>2,203,044</u>	<u>616,307</u>
Net Position, End of Year	<u>\$ 4,262,745</u>	<u>\$ 2,144,483</u>	<u>\$ 2,203,044</u>

Operating Income

The first component of the overall change in the Authority's net position is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating loss for 2021 decreased by \$910,331 or 44% as compared to 2020 and the operating loss increased in 2020 by \$4,029,974 or 208% compared to 2019. The primary components of the decreased operating income are:

- An increase in net patient service revenue of \$2,874,818 or 13% as compared to a decrease in 2020 of \$2,055,346 or 9%. The increase 2021 is attributed to an increase in admissions and service days at the Authority. The decrease in 2020 is attributed to a decrease in services provided due to the COVID-19 pandemic.
- An increase in salaries and wages expenses of \$1,059,754 or 11% as compared to an increase in 2020 of \$386,669 or 3%. The increases are due to salary adjustments and new physicians joining the Authority.
- An increase in supplies expenses of \$776,785 or 34% as compared to an increase in 2020 of \$345,747 or 18%. The increases in 2021 is due to an increase in admissions and service days. The increase in 2020 is due to an increase in implants and prosthetics procedures as compared to a decrease in implants and prosthetics procedures in 2019.
- A decrease in purchased services of \$272,487 or 5% as compared to an increase in 2020 of \$924,761 or 19%. The decrease is due to the decrease in contract labor expense. The increase in 2020 was attributable to additional service contracts.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest expense, provider relief funds and Payroll Protection Program (PPP) forgiveness. Interest expense decreased \$55,940 or 20% from 2020 to 2021 and decreased \$7,768 or 3% from 2019 to 2020. As a result of the COVID-19 pandemic, the Authority received Provider Relief Funds during 2020 and recognized \$1,722,387 and \$2,427,204 in 2021 and 2020. The Authority recognized \$1,810,000 of debt forgiveness for the PPP loan in 2021 and \$-0- 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 as follows:

- Net cash used operating activities increased in 2021 by \$864,950 and decreased by \$2,584,558 in 2020.
- Net cash from noncapital financing activities decreased in 2021 by \$10,346,914 and increased by \$10,212,390 in 2020. This was due to amounts previously received under the CARES Act in 2020.
- Net cash used for capital and capital related financing activities increased in 2021 by \$20,256 and by \$912,632 in 2020.

Capital Assets

In 2021, the Authority purchased \$1,800,041 of capital assets and had \$5,459,433 invested in capital assets, net of accumulated depreciation, at the end of 2021 as detailed in Note 5, to the financial statements. In 2020, the Authority purchased \$1,772,991 of capital assets and had \$4,601,082 invested in capital assets, net of accumulated depreciation, at the end of 2020 as detailed in Note 5 to the financial statements.

Long term Debt

The Authority had \$3,771,490 and \$5,499,081 in long-term debt at September 30, 2021 and 2020 as detailed in Note 7 to the financial statements. The Authority incurred new debt totaling \$493,529 relating to capital asset financing for the year ending September 30, 2021. The Authority incurred new debt totaling \$2,234,756 of which \$1,810,000 was the result of the PPP loan and \$424,756 relating to capital asset financing for the year ending September 30, 2020.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling 918-485-1200.

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Statements of Net Position
September 30, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,969,478	\$ 5,557,101
Restricted cash and cash equivalents	-	1,722,387
Receivables		
Patient, net of allowance for doubtful accounts of \$1,261,000 in 2021 and \$2,415,000 in 2020	3,797,129	3,056,235
Other	-	385,240
Current maturities of note receivable	14,353	-
Security deposits	11,290	14,300
Supplies	553,736	501,910
Prepaid expenses	175,287	130,596
Total current assets	7,521,273	11,367,769
Capital Assets		
Capital assets not being depreciated	384,392	135,952
Capital assets being depreciated, net	5,075,041	4,465,130
Total capital assets, net	5,459,433	4,601,082
Note Receivable, Less Current Maturities	294,187	-
Total assets	\$ 13,274,893	\$ 15,968,851

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Statements of Net Position
September 30, 2021 and 2020

	2021	2020
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 443,904	\$ 1,383,098
Current maturities of extended repayment schedule	139,078	159,041
Current maturities of CMS advance payment	3,242,986	886,391
Accounts payable		
Trade	931,199	904,098
Estimated third-party payor settlements	366,995	652,421
Accrued expenses	560,400	854,095
Refundable advance	-	1,722,387
	5,684,562	6,561,531
Noncurrent Liabilities		
Long-term debt, less current maturities	3,327,586	4,115,983
Extended repayment schedule, less current maturities	-	188,658
CMS advance payment, less current maturities	-	2,958,196
	3,327,586	7,262,837
Total liabilities	9,012,148	13,824,368
Net Position		
Net investment in capital assets	2,021,296	1,289,494
Unrestricted	2,241,449	854,989
	4,262,745	2,144,483
Total net position	4,262,745	2,144,483
Total liabilities and net position	\$ 13,274,893	\$ 15,968,851

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$2,657,984 in 2021 and \$5,153,694 in 2020	\$ 24,253,207	\$ 21,378,389
Other revenue	179,026	197,883
Total operating revenues	24,432,233	21,576,272
Operating Expenses		
Salaries and wages	10,783,219	9,723,465
Employee benefits	2,054,582	1,798,238
Purchased services and professional fees	5,462,500	5,734,987
Supplies	3,057,168	2,280,383
Depreciation	906,812	806,617
Other expenses	3,347,430	3,322,391
Total operating expenses	25,611,711	23,666,081
Operating Loss	(1,179,478)	(2,089,809)
Nonoperating Revenues (Expenses)		
Investment income	5,923	679
Interest expense	(229,768)	(285,708)
Noncapital contributions	96,076	18,537
Contribution	(72,000)	(40,000)
Loss on disposal of capital assets	(34,878)	(89,464)
Provider relief funds	1,722,387	2,427,204
Forgiveness of Paycheck Protection Program loan	1,810,000	-
Net nonoperating revenues (expenses)	3,297,740	2,031,248
Change in Net Position	2,118,262	(58,561)
Net Position, Beginning of Year	2,144,483	2,203,044
Net Position, End of Year	\$ 4,262,745	\$ 2,144,483

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 23,018,266	\$ 21,822,298
Payments to suppliers and contractors	(11,936,514)	(11,740,372)
Payments to and on behalf of employees	(13,059,415)	(11,213,496)
Other receipts	179,026	197,883
Net Cash used for Operating Activities	<u>(1,798,637)</u>	<u>(933,687)</u>
Noncapital Financing Activities		
Proceeds from long-term debt	-	1,810,000
Principal payments on notes payable	(44,140)	(41,165)
Interest paid on note payable and extended repayment schedule	(55,133)	(71,434)
Contributions to City of Wagoner	(72,000)	(40,000)
Noncapital contributions	96,076	18,537
Proceeds from refundable advance - Provider Relief Funds	-	4,149,591
Proceeds from CMS advance payments	-	3,844,587
Recoupments of CMS advance payments	(601,601)	-
Net Cash from (used for) Noncapital Related Financing Activities	<u>(676,798)</u>	<u>9,670,116</u>
Capital and Capital Related Financing Activities		
Principal payments on long-term debt	(366,980)	(261,480)
Interest payments on long-term debt	(174,635)	(214,274)
Change in deposit on equipment	3,010	(872)
Purchase of capital assets	(1,306,512)	(1,348,235)
Net Cash used for Capital and Capital Related Financing Activities	<u>(1,845,117)</u>	<u>(1,824,861)</u>
Investing Activities		
Investment income	5,923	679
Proceeds from note receivable	4,619	-
Net Cash from Investing Activities	<u>10,542</u>	<u>679</u>
Net Change in Cash and Cash Equivalents	(4,310,010)	6,912,247
Cash and Cash Equivalents, Beginning of Year	<u>7,279,488</u>	<u>367,241</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,969,478</u>	<u>\$ 7,279,488</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 2,969,478	\$ 5,557,101
Restricted cash and cash equivalents	-	<u>1,722,387</u>
Total cash and cash equivalents	<u>\$ 2,969,478</u>	<u>\$ 7,279,488</u>

See Notes to Financial Statements

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating Loss	\$ (1,179,478)	\$ (2,089,809)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	906,812	806,617
Provision for bad debts	2,657,984	5,153,694
Changes in assets and liabilities		
Patient receivables	(3,398,878)	(4,309,014)
Other receivables	72,081	173,385
Supplies	(51,826)	(43,623)
Prepaid expenses	(44,691)	(62,495)
Accounts payable	27,101	(296,493)
Accrued expenses	(293,695)	134,822
Extended repayment schedule	(208,621)	(213,080)
Estimated third-party payor settlements	(285,426)	(187,691)
Net Cash used for Operating Activities	\$ (1,798,637)	\$ (933,687)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangement	\$ 493,529	\$ 357,757
Equipment financed through note payable	\$ -	\$ 66,999
Supplemental Disclosure of Noncash Noncapital Financing Activities		
Forgiveness of Paycheck Protection Program loan	\$ 1,810,000	\$ -
Supplemental Disclosure of Investment Activities		
Physician guarantee converted to note receivable	\$ 313,159	\$ -

Note 1 - Organization and Significant Accounting Policies

The financial statements of the Wagoner Hospital Authority d/b/a Wagoner Community Hospital (the 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 100-bed acute care hospital located in Wagoner, Oklahoma. The Authority is a public trust created under the laws of the State of Oklahoma, for the hospital facilities and equipment located in the City of Wagoner, Oklahoma. The trust indenture provides for a Board of Trustees to conduct the business of the Authority and to provide short-term acute care services for the City of Wagoner, Oklahoma, the beneficiary of the Trust. The Authority is governed by the Board of Trustees, who are appointed by the remaining Trustee or Trustees.

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 the organization's governing body and (1) the ability of the Authority 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 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 for capital acquisition consists of assets whose use is restricted for a specific purpose. The Authority does not have restricted net position as of September 30, 2021 and 2020.

Restricted, nonexpendable is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority does not have restricted net position as of September 30, 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 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.

Restricted Cash

Cash that has restrictions which change the nature or normal understanding of 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 customer 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.

The net patient service revenue for the years ended September 30, 2021 and 2020 decreased approximately \$261,000 and \$697,000 for changes in estimates related to allowances of collectability on patient receivables due to actual collections activity different than previous estimates and impacts from a system conversion.

Supplies

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

Capital Assets

Capital asset acquisitions in excess of \$1,000 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 in the financial statements. The estimated useful lives of property and equipment are as follows:

Land improvements	10 years
Buildings and improvements	10 - 40 years
Major moveable equipment	3 - 15 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from operating and nonoperating activities. 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.

Note Receivable

The Authority issues physician guarantees as part of its recruitment process. During 2021, the Authority converted a physician guarantee to a note receivable. The note receivable is for a period of fifteen-years and issued at current interest rate of 5.25%. At September 30, 2021 and 2020, note receivable totaled approximately \$309,000 and \$-0- and are included in note receivable on the statements of net position.

Schedule of anticipated amounts to be received is as follows:

Years Ending September 30,

2022	\$	14,353
2023		15,125
2024		15,938
2025		16,795
2026		17,699
2027-2031		103,837
2032-2036		124,793
		124,793
Total	\$	308,540

Compensated Absences

The Authority’s employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay in effect at the statement of net position date plus an additional amount for compensation - related payments such as social security and Medicare taxes computed using rates in effect at that date.

Operating Revenues and Expenses

The Authority’s statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority’s principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were approximately \$668,000 and \$1,115,000 for the years ended September 30, 2021 and 2020. Total direct and indirect costs related to these foregone charges were approximately \$305,000 and \$497,000 at September 30, 2021 and 2020, based on an 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 income.

Note 2 - Net Patient Service Revenue

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

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a prospectively determined amount per procedure. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through September 30, 2017. The Authority's Medicare cost reports have been reopened for the years ending September 30, 2012 and 2011.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the State Medicaid Program on a prospective basis at predetermined rates with no retroactive adjustment.

Blue Cross: Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

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 September 30, 2021 and 2020:

	2021	2020
Medicare	25%	27%
Medicaid	28%	25%
Blue Cross	11%	10%
Other commercial payors	31%	29%
Self pay and other	5%	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 Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Authority may incur a liability for a claims overpayment at a future date. The Authority has accrued \$69,000 and \$104,000 for RAC liability as of September 30, 2021 and 2020 included in estimated third-party payor settlements. The estimate is based on historical overpayments identified.

CMS Advanced Payment

The CMS Advanced Payment balance consists of advanced payments received from the Centers for Medicare & Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by the COVID-19 pandemic. The Authority received \$3,844,587 in advanced payments during April 2020, which will be recouped through the Medicare claims processed beginning 365 days after the date of issuance of each advanced payment. This recoupment process will continue until the balance of the advanced payments has been recouped or 29 months from the date each advanced payment was issued, at which point any remaining unpaid balance is due. The advanced payments balance is non-interest bearing through the 29-month repayment period. The portion expected to be recouped in the next 12 months is included in current liabilities and the portion expected to be recouped in greater than 12 months is presented in long-term liabilities in the accompanying statements of net position.

Extended Repayment Schedule

The Authority was approved for an Extended Repayment Schedule (ERS) for the initial settlement of the cost report for the year ended September 30, 2011. The ERS requires the Authority to make monthly payments of \$15,638, including interest at 10.25% until April 2023. The ERS is unsecured, however CMS can withhold any future cost report settlement amounts to be applied against outstanding balances.

A schedule of repayments for the Authority’s ERS is as follows:

<u>Years Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 139,078	\$ 6,197

Note 3 - Provider Relief Funds

The Authority received \$-0- and \$4,149,591 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) for the years ended September 30, 2021 and 2020. The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

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 September 30, 2021 and 2020, the Authority had liability balances of \$-0- and \$1,722,387, which were included in current liabilities on the accompanying statements of financial position, as well as restricted cash totaling \$-0- and \$1,722,387, which are subject to the restrictions imposed by HHS. During the years ended September 30, 2021 and 2020, the Authority recognized \$1,722,387 and \$2,427,204 as revenue, included as nonoperating activities on the statements of revenues, expenses and changes in net position.

Note 4 - Deposits

Cash and cash equivalents consist of cash and deposits as of September 30, 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. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

The Authority's deposits in banks at September 30, 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 asset additions, retirements, transfers and balances for the year ended September 30, 2021 are as follows:

	Balance September 30, 2020	Additions	Retirements and Transfers	Balance September 30, 2021
Capital assets not being depreciated				
Land	\$ 135,952	\$ -	\$ -	\$ 135,952
Construction in progress	-	248,440	-	248,440
Total capital assets not being depreciated	\$ 135,952	\$ 248,440	\$ -	\$ 384,392
Capital assets being depreciated				
Land improvements	\$ 84,502	\$ 20,977	\$ -	\$ 105,479
Buildings and improvements	6,532,893	343,045	-	6,875,938
Major moveable equipment	16,459,766	1,187,579	(214,241)	17,433,104
Total capital assets being depreciated	\$ 23,077,161	\$ 1,551,601	\$ (214,241)	\$ 24,414,521
Less accumulated depreciation				
Land improvements	\$ 49,621	\$ 6,056	\$ -	\$ 55,677
Buildings and improvements	4,700,338	274,377	-	4,974,715
Major moveable equipment	13,862,072	626,379	(179,363)	14,309,088
Total accumulated depreciation	\$ 18,612,031	\$ 906,812	\$ (179,363)	\$ 19,339,480
Net capital assets being depreciated	\$ 4,465,130			\$ 5,075,041
Capital assets, net	\$ 4,601,082			\$ 5,459,433

The majority of construction in progress at September 30, 2021, represents cost incurred for a modular building for a clinic and boiler room renovations. Total expected cost for the modular building and boiler room renovations is approximately \$435,000 and \$143,000 to complete. The projects will be financed with internal funds. Completion of the modular building and boiler room renovations is set for May 2022 and September 2022.

Wagoner Hospital Authority
d/b/a Wagoner Community Hospital
Notes to Financial Statements
September 30, 2021 and 2020

Capital asset additions, retirements, transfers and balances for the year ended September 30, 2020 are as follows:

	Balance September 30, 2019	Additions	Retirements and Transfers	Balance September 30, 2020
Capital assets not being depreciated				
Land	\$ 135,952	\$ -	\$ -	\$ 135,952
Construction in progress	152,464	-	(152,464)	-
Total capital assets not being depreciated	\$ 288,416	\$ -	\$ (152,464)	\$ 135,952
Capital assets being depreciated				
Land improvements	\$ 51,602	\$ 32,900	\$ -	\$ 84,502
Buildings and improvements	6,488,623	44,270	-	6,532,893
Major moveable equipment	14,798,599	1,695,821	(34,654)	16,459,766
Total capital assets being depreciated	\$ 21,338,824	\$ 1,772,991	\$ (34,654)	\$ 23,077,161
Less accumulated depreciation				
Land improvements	\$ 44,997	\$ 4,624	\$ -	\$ 49,621
Buildings and improvements	4,438,515	261,823	-	4,700,338
Major moveable equipment	13,419,556	540,170	(97,654)	13,862,072
Total accumulated depreciation	\$ 17,903,068	\$ 806,617	\$ (97,654)	\$ 18,612,031
Net capital assets being depreciated	\$ 3,435,756			\$ 4,465,130
Capital assets, net	\$ 3,724,172			\$ 4,601,082

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 September 30, 2021 and 2020, for all operating leases was \$646,246 and \$663,148. The capitalized leased assets consist of:

	2021	2020
Major movable equipment	\$ 1,438,380	\$ 1,000,274
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(678,329)	(561,056)
	\$ 760,051	\$ 439,218

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

Year Ending September 30,	Capital Leases	Operating Leases
2022	\$ 296,638	\$ 54,000
2023	279,147	54,000
2024	157,136	54,000
2025	79,421	54,000
2026	16,099	54,000
2027-2028	-	58,500
Total minimum lease payments	828,441	\$ 328,500
Less interest	(68,147)	
Present value of minimum lease payments - Note 7	\$ 760,294	

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the year ended September 30, 2021 and 2020 is as follows:

	Balance September 30, 2020	Increases	Payments / Forgiveness	Balance September 30, 2021	Amounts Due Within One Year
Direct Borrowings:					
First Bank and Trust (1)	\$ 2,731,053	\$ -	\$ 89,177	\$ 2,641,876	\$ 109,734
First Bank and Trust (2)	377,493	-	44,140	333,353	45,880
Note payable (3)	58,092	-	22,125	35,967	23,773
Payroll protection program (4)	1,810,000	-	1,810,000	-	-
Total direct borrowings	4,976,638	-	1,965,442	3,011,196	179,387
Capitalized leases (5) (Note 6)	522,443	493,529	255,678	760,294	264,517
Total long-term debt	<u>\$ 5,499,081</u>	<u>\$ 493,529</u>	<u>\$ 2,221,120</u>	<u>\$ 3,771,490</u>	<u>\$ 443,904</u>
	Balance September 30, 2019	Additions	Payments / Forgiveness	Balance September 30, 2020	Amounts Due Within One Year
Direct Borrowings:					
First Bank and Trust (1)	\$ 2,778,462	\$ -	\$ 47,409	\$ 2,731,053	\$ 53,751
First Bank and Trust (2)	418,658	-	41,165	377,493	43,617
Note payable (3)	-	66,999	8,907	58,092	22,125
Payroll protection program (4)	-	1,810,000	-	1,810,000	1,093,738
Total direct borrowings	3,197,120	1,876,999	97,481	4,976,638	1,213,231
Capitalized leases (5) (Note 6)	369,850	357,757	205,164	522,443	169,867
Total long-term debt	<u>\$ 3,566,970</u>	<u>\$ 2,234,756</u>	<u>\$ 302,645</u>	<u>\$ 5,499,081</u>	<u>\$ 1,383,098</u>

The terms and due dates of the Authority's long-term debt, including capital lease obligations, as of September 30, 2021 are as follows:

- Note payable to bank with a variable interest rate (6.25% as of September 30, 2021), due in monthly installments of \$18,550 including interest with a balloon payment due November 2021, secured by assets of the Authority. Subsequent to year end, the Authority renewed the note payable with a different bank. The Authority is to make monthly payments of \$19,553, with a variable interest rate, based on a 180-month amortization schedule and a maturity date of November 12, 2036.

2. Note payable to bank used for operations with a variable interest rate (5.00% as of September 30, 2021), due in monthly installments of \$5,138 including interest, due December 2027, secured by assets of the Authority.
3. Note payable to vendor, 7.21% interest rate, due in monthly installments of \$2,135 including interest, due March 2023, secured by equipment.
4. The Authority was granted a \$1,810,000 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Authority initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA in December 2020. The Authority recognized \$1,810,000 of loan forgiveness income for the year ended September 30, 2021.
5. Capital lease obligations at varying rates of imputed interest from 0.24% to 20.63%, collateralized by leased equipment, with varying maturity dates from December 2022 to May 2026.

Future principal and interest payments on the Authority's long-term debt are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 179,387	\$ 103,417
2023	197,048	111,708
2024	192,892	103,404
2025	201,348	94,949
2026	289,058	88,896
2027-2031	869,259	303,936
2032-2036	1,061,362	111,833
2037	20,842	204
Total	<u>\$ 3,011,196</u>	<u>\$ 918,347</u>

Note 8 - Concentration 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 September 30, 2021 and 2020, was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	15%	33%
Medicaid	30%	15%
Commercial insurance	40%	22%
Other and patients	15%	30%
	<u>100%</u>	<u>100%</u>

Note 9 - Defined Contribution Plan

The Authority has a 457(b) defined contribution plan under which eligible employees can participate in the plan after one year of employment with the Authority. Total plan expense for the years ended September 30, 2021, 2020, and 2019, was approximately \$57,000, \$18,000, and \$-0-.

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 generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records payments to administrative services expense and receipts from SHOPP as a reduction in contractual adjustments. The Authority made SHOPP payments totaling \$465,120 for the year ended September 30, 2021. In return, the Authority received \$3,455,392 during 2021. The Authority made SHOPP payments totaling \$451,369 for the year ended September 30, 2020. In return, the Authority received \$2,961,876 during 2020. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Note 11 - Contingencies

Risk Management

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

Medical Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on an occurrence-basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity 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.

COVID-19 Pandemic

During 2020 and 2021, the world-wide coronavirus pandemic impacted national and global economies. The Authority 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 current and future full impact to the Authority is not known.

Note 12 - Subsequent Events

During November and December 2021, the Authority received two payments totaling \$1,904,994 from the Phase 4 and American Rescue Plan (ARP) Rural distributions, which are components of the HHS Provider Relief Fund program. This funding is subject to similar terms and conditions as other Provider Relief Fund distributions (Note 3). These funds have a period of availability for incurring eligible expenses and/or lost revenues of January 1, 2020 through December 31, 2022. Unspent funds will be expected to be repaid.

The Authority has evaluated subsequent events through March 28, 2022 the date which the financial statements are available to be issued.



**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***

Board of Trustees
Wagoner Hospital Authority d/b/a Wagoner Community Hospital
Wagoner, 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 Wagoner Hospital Authority d/b/a Wagoner Community Hospital (Authority) as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 28, 2022.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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 did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be material weakness: 2021-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings. The Authority's response was 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.

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

Oklahoma City, Oklahoma
March 28, 2022

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

Material Weakness

2021-001 Cost Report Estimate

Criteria: A properly designed system of internal control over financial reporting allows entities to initiate, record, process and report financial report data reliably in accordance with generally accepted accounting principles.

Condition: During the audit, a material adjustment was made to the financial statements as a result of differences in the estimated third-party payor settlements.

Cause: A misstatement to the internal financial statements was not prevented or detected and corrected on a timely basis in the normal course of business. Therefore, there was an adjusting journal entry at year end to properly state estimated third party payor settlements.

Effect: Audit adjustment was made to estimated third-party payor settlements.

Auditor's Recommendation: We recommend the Authority regularly review the amounts used to calculate allowances against current payment trends throughout the year and at year end. In addition, we recommend that a process is put in place to ensure the estimate for the cost report settlement is being made at year end and periodically throughout the year as determined necessary by management.

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