Financial Statements
December 31, 2022

Atoka County Healthcare Authority

EideBailly®

eidebailly.com

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), as of and for the year ended December 31, 2022, 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, 2022, 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.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Authority has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, Leases, for the year ended December 31, 2022. Accordingly, a restatement has been made to the Authority's capital assets and long-term liabilities as of January 1, 2022. 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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2024 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
May 29, 2024

Assets	
Current Assets	
Cash and cash equivalents	$ 4,432,850
Restricted cash for debt service	964,234
Receivables	
Patient, net of estimated uncollectibles of approximately $532,000 in 2022	1,096,406
Sales tax	353,740
Supplies and prepaid expenses	382,230
Total current assets	7,229,460
Capital Assets	
Capital assets not being depreciated	158,508
Capital assets being depreciated, net	5,642,711
Right of use assets, net	425,550
Total capital assets	6,226,769
Total assets	$ 13,456,229

Liabilities and Net Deficit	
Current Liabilities	
Current maturities of long-term debt	$ 14,961,016
Current maturities of right to use lease liability	99,208
Current maturities of payroll taxes	111,235
Accounts payable	638,974
Bankruptcy accounts payable	218,025
Estimated third-party settlements	270,162
Accrued expenses	
Salaries and wages	276,751
Interest	108,759
Total current liabilities	16,684,130
Noncurrent liabilities	
Payroll taxes, less current maturities	444,941
Bankruptcy accounts payable, less current maturities	1,984,177
Right to use lease liabilities, less current maturities	220,772
Total noncurrent liabilities	2,649,890
Total liabilities	19,334,020
Net Position (Deficit)	
Net investment in capital assets	(9,054,227)
Restricted - expendable for debt service	834,518
Unrestricted	2,341,918
Total net deficit	(5,877,791)
Total liabilities and net deficit	$ 13,456,229

Operating Revenues	
Net patient service revenue (net of provision for bad debts of $1,033,204 in 2022)	$ 10,770,779
Other revenue	96,868
Total operating revenues	10,867,647
Operating Expenses	
Salaries and wages	5,417,610
Employee benefits	820,853
Professional fees and purchased services	2,612,877
Supplies	1,087,955
Insurance	234,705
Depreciation and amortization	979,644
Other	1,052,248
Total operating expenses	12,205,892
Operating Loss	(1,338,245)
Nonoperating Revenues (Expenses)	
Sales tax income	1,569,006
Investment income	45,460
Interest expense	(677,637)
Provider Relief Funds	629,514
Other	49,176
Net nonoperating revenues	1,615,519
Revenues in Excess of Expenses Before Bankruptcy Discharge	277,274
Bankruptcy Discharge	950,168
Change in Net Deficit	1,227,442
Net Deficit, Beginning of Year	(7,105,233)
Net Deficit, End of Year	$ (5,877,791)

Operating Activities	
Receipts from and on behalf of patients	$ 11,066,147
Payments to suppliers and contractors	(4,342,668)
Payments to and on behalf employees	(6,334,450)
Other receipts and payments, net	168,578
Net Cash from Operating Activities	557,607
Noncapital Financing Activities	
Sales taxes received	1,587,999
Other	49,176
Net Cash from Noncapital Financing Activities	1,637,175
Capital and Capital Related Financing Activities	
Principal payments on long-term debt	(284,386)
Interest payments on long-term debt	(584,071)
Principal paid on right to use lease liabilities	(182,534)
Interest paid on right to use lease liabilities	(12,996)
Purchase of capital assets	(550,745)
Net Cash used for Capital and Capital Related Financing Activities	(1,614,732)
Investing Activities	
Investment income	45,460
Net Change in Cash and Cash Equivalents	625,510
Cash and Cash Equivalents, Beginning of Year	4,771,574
Cash and Cash Equivalents, End of Year	$ 5,397,084
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position	
Cash and cash equivalents	$ 4,432,850
Restricted for debt service	964,234
Total cash and cash equivalents	$ 5,397,084

Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	$	(1,338,245)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization		979,644
Provision for bad debts		1,033,204
Changes in assets and liabilities		
Patient receivables		(386,207)
Other receivables		71,710
Supplies and prepaid expenses		43,639
Accounts payable		601,853
Estimated third-party payor settlements		(351,629)
Accrued expenses		(96,362)
Net Cash from Operating Activities	$	557,607
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through lease liabilitiy	$	237,674
Obligations discharged due to bankruptcy	$	950,168
Accrued interest added to outstanding principal	$	1,396,826

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, 2022 and 2021.

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.

The net patient service revenue for the years ended December 31, 2022 increased approximately $217,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

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 2022. 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

Capital assets 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.

Right of use assets are recognized at the lease commencement date and represent the Authority's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any direct cost necessary to place the leased asset into service. Right to use assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 4 to 7 years.

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.

Lease Liabilities

Lease Liabilities represent the Authority's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the Authority.

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.

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 $99,000 for the years ended December 31, 2022. Total costs related to these foregone charges were approximately $49,000 at December 31, 2022, 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.

Implementation of GASB Statement No. 87

As of January 1, 2022, the Authority adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflows of resources. As a result of implementing this standard, the Authority recognized right of use assets and lease liabilities of approximately $265,000 as of January 1, 2022, respectively. As a result of these adjustments there was no effect on beginning net position. The additional disclosures required by this standard are included in Notes 5 and 6.

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, 2020.

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, 2022:

Medicare	50%
Medicaid	18%
Commercial payors	27%
Self pay and other	5%
	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 $242,000 for the year ended December 31, 2022 for the difference in amounts collected compared to amounts originally estimated.

Note 3 - Provider Relief Fund

The Authority recognized $629,514 for the year ended December 31, 2022 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.

Note 4 - Deposits

Cash and cash equivalents and restricted cash for debt service consisted of cash, deposits and money market funds as of December 31, 2022.

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, 2022 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, 2022 is as follows:

	Balance December 31, 2021 as restated	Additions	Transfers and Retirements	Balance December 31, 2022
Capital assets not being depreciated				
Land	$ 158,508	$ -	$ -	$ 158,508
Capital assets being depreciated				
Land improvements	$ 50,500	$ -	$ -	$ 50,500
Building and improvements	17,289,826	162,180	-	17,452,006
Equipment	4,356,878	388,565	-	4,745,443
Total capital assets being depreciated	21,697,204	$ 550,745	$ -	22,247,949
Less accumulated depreciation for				
Land improvements	(4,163)	-	-	(4,163)
Building and improvements	(11,867,243)	(768,058)	-	(12,635,301)
Equipment	(3,825,410)	(140,364)	-	(3,965,774)
Total accumulated depreciation	(15,696,816)	(908,422)	-	(16,605,238)
Net capital assets being depreciated	$ 6,000,388	$ (357,677)	$ -	$ 5,642,711
Right-to-use leased assets being amortized				
Equipment	$ 365,268	$ 237,674	$ -	$ 602,942
Accmulated amortizations				
Equipment	(106,170)	(71,222)	-	(177,392)
Net right-to-use leased assets	$ 259,098	$ 166,452	$ -	$ 425,550

Note 6 - Leases

The Medical Center has entered into lease agreements for medical equipment and building. The Medical Center is required to make principal and interest payments through June 2029. The lease liabilities were valued using discount rates between 0.8% and 2.55% based on the Authority's incremental borrowing rate at the inception of the leases or implementation of GASB Statement No. 87, whichever is later.

Lease liability additions, payments and balances for the year ended December 31, 2022 are as follows:

	Balance December 31, 2021	Additions	Payments	Balance December 31, 2022	Due Within One Year
Medical Equipment	$ 264,840	$ 237,674	$ (182,534)	$ 319,980	$ 99,208

Remaining principal and interest payments on leases are as follows:

Years Ending December 31,	Principal	Interest
2023	$ 99,208	$ 27,980
2024	103,931	19,914
2025	53,454	12,268
2026	53,555	5,175
2027	9,832	107
Total	$ 319,980	$ 65,444

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the year ended December 31, 2022 is as follows:

	Balance December 31, 2021	Additions	Payments/ Discharge	Balance December 31, 2022	Due Within One Year
Note from Direct Placement					
Series 2007 Bonds	$ 7,655,000	$ -	$ (285,000)	$ 7,370,000	$ 7,370,000
Discount	(13,374)	-	704	(12,670)	(12,670)
Total note from direct placement	7,641,626	-	(284,296)	7,357,330	7,357,330
Notes from Direct Borrowings					
USDA Mortgage	6,206,860	1,396,826	-	7,603,686	7,603,686
Note Payable (A)	408,982	-	(408,982)	-	-
Total notes from direct borrowings	6,615,842	1,396,826	(408,982)	7,603,686	7,603,686
Total long-term debt	$ 14,257,468	$ 1,396,826	$ (693,278)	$ 14,961,016	$ 14,961,016

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. As a result of the bankruptcy plan being approved, the requirement has been suspended until December 2023. 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. As part of the bankruptcy plan, the requirement of the Authority to make monthly deposits with the Trustee to restore the Reserve Fund to the Reserve Fund Requirement shall be suspended until the first full month commencing after the one-year anniversary of the Effective Date. All other terms of the Bonds shall continue to be paid by the Authority in accordance with the Bond Documents.

USDA Mortgage

The Authority issued a real estate mortgage note payable in the amount of $6,750,000 in 2007 (the Mortgage) to fund construction of a new hospital. Collateral includes the real and personal property of the new hospital and any and all contracts entered into by the Authority. As a result of the bankruptcy plan being approved, outstanding interest of $1,396,826 was added to the principal balance. The new Mortgage is payable in monthly installments of principal and interest of $23,677 with a maturity date of December 25, 2062.

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 was discharged as part of the approved Bankruptcy (Note 13).

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, 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, 2022 was as follows:

Medicare	44%
Medicaid	8%
Commercial insurance	27%
Other third-party payors and patients	21%
	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. As a result of the approved bankruptcy plan, the Authority's liability was reduced to $556,175. The Authority is to pay five yearly payments of $111,235. There is no interest charged to the outstanding balance.

Remaining payments on payroll taxes are as follows:

Years Ending December 31,	
2023	$ 111,235
2024	111,235
2025	111,235
2026	111,235
2027	111,236
	$ 556,176

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 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 $981,381 during the years ended December 31, 2022.

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

Note 11 - Management Agreement

Effective September 1, 2022, the Authority entered into a long-term management contract with Tahlequah Hospital Authority. The agreement is for an initial term of 3-years and will automatically renew for successive 3-year terms. The Authority will pay Tahlequah Hospital Authority $25,000 plus associated CEO/COO expenses per month. The Authority expensed $170,380 for management services for the year ended December 31, 2022. As of December 31, 2022, the Authority owes Tahlequah Hospital Authority $68,488 for management services.

Note 12 - 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. Management petitioned for relief in order to restrict certain contracts and obligations.

There are five classes of creditor's claims.

Priority claims were granted to the Internal Revenue Service and Oklahoma Employment Security Commission for unpaid taxes in the amount of $501,290 and $54,886, respectively. The Authority shall pay these amounts over five years at 0.00% interest. The remaining balances will be treated as Class 3.

Class 1 consist of secured claims which are the Revenue Bonds and USDA Mortgage. The terms have been modified as discussed in Note 7.

Class 2 consists of holders of allowed general unsecured convenience claims will receive distribution of 70% of the amount of their claims. The total payout on convenience class claims is approximately $1,000.

Class 3 consists of the Holders of General Unsecured Claims will receive a one-time payment in the sum of $50,000 and 5 annual payments to be paid on or before June 1 of each year, the first of which to be on or before June 1, 2022, and the final to be on or before June 1, 2027. The amount of each Annual Payment shall be the net amount received by the Authority for its April SHOPP payment for the applicable year.

Class 4 consists of the holders of any tort claims asserted against the Authority for which there is any general liability insurance coverage. If there is no general liability insurance coverage for any aspect of the tort claim, the tort claim shall be treated as a Class 3 claim. No class 4 claims used.

The Authority recognized a gain $950,168, included on the statements of revenues, expenses, and changes in net position. The bankruptcy had no impact on the levels of service or operations of the Authority. There is no plan to terminate the Authority as a result of the bankruptcy. A copy of the Authority's Plan of Adjustment can be obtained by contacting Atoka County Healthcare Authority; 1501 S. Virginia; Atoka, Oklahoma 74525.

Note 13 - Management Agreement

The Authority has evaluated subsequent events through May 29, 2024, the date which the financial statements were available to be issued.

Subsequent to year-end, Change Healthcare experienced a material data breach which has caused significant disruption in the ability of healthcare providers across the United States to bill and collect outstanding claims, as well as other operational impacts. The Authority continues to monitor the developments associated with the breach and is currently assessing the impact of this incident on its operations. Given the inherent uncertainty surrounding such events, the ultimate impact on the Authority's financial statements cannot be reasonably estimated at this time.

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, 2022, the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 29, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Responses as item 2022-002.

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
May 29, 2024

Material Weaknesses In Internal Control Over Financial Reporting:

2022-001 Preparation of Financial Statements

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

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

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.

Instances of Noncompliance:

2022-002 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.