Financial Statements
December 31, 2022 and 2021

Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Trustees
Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.
Shattuck, Oklahoma

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of the business-type activities of Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (Authority), as of and for the year then ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Authority as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The Authority has an unrelated business income tax liability included in the statements of net position as of December 31, 2022 and 2021. Due to the turnover in management, the current management did not have sufficient appropriate audit evidence to support the calculation of the tax liability and the net position balances as of December 31, 2022 and 2021. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

In addition, the Authority capitalized assets included in the statements of net position for the years ending December 31, 2022 and 2021 as a result of a clinic purchase. Management did not have adequate records and documentation to support the valuation of the assets. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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, 2021. Our opinion is not modified with respect to this matter.

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

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 opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2023 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
November 20, 2023

	2022	2021
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 395,850	$ 934,865
Restricted cash	848,404	1,193,938
Short term investments	824,781	822,709
Receivables		
Patient, net of estimated uncollectibles of approximately $849,000 in 2022 and $6,956,000 in 2021	1,218,331	1,254,597
Sales tax	291,648	256,850
Estimated third-party payor settlements	434,383	-
Other	27,260	27,260
Supplies	133,502	146,275
Prepaid expenses	35,701	46,904
Total current assets	4,209,860	4,683,398
Noncurrent Cash		
Internally designated for operations and maintenance	509,105	390,070
Restricted by trustee for debt reserve	180,133	145,199
Total noncurrent cash	689,238	535,269
Capital Assets		
Capital assets not being depreciated	41,025	41,025
Capital assets being depreciated, net	7,574,343	8,149,968
Right to use assets, net	28,347	69,313
Total capital assets	7,643,715	8,260,306
Other Assets	6,500	7,500
Total assets	12,549,313	13,486,473
Deferred Outflows of Resources		
Excess consideration provided for acquisition	58,500	67,500
Total assets and deferred outflows of resources	$ 12,607,813	$ 13,553,973

	2022	2021
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 178,639	$ 173,544
Current maturities of right to use lease liability	24,590	23,427
Accounts payable		
Trade	689,580	680,898
Taxes payable	812,051	812,051
Estimated third-party payor settlements	-	569,267
Accrued expenses		
Salaries and wages	329,832	179,651
Interest	-	8,158
Refundable advance - Provider Relief Fund	848,404	1,193,938
Total current liabilities	2,883,096	3,640,934
Noncurrent Liabilities		
Long-Term Debt, Less Current Maturities	4,222,400	4,400,728
Right to Use Lease Liabilities, Less Current Maturities	53,729	76,172
Total noncurrent liabilities	4,276,129	4,476,900
Total liabilities	7,159,225	8,117,834
Net Position		
Net investment in capital assets	3,226,627	3,658,186
Restricted:		
Expendable for operations and maintenance	800,753	646,920
Expendable for debt service	180,133	145,199
Unrestricted	1,241,075	985,834
Total net position	5,448,588	5,436,139
Total liabilities and net position	$ 12,607,813	$ 13,553,973

	2022	2021
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $1,734,229 in 2022 and $687,172 in 2021)	$ 10,274,637	$ 7,226,105
Other revenue	435,724	162,561
Total operating revenues	10,710,361	7,388,666
Operating Expenses		
Salaries and benefits	5,366,978	4,034,529
Supplies	1,153,714	1,330,556
Purchased services	3,065,776	2,047,881
Depreciation and amortization	696,742	648,007
Repairs and maintenance	210,871	360,439
Other	1,609,144	980,144
Total operating expenses	12,103,225	9,401,556
Operating Loss	(1,392,864)	(2,012,890)
Nonoperating Revenues (Expenses)		
Appropriations - unrestricted	1,226,053	621,163
Investment income	6,376	2,155
Interest expense	(177,800)	(213,746)
Noncapital gifts	5,150	400
Provider Relief Funds	345,534	1,847,932
Forgiveness of tax liability	-	4,237,695
Total nonoperating revenues (expenses)	1,405,313	6,495,599
Revenues in Excess of Expenses and Change in Net Position	12,449	4,482,709
Net Position, Beginning of Year	5,436,139	953,430
Net Position, End of Year	$ 5,448,588	$ 5,436,139

	2022	2021
Operating Activities		
Receipts from and on behalf of patients	$ 9,307,253	$ 6,741,922
Payments to suppliers and contractors	(6,006,847)	(4,481,363)
Payments to and on of behalf employees	(5,216,797)	(4,018,750)
Other receipts and payments, net	435,724	162,561
Net Cash used for Operating Activities	(1,480,667)	(1,595,630)
Noncapital Financing Activities		
Noncapital gifts	5,150	400
Appropriations supporting operations	1,191,255	484,328
Grants and contributions from Provider Relief Fund	-	320,679
Principal payments on long-term debt	(9,481)	(9,241)
Interest paid	(1,858)	(2,098)
Net Cash from Noncapital Financing Activities	1,185,066	794,068
Capital and Capital Related Financing Activities		
Purchase of capital assets	(70,151)	(1,858,541)
Principal paid on right to use lease liabilites	(21,280)	(88,084)
Interest paid on right to use lease liabilities	(4,337)	(6,614)
Principal payments on long-term debt	(163,752)	(158,673)
Interest paid	(179,763)	(205,034)
Net Cash used for Capital and Capital Related Financing Activities	(439,283)	(2,316,946)
Investing Activities		
Investment income	4,304	168
Net Change in Cash and Cash Equivalents	(730,580)	(3,118,340)
Cash and Cash Equivalents, Beginning of Year	2,664,072	5,782,412
Cash and Cash Equivalents, End of Year	$ 1,933,492	$ 2,664,072
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	$ 395,850	$ 934,865
Internally designated for operations and maintenance	509,105	390,070
Restricted by trustee for debt service	180,133	145,199
Restricted under Provider Relief Fund	848,404	1,193,938
Total cash and cash equivalents	$ 1,933,492	$ 2,664,072

	2022	2021
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (1,392,864)	$ (2,012,890)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	696,742	648,007
Provision for bad debts	1,734,229	687,172
Changes in assets and liabilities, net of acquisition		
Patient receivables	(1,697,963)	(995,498)
Supplies	12,773	(37,606)
Estimated third-party payor settlements	(1,003,650)	(175,857)
Prepaid expenses	11,203	(24,001)
Accounts payable	8,682	299,264
Accrued expenses	150,181	15,779
Net cash used for operating activities	$ (1,480,667)	$ (1,595,630)
Disclosure of Noncash Capital and Capital Related Financing Activities		
Accounts payable for equipment	$ -	$ 57,808
Disclosure of Noncash Noncapital Financing Activities		
Forgiveness of tax liability	$ -	$ 4,237,695

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (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 public trust created on August 6, 1964, under the provisions of Title 60, Oklahoma Statutes, the Oklahoma Trust Act and other applicable laws and statutes of the State of Oklahoma. The Authority's sole activity is the operation of a 25-bed critical access hospital located in Shattuck, Oklahoma. The Authority primarily earns revenues by providing inpatient, outpatient and emergency care services to residents in and around the Town of Shattuck, Oklahoma. The Town of Shattuck, Oklahoma is the beneficiary and will receive all residual trust funds and assets upon termination of the trust.

The Authority operated Newman Memorial Hospital, Inc. (Hospital) under an operation and maintenance contract. In addition to the operations and maintenance contract, the Authority leased the land, premises, equipment and other structures from the Hospital. The contract term was from September 22, 2009 to September 22, 2019, but in no event prior to the date that all debt obligations of the Authority have been satisfied.

Effective January 1, 2018, the Authority entered into a separate operations services agreement where the Hospital will manage and operate the facilities on behalf of the Authority. The term of this agreement shall continue until all of the loans with the U.S. Department of Agriculture (USDA) are satisfied and the lease agreement is terminated.

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.

Blended Component Unit

The Hospital is an Oklahoma non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is included as a blended component unit of the Authority as the Hospital is fiscally dependent on the Authority and there is a potential for the Hospital to provide specific financial benefits to or impose specific financial burdens on the Authority. The financial statements include only the financial activity of the Authority and the Hospital, collectively referred to as the Authority.

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:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – 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.

Income Taxes

The Authority is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Authority is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Authority is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The business activities, unrelated to the Authority's exempt purpose, includes the reference lab services discussed in Note 10. The Authority filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS to report its unrelated business taxable income for the year ending December 31, 2017. The Authority has recorded a liability for federal and state income taxes of $812,051 and $5,049,746 as of December 31, 2022 and 2021, respectively, related to unrelated business taxable income generated in the 2017 tax year. During 2021, the Internal Revenue Service accepted an Offer in Compromise to forgive $4,237,695 which discharged the federal tax liability.

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

Cash that has restrictions which change the nature or normal understanding of 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. Restricted cash is comprised of proceeds from Provider Relief Funds (Note 3).

Short-term Investments

Short-term investments include certificates of deposit with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

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.

Supplies

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

Investment Income

Interest on investments and deposits are included in nonoperating revenues when earned.

Noncurrent Cash

Noncurrent cash is set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. In addition, noncurrent cash includes funds set aside by the trustee for debt service not expected to be utilized for current obligations.

Capital Assets

Property and equipment acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method.

Right to use leased 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 leased 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 5 to 6 years.

The estimated useful lives of capital assets are as follows:

Land improvements	5-40 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.

Impairment of Long-Lived Assets

The Authority considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended December 31, 2022 and 2021.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has only one item that qualifies for reporting in this category, which is goodwill. Goodwill results when consideration provided for the acquisition of assets exceeds the net position acquired. The goodwill amount is systematically and rationally amortized over a period of 10 years.

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 estimated cost of providing these services was $78,000 and $57,000 for the years ended December 31, 2022 and 2021, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

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 revenues in excess of expenses.

Appropriations

In 2018, the citizens of Ellis County, Oklahoma, approved a 1/2-cent sales tax from October 1, 2018 to September 30, 2020. The proceeds of this sales tax can be used exclusively for ongoing operation and maintenance expenses of the Authority. During March 2020, the tax was extended for an additional five-year term from October 1, 2020 to September 30, 2025.

Effective October 1, 2018, the citizens of the Town approved an increase of 1% in the Town’s use tax for two years to be used to support the operations of the Authority. During 2022, the tax was extended for another two-year term to expire September 30, 2024.

In 2022 and 2021, the Authority received approximately 10% and 6% of its financial support from appropriations related to sales and use tax. Unexpended funds related to appropriations are reflected on the accompanying statements of net position as held for operations and maintenance.

Implementation of GASB Statement No. 87

As of January 1, 2021, 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 right to use leased assets and liabilities for leases that previously were classified as operating or capital leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As a result of implementing this standard the Authority recognized right to use assets and lease liabilities of $110,279 and $187,683 as of January 1, 2021, respectively. These amounts were previously recorded as capital leases and reported within capital assets and long-term debt. As a result of these adjustments there was no effect on beginning net position, however the beginning balances of capital assets and long-term debt have been restated in Notes 5 and 6 to remove the previously reported capital leases. 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. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient and outpatient services rendered to patients covered by the State Medicaid program are reimbursed on a prospectively determined per diem rate or established fee.

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.

Other: The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patent service revenues for the years ended December 31, 2022 and 2021:

	2022	2021
Medicare	58%	58%
Medicaid	6%	5%
Blue Cross and other commercial payors	30%	33%
Self pay and other	6%	4%
	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.

Note 3 - Provider Relief Funds

The Authority received Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) totaling $-0- and $220,679 during the years ended December 31, 2022 and 2021. 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.

The Authority also received $-0- and $100,000 through the Paycheck Protection Program and Health Care Enhancement Act (PPPHCEA) for its rural health clinic(s) to conduct COVID-19 testing during the years ended December 31, 2022 and 2021, respectively. This funding may only be used for conducting COVID-19 testing and related expenses, including building or construction of temporary structures, leasing of properties, and retrofitting facilities as necessary to support COVID-19 testing.

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

As of December 31, 2022 and 2021, the Authority had a liability of $848,404 and $1,193,938, which were included in current liabilities on the accompanying statements of net position under refundable advance – Provider Relief Fund, as well as restricted cash totaling $848,404 and $1,193,938, which is subject to the restrictions imposed by HHS. During the years ended December 31, 2022 and 2021, the Authority recognized $345,534 and $1,847,932 as revenue, included as nonoperating activities on the statements of revenues, expenses, and changes in net position.

Note 4 - Deposits and Investments

The carrying amounts of deposits consisted of cash deposits in banks as of December 31, 2022 and 2021. Deposits are reported in the following statement of net position captions:

	2022	2021
Total Carrying Value		
Cash and cash equivalents	$ 395,850	$ 934,865
Restricted cash	848,404	1,193,938
Short term investments	824,781	822,709
Internally designated for operations and maintenance	509,105	390,070
Restricted by trustee for debt service	180,133	145,199
	$ 2,758,273	$ 3,486,781

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.

As of December 31, 2022 and 2021, $96,260 of the Authority's bank balance of $3,012,301 and $-0- of the Authority's bank balance of $3,554,349 was exposed to custodial credit risk as follows:

	2022	2021
Uninsured and uncollateralized	$ 96,260	$ -
Insured and collateral held by pledging bank's trust department in the Hospital's name	2,916,041	3,554,349
	$ 3,012,301	$ 3,554,349

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 5 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2022 are as follows:

	Balance December 31 2021 as restated	Additions	Transfers and Retirements	Balance December 31 2022
Capital assets not being depreciated				
Land	$ 41,025	$ -	$ -	$ 41,025
Capital assets being depreciated				
Land improvements	$ 38,745	$ -	$ -	$ 38,745
Building and improvements	12,163,168	-	-	12,163,168
Equipment	12,039,025	70,151	-	12,109,176
Total capital assets being depreciated	24,240,938	70,151	-	24,311,089
Less accumulated depreciation for				
Land improvements	(38,745)	-	-	(38,745)
Building and improvements	(5,532,481)	(293,712)	-	(5,826,193)
Equipment	(10,519,744)	(352,064)	-	(10,871,808)
Total accumulated depreciation	(16,090,970)	(645,776)	-	(16,736,746)
Net capital assets being depreciated	$ 8,149,968	$ (575,625)	$ -	$ 7,574,343
Right-to-use leased assets being amortized				
Equipment	$ 138,119	$ -	$ -	$ 138,119
Accumulated Amortization				
Equipment	(68,806)	(40,966)		(109,772)
Net right-to-use leased assets	$ 69,313	$ (575,625)	$ -	$ 28,347

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

	Balance December 31 2020 as restated	Additions	Transfers and Retirements	Balance December 31 2021 as restated
Capital assets not being depreciated				
Land	$ 41,025	$ -	$ -	$ 41,025
Capital assets being depreciated				
Land improvements	$ 38,745	$ -	$ -	$ 38,745
Building and improvements	12,163,168	-	-	12,163,168
Equipment	10,122,676	1,916,349	-	12,039,025
Total capital assets being depreciated	22,324,589	1,916,349	-	24,240,938
Less accumulated depreciation for				
Land improvements	(38,745)	-	-	(38,745)
Building and improvements	(5,240,012)	(292,469)	-	(5,532,481)
Equipment	(10,215,172)	(304,572)	-	(10,519,744)
Total accumulated depreciation	(15,493,929)	(597,041)	-	(16,090,970)
Net capital assets being depreciated	$ 6,830,660	$ 1,319,308	$ -	$ 8,149,968
Right-to-use leased assets being amortized				
Equipment	$ 138,119	$ -	$ -	$ 138,119
Accumulated amortization				
Equipment	(27,840)	(40,966)	-	(68,806)
Net right-to-use leased assets	$ 110,279	$ (40,966)	$ -	$ 69,313

Note 6 - Lease Obligations

The Authority has entered into lease agreements for medical equipment. The Authority is required to make principal and interest payments through December 2026. The lease liabilities were valued using discount rates between 4.38% and 4.94% based on the Authority's incremental borrowing rate at the inception of the leases.

Right to use leased asset obligations additions, payments and balances for the years ended December 31, 2022 and 2021 are as follows:

	Balance December 31, 2021 as restated	Additions	Payments	Balance December 31, 2022	Due Within One Year
Leases Payable					
Medical Equipment	$ 99,599	-	$ (21,280)	$ 78,319	$ 24,590

	Balance December 31, 2020 as restated	Additions	Payments	Balance December 31, 2021 as restated	Due Within One Year
Leases Payable					
Medical Equipment	$ 187,683	-	$ (88,084)	$ 99,599	$ 23,427

As of December 31, 2022, the value of the lease liabilities are $78,319 and the leased assets are $28,347 and consisted of the following for right to use assets:

- Right to use medical equipment with a lease liability value of $8,375. The Authority is required to make monthly principal and interest payments of $705 through September 2023. The lease liability was valued using a discount rate of 4.38% based on the Authority's incremental borrowing rate. The lease contains a purchase option for fair market value.
- Right to use medical equipment with a lease liability value of $69,944. The Authority is required to make monthly principal and interest payments of $1,609 through December 2026. The lease liability was valued using a discount rate of 4.94% based on the Authority's incremental borrowing rate.

Remaining principal and interest payments on leases are as follows:

Years Ending June 30,	Principal	Interest
2023	$ 24,590	$ 3,205
2024	17,034	2,272
2025	17,895	1,411
2026	18,800	514
Total	$ 78,319	$ 7,402

Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2022 and 2021 is as follows:

	Balance December 31, 2021	Additions	Payments	Balance December 31, 2022	Due Within One Year
Direct Borrowings:					
USDA mortgage (A)	$ 573,824	$ -	$ (66,264)	$ 507,560	$ 69,324
USDA construction loans (B)	3,926,439	-	(95,230)	3,831,209	99,589
Note payable (C)	2,258	-	(2,258)	-	-
Note payable (D)	71,751	-	(9,481)	62,270	9,726
Total long-term debt	$ 4,574,272	$ -	$ (173,233)	$ 4,401,039	$ 178,639

	Balance December 31, 2020	Additions	Payments	Balance December 31, 2021	Due Within One Year
Direct Borrowings:					
USDA mortgage (A)	$ 637,020	$ -	$ (63,196)	$ 573,824	$ 66,114
USDA construction loans (B)	4,017,941	-	(91,502)	3,926,439	95,691
Note payable (C)	6,233	-	(3,975)	2,258	2,258
Note payable (D)	80,992	-	(9,241)	71,751	9,481
Total long-term debt	$ 4,742,186	$ -	$ (167,914)	$ 4,574,272	$ 173,544

The terms and due dates of the Authority's direct borrowings at December 31, 2022 and 2021 are as follows:

- USDA Mortgage (A) and Construction Loans (B): The Authority entered into a mortgage obligation with the USDA, which is secured by a first mortgage on the Authority's property and a pledge of the Authority's gross revenues with principal and interest of $7,674 payable monthly through June 2030 and interest at 4.75%. The Authority entered into three construction loan obligations with the USDA, which are secured by a pledge of the Authority's gross revenues with principal and interest of $20,875 collectively payable monthly through 2046 and interest at 4.0%.

- Note payable to bank (C), issued July 2017, secured by the associated vehicle, payable in monthly installments of $327 including interest at 4.99% through maturity in July 2022.

- Note payable to vendor (D), issued March 2019, unsecured, payable in yearly installments of $11,339 including interest at 2.59% through January 2028.

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

Years Ending December 31,	Principal	Interest
2023	$ 178,639	$ 175,335
2024	186,315	167,660
2025	194,325	159,650
2026	202,685	151,290
2027	211,411	142,564
2028 - 2032	796,277	598,178
2033 - 2037	805,361	447,379
2038 - 2042	983,343	269,397
2043 - 2046	842,683	61,998
Total	$ 4,401,039	$ 2,173,451

Note 8 - Retirement Plan

The Authority contributes to a defined contribution pension plan covering all employees who meet the eligibility requirements. Pension expense is recorded for the amount of the Authority's required contributions determined in accordance with the terms of the plan. The plan provides retirement and death benefits to plan members and their beneficiaries. The Authority's funding policy was to contribute one-third of an employee's annual contribution up to the maximum match of 2% of the employee's annual salary. Total pension plan expense for the years ended December 31, 2022 and 2021, was approximately $57,000 and $58,000. Participant interests are fully vested in their contributions and the Authority's contributions immediately. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body.

Note 9 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2022 and 2021 was as follows:

	2022	2021
Medicare	54%	15%
Medicaid	5%	1%
Blue Cross and other commercial payors	16%	10%
Self pay and other	25%	74%
	100%	100%

Note 10 - Reference Lab Services

During 2016, the Authority entered into agreements for outreach lab services. The Authority contracted for outreach lab services with third party certified labs, utilized a third-party company for administrative services and billed commercial payors or patients for these services. Certain payors have requested documentation for billed claims and are reviewing for validity, accuracy and proper documentation. As a result of this review, the Authority ceased providing the outreach lab services in June 2017. The potential exists that the Authority may incur a liability for claims overpayment at a future date upon completion of this review. As the outcome of such reviews is unknown and cannot be reasonably estimated, it is the Authority's policy to adjust revenue for deduction from overpayment amounts or additions from underpayment amounts determined under the reviews at the time a change in reimbursement is agreed upon between the Authority and the payors.

Note 11 - Commitments and Contingencies

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the 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 has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 12 - Related Party Transactions

From time to time the Authority has transactions with members of the Board of Trustees, family members of members and companies owned by members of the Board of Trustees. Transactions are conducted at arm's length.

Note 13 - 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 SHOPP is currently set to sunset on December 31, 2025. 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.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as a reduction in Medicaid contractual adjustments. The Authority received SHOPP funds totaling approximately $287,000 and $266,000 for the years ended December 31, 2022 and 2021, which are included in net patient service revenue.

SHOPP is expected to be significantly reduced in fiscal year 2024 due to the State of Oklahoma's shift to managed care Medicaid. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Note 14 - Condensed Combining Information

The following summarizes combining information for the Authority and Hospital, which have been presented as blended component units, as of and for the year ended December 31, 2022.

Statement of net position as of December 31, 2022:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Combined Total
Assets			
Current assets	$ 291,648	$ 3,918,212	$ 4,209,860
Noncurrent assets	689,238	6,500	695,738
Capital assets, net	7,608,065	35,650	7,643,715
Total assets	8,588,951	3,960,362	12,549,313
Deferred Outflows of Resources	-	58,500	58,500
Total assets and deferred outflows of resources	$ 8,588,951	$ 4,018,862	$ 12,607,813
Liabilities			
Current liabilities	$ 168,913	$ 2,714,183	$ 2,883,096
Long-term debt, less current maturities	4,169,856	106,273	4,276,129
Total liabilities	4,338,769	2,820,456	7,159,225
Net Position			
Net investment in capital assets	3,200,007	26,620	3,226,627
Restricted, expendable for operations and maintenance	800,753	-	800,753
Restricted, expendable for debt service	180,133	-	180,133
Unrestricted	69,289	1,171,786	1,241,075
Total net position	4,250,182	1,198,406	5,448,588
Total liabilities and net position	$ 8,588,951	$ 4,018,862	$ 12,607,813

Operating results and changes in net position for the year ended December 31, 2022:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Combined Total
Operating revenues			
Net patient service revenue	$ -	$ 10,274,637	$ 10,274,637
Other revenue	-	435,724	435,724
Total operating revenues	-	10,710,361	10,710,361
Operating expenses			
Depreciation and amortization	683,642	13,100	696,742
Other operating expenses	-	11,406,483	11,406,483
Total operating expenses	683,642	11,419,583	12,103,225
Operating loss	(683,642)	(709,222)	(1,392,864)
Nonoperating revenues (expenses)	1,048,253	357,060	1,405,313
Change in net position	364,611	(352,162)	12,449
Transfers	(517,826)	517,826	-
Net position, beginning of year	4,403,397	1,032,742	5,436,139
Net position, end of year	$ 4,250,182	$ 1,198,406	$ 5,448,588

Cash flows for the year ended December 31, 2022:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Combined Total
Net cash used for operating activities	$ -	$ (1,480,667)	$ (1,480,667)
Net cash from noncapital financing activities	588,910	596,156	1,185,066
Net cash used for capital and capital related financing activities	(434,941)	(4,342)	(439,283)
Net cash from investing activities	-	4,304	4,304
Net change in cash and cash equivalents	153,969	(884,549)	(730,580)
Cash and cash equivalents, beginning of year	535,269	2,128,803	2,664,072
Cash and cash equivalents, end of year	$ 689,238	$ 1,244,254	$ 1,933,492

The following summarizes combining information for the Authority and Hospital, which have been presented as blended component units, as of and for the year ended December 31, 2021.

Statement of net position as of December 31, 2021:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Combined Total
Assets			
Current assets	$ 256,850	$ 4,426,548	$ 4,683,398
Noncurrent assets	535,269	7,500	542,769
Capital assets, net	8,221,556	38,750	8,260,306
Total assets	9,013,675	4,472,798	13,486,473
Deferred Outflows of Resources	-	67,500	67,500
Total assets and deferred outflows of resources	$ 9,013,675	$ 4,540,298	$ 13,553,973
Liabilities			
Current liabilities	$ 195,648	$ 3,445,286	$ 3,640,934
Long-term debt, less current maturities	4,414,630	62,270	4,476,900
Total liabilities	4,610,278	3,507,556	8,117,834
Net Position			
Net investment in capital assets	3,619,436	38,750	3,658,186
Restricted, expendable for operations and maintenance	646,920	-	646,920
Restricted, expendable for debt service	145,199	-	145,199
Unrestricted	(8,158)	993,992	985,834
Total net position	4,403,397	1,032,742	5,436,139
Total liabilities and net position	$ 9,013,675	$ 4,540,298	$ 13,553,973

Operating results and changes in net position for the year ended December 31, 2021:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Combined Total
Operating revenues			
Net patient service revenue	$ -	$ 7,226,105	$ 7,226,105
Other revenue	-	162,561	162,561
Total operating revenues	-	7,388,666	7,388,666
Operating expenses			
Depreciation and amortization	634,907	13,100	648,007
Other operating expenses	-	8,753,549	8,753,549
Total operating expenses	634,907	8,766,649	9,401,556
Operating loss	(634,907)	(1,377,983)	(2,012,890)
Nonoperating revenues	407,417	6,088,182	6,495,599
Change in net position	(227,490)	4,710,199	4,482,709
Transfers	2,034,538	(2,034,538)	-
Net position (deficit), beginning of year	2,596,349	(1,642,919)	953,430
Net position, end of year	$ 4,403,397	$ 1,032,742	$ 5,436,139

Cash flows for the year ended December 31, 2021:

	Shattuck Hospital Authority	Newman Memorial Hospital, Inc.	Combined Total
Net cash used for operating activities	$ -	$ (1,595,630)	$ (1,595,630)
Net cash from (used for) noncapital financing activities	2,518,866	(1,724,798)	794,068
Net cash (used for) from capital and capital related financing activities	(2,408,136)	91,190	(2,316,946)
Net cash from investing activities	-	168	168
Net change in cash and cash equivalents	110,730	(3,229,070)	(3,118,340)
Cash and cash equivalents, beginning of year	424,539	5,357,873	5,782,412
Cash and cash equivalents, end of year	$ 535,269	$ 2,128,803	$ 2,664,072

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
Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc.
Shattuck, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Shattuck Hospital Authority d/b/a Newman Memorial Hospital, Inc. (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 and have issued our report thereon dated November 20, 2023. We were not provided sufficient appropriate audit evidence to support the calculation of the tax liability and the net position balances as of December 31, 2022 and 2021. In addition, Management did not have adequate records and documentation to support the clinic purchase during 2019, and the valuation of the assets.

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 the 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 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 items 2022-001 through 2022-004 that we consider to be material weaknesses.

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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 matter that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2022-005.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses if findings and responses are included in the body of the report. The Authority's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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
November 20, 2023

Material Weakness 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 Authority's financial statements and accompanying notes to the financial statements by internal personnel of the Authority. 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) and GASB.

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 and GASB. The Authority did not have an internal control system designed to properly implement GASB Statement No. 87, *Leases*. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, there were entries recorded to net position.

Cause: The Authority does not have the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP and GASB. In addition, the accounting system had posting errors resulting in material audit entries being proposed.

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

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: Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost but will continue evaluating on a going forward basis.

2022-002 Segregation of Duties and Oversight

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

Condition: The Authority has a limited number of individuals available to segregate these duties. In addition, the Authority does not have an internal control process for the review and approval of account reconciliations and journal entries, particularly for non-standard journal entries.

Cause: The Authority's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Effect: Inadequate segregation of duties could adversely affect the Authority's ability to detect and correct unintentional or intentional misstatements in a timely manner by employees in the normal course of performing their assigned functions. The lack of review and approval process for account reconciliations and recorded journal entries by the appropriate individual increases the risk of misstatement in the financial statements, either due to fraud or error.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of cost or other considerations. While having limited resources available to perform all functions is often present in organizations of your size, it is important to consider the significance of certain controls, such as review of account reconciliations and manual journal entries, in detecting and correcting potential misstatements on a timely basis. We recommend that management review current policies and assigned functions and separate the responsibilities of creating and reviewing account reconciliations and posting and reviewing manual journal entries to appropriate individuals. In addition, we recommend that other functions be reviewed to determine if additional segregation is feasible to improve efficiency and effectiveness of the financial management of the Authority.

Views of Responsible Officials: The Authority is in the process of implementing adequate controls over recording transactions, reconciliations and identifying misstatements.

2022-003 Review of Significant Estimate Areas

Criteria: Accounting standards require an entity to estimate an allowance on the collectability of receivables and Medicare cost report settlements. The allowance should be based on historical data as well as a review of the specific financial situation and payment factors related to individual accounts.

Condition: The allowance calculations for patient receivable valuations and the Medicare cost report settlement were not properly estimated during the year.

Cause: The deficiency was caused by a lack of review, policies and procedures in patient receivable valuation and cost report settlements.

Effect: Interim financial statements may not be properly stated. Material audit adjustments were made to patient allowance accounts and amounts due from third parties.

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. 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: The Authority is in the process of developing and implementing a model to evaluate allowances, which will be monitored and adjusted as needed on an ongoing basis.

2022-004 Account Reconciliations

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

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

- Cash
- Sales tax receivables
- Capital Assets
- Accounts payable
- Refundable advance – Provider Relief Fund

Cause: Areas with differences that resulted in significant adjustments to the financial statements as noted above.

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

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

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

Instance of Noncompliance:

2022-005 Maintenance of Pledged Collateral

Criteria: State law requires collateralization of all deposits with federal depository insurance or qualified investments.

Condition: During the course of the audit, it was discovered that the Authority did not have adequate pledged collateral in place to secure bank balances exceeding federal depository insurance limits.

Cause: The Authority maintains deposits in excess of federal depository insurance which do not have collateral agreements.

Effect: Cash balances which exceed federal depository insurance limits would be at risk of loss in the event of a bank failure.

Auditor's Recommendation: We recommend that the Authority obtain proper pledged collateral with the Authority's custodial bank or implement additional controls to monitor balances held in unsecured accounts.

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