



Management's Discussion and Analysis
and Financial Statements
June 30, 2024 and 2023

Choctaw County - City of Hugo Hospital Authority

Choctaw County – City of Hugo Hospital Authority

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June 30, 2024 and 2023

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Independent Auditor's Report

To the Board of Trustees
Choctaw County – City of Hugo Hospital Authority
Hugo, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Choctaw County – City of Hugo Hospital Authority (Authority), as of and for the years then ended June 30, 2024 and 2023, 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, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2024 and 2023, and the respective changes in financial position and its 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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.

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 the 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 the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2025 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 the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
January 30, 2025

Introduction

Our discussion and analysis for Choctaw County – City of Hugo Hospital Authority (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2024, 2023 and 2022. It should be read in conjunction with the accompanying financial statements of the Authority which begin on page 9.

Financial Highlights

- Total assets decreased in 2024 by \$476,470 or 2% and decreased in 2023 by \$541,738 or 3%.
- Total liabilities decreased in 2024 by \$247,694 or 23% and decreased in 2023 by \$132,714 or 11%.
- The Authority's net position decreased in 2024 by \$228,776 or 1% and decreased in 2023 by \$409,024 or 2%.
- The Authority reported an operating loss in 2024 of \$2,403,897, an operating loss in 2023 of \$1,923,032 and an operating loss in 2022 of \$731,996. During 2024, the operating loss increased by \$480,865 or 25%, and the operating loss increased by \$1,191,036 or 163% during 2023.
- Operating expenses decreased in 2024 by \$95,772 or 1% and decreased by \$471,705 or 4% in 2023.

Using This Annual Report

The Authority's financial statements consist of three statements – Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and What was the change in cash balance during the reporting period?"

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Authority's net position decreased by \$228,776 or 1% in 2024 and decreased by \$409,024 or 2% in 2023 as shown below.

	2024	2023	2022
Assets			
Current assets	\$ 15,355,366	\$ 15,587,053	\$ 16,873,977
Capital assets, net	4,524,353	4,769,136	4,023,950
Total assets	<u>\$ 19,879,719</u>	<u>\$ 20,356,189</u>	<u>\$ 20,897,927</u>
Liabilities			
Current liabilities	\$ 793,664	\$ 1,034,215	\$ 1,159,786
Right to use lease liabilities net of current portion	14,385	21,528	28,671
Total liabilities	<u>808,049</u>	<u>1,055,743</u>	<u>1,188,457</u>
Net Position			
Net investment in capital assets	4,401,821	4,473,768	3,551,197
Restricted, expendable for debt service	101,324	266,697	428,349
Unrestricted	14,568,525	14,559,981	15,729,924
Total net position	<u>19,071,670</u>	<u>19,300,446</u>	<u>19,709,470</u>
Total liabilities and net position	<u>\$ 19,879,719</u>	<u>\$ 20,356,189</u>	<u>\$ 20,897,927</u>

Assets, Liabilities, and Net Position

The Authority's assets, liabilities and net position were impacted by declining volumes and ending of government relief programs in the post pandemic environment.

- Cash and cash equivalents decreased in 2024 by \$243,036 or 26% primarily due to cash used for operations. Cash and cash equivalents decreased in 2023 by \$4,250,994 or 83% due to the purchase of certificates of deposit and cash used for operations.
- Patient receivables increased in 2024 by \$416,187 or 62% and decreased in 2023 by \$129,576 or 16%. The increase for the year ended June 30, 2024, is attributable to the onset of the new Medicaid Managed Care Program, changes to the collection agency contracted by the Authority, and restructuring within the Authority's billing department.
- Accounts payable increased in 2024 by \$2,414 or 1% due to timing. Payables decreased in 2023 by \$61,592 or 22%.

Operating Results and Changes in Net Position

	2024	2023	2022
Operating Revenues			
Net patient service revenue	\$ 7,937,790	\$ 8,509,796	\$ 10,179,704
Other revenue	56,165	60,796	53,629
Total operating revenues	<u>7,993,955</u>	<u>8,570,592</u>	<u>10,233,333</u>
Operating Expenses			
Salaries, wages, and employee benefits	5,660,531	5,667,021	5,758,862
Supplies and other	4,168,266	4,292,655	4,699,257
Depreciation and amortization	569,055	533,948	507,210
Total operating expenses	<u>10,397,852</u>	<u>10,493,624</u>	<u>10,965,329</u>
Operating Loss	<u>(2,403,897)</u>	<u>(1,923,032)</u>	<u>(731,996)</u>
Nonoperating Revenues (Expenses)			
Sales tax income	1,309,493	1,298,816	1,191,651
Investment income	513,168	196,244	89,279
Interest expense	(5,898)	(9,653)	(23,489)
Noncapital contributions and grants	24,239	28,497	35,384
Gain on disposal of capital assets	334,119	104	-
Provider Relief Funds	-	-	3,877,648
Nonoperating revenues, net	<u>2,175,121</u>	<u>1,514,008</u>	<u>5,170,473</u>
Change in Net Position	<u>\$ (228,776)</u>	<u>\$ (409,024)</u>	<u>\$ 4,438,477</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other revenues and the expenses incurred to perform those services. The Authority had operating losses in 2024, 2023, and 2022. The operating loss for 2024 increased by \$480,865 as compared to the increase of \$1,191,036 in 2023. The primary components of the change in operating loss are:

- Net patient service revenue for 2024 decreased \$572,006 from 2023 due to decreased volumes. Net patient service revenue for 2023 decreased \$1,669,908 from 2022 due to volume decreases.
- Operating expense for 2024 decreased \$95,772 from 2023 primarily due to decreased volumes. Operating expenses for 2023 decreased \$471,705 from 2022 due to changes in volumes and cost containment measures implemented.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county sales tax, interest income, interest expense, Provider Relief Funds, and insurance proceeds. The sales tax increased by \$10,677 or 1% in 2024 and increased by \$107,165 or 9% in 2023. During the year ended June 30, 2022 the Authority met the requirements of the Provider Relief Funds Program and recognized \$3,877,648 as nonoperating revenue for the year ended June 30, 2022. In 2024, the Authority received insurance proceeds for roof damages and recognized a gain of \$334,119.

The Authority's Cash Flows

The Authority's overall liquidity decreased during 2024 with a net decrease to cash and cash equivalents of \$243,036 and decreased during 2023 by \$4,250,026. Cash used for operating activities increased in 2024 by \$1,480,600 or 141% and decreased in 2023 by \$1,170,247 or 949%. The decrease in cash from operating activities in 2024 was primarily due to the decrease in net patient service revenue. Cash from noncapital financing activities decreased in 2024 by \$180,124 or 14% attributable to a decrease in sales taxes received and decreased in 2023 by \$655,870 or 34% attributable to the decrease in provider relief funds received. Cash used for capital and capital related financing activities decreased in 2024 by \$1,297,181 or 88% primarily due to a decrease in the purchase of capital assets and decreased in 2023 by \$137,532 or 9% due to the decrease in purchased capital assets. Cash from investing activities increased in 2024 by \$4,370,533 and decreased in 2023 by \$3,055,078 primarily due to the redemption of certificates of deposits.

Capital Assets and Right to Use Leased Assets

The Authority had \$4,524,353 invested in capital assets at the end of 2024 and \$4,769,136 at the end of 2023, net of accumulated depreciation and amortization, as detailed in Note 4 to the financial statements. The Authority purchased new capital assets totaling \$324,272 in 2024 and \$1,286,030 in 2023.

Note Payable and Right to Use Lease Liabilities

The Authority had \$122,532 outstanding debt and right to use obligations at the end of 2024 and \$295,368 at the end of 2023, as detailed in Notes 5 and 6 to the financial statements. The Authority made principal payments of \$172,836 in 2024 and \$177,385 in 2023.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-317-9500.

Choctaw County – City of Hugo Hospital Authority

Statements of Net Position

June 30, 2024 and 2023

	2024	2023
Assets		
Current Assets		
Cash and cash equivalents	\$ 319,058	\$ 896,506
Internally designated cash for scholarships	34,788	34,551
Internally designated cash for specific operating purposes	334,175	-
Short-term investments - certificates of deposit	10,061,687	10,739,166
Short-term investments - internally designated for specific operating purposes	1,573,668	1,573,668
Short-term investments - restricted by bank for debt service	101,324	266,697
Receivables		
Patient, net of estimated uncollectibles of \$1,452,000 in 2024 and \$1,221,000 in 2023	1,084,931	668,744
Estimated third-party payor settlements	193,328	-
Sales tax	1,231,056	994,716
Supplies	349,523	349,426
Prepaid expenses and other	71,828	63,579
Total current assets	15,355,366	15,587,053
Capital Assets		
Capital assets not being depreciated	15,512	243,360
Capital assets being depreciated, net	4,490,682	4,498,997
Right to use leased assets, net	18,159	26,779
Total capital assets	4,524,353	4,769,136
Total assets	\$ 19,879,719	\$ 20,356,189

Choctaw County – City of Hugo Hospital Authority

Statements of Net Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Liabilities and Net Position		
Current Liabilities		
Note payable	\$ 101,324	\$ 266,697
Current maturities of right to use lease liabilities	6,823	7,143
Accounts payable		
Trade	222,062	219,648
Estimated third-party payor settlements	-	92,179
Accrued expenses	463,455	448,548
Total current liabilities	793,664	1,034,215
Long-Term Liabilities		
Right to use lease liabilities, less current maturities	14,385	21,528
Total liabilities	808,049	1,055,743
Net Position		
Net investment in capital assets	4,401,821	4,473,768
Restricted, expendable for debt service	101,324	266,697
Unrestricted	14,568,525	14,559,981
Total net position	19,071,670	19,300,446
Total liabilities and net position	\$ 19,879,719	\$ 20,356,189

Choctaw County – City of Hugo Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$2,481,381 in 2024 and \$2,304,655 in 2023)	\$ 7,937,790	\$ 8,509,796
Other revenue	<u>56,165</u>	<u>60,796</u>
Total operating revenues	<u>7,993,955</u>	<u>8,570,592</u>
Operating Expenses		
Salaries and wages	4,959,921	4,957,837
Employee benefits	700,610	709,184
Professional fees and purchased services	2,460,495	2,491,240
Supplies and other	1,707,771	1,801,415
Depreciation and amortization	<u>569,055</u>	<u>533,948</u>
Total operating expenses	<u>10,397,852</u>	<u>10,493,624</u>
Operating Loss	<u>(2,403,897)</u>	<u>(1,923,032)</u>
Nonoperating Revenues (Expenses)		
Sales tax income	1,309,493	1,298,816
Investment income	513,168	196,244
Interest expense	(5,898)	(9,653)
Noncapital contributions and grants	24,239	28,497
Gain on disposal of capital assets	<u>334,119</u>	<u>104</u>
Net nonoperating revenues	<u>2,175,121</u>	<u>1,514,008</u>
Change in Net Position	(228,776)	(409,024)
Net Position, Beginning of Year	<u>19,300,446</u>	<u>19,709,470</u>
Net Position, End of Year	<u><u>\$ 19,071,670</u></u>	<u><u>\$ 19,300,446</u></u>

Choctaw County – City of Hugo Hospital Authority

Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Activities		
Receipts from and on behalf of patients	\$ 7,236,096	\$ 8,837,776
Payments to suppliers and contractors	(4,174,198)	(4,292,596)
Payments to and on behalf of employees	(5,645,624)	(5,652,937)
Other receipts and payments, net	56,165	60,796
Net Cash used for Operating Activities	(2,527,561)	(1,046,961)
Noncapital Financing Activities		
Noncapital contributions and grants	24,239	28,497
Sales taxes received	1,073,153	1,249,019
Net Cash from Noncapital Financing Activities	1,097,392	1,277,516
Capital and Capital Related Financing Activities		
Principal payments on short-term note payable	(165,373)	(161,652)
Interest payments on short-term note payable	(3,947)	(7,460)
Principal payments on right to use lease liabilities	(7,463)	(15,733)
Interest paid on right to use lease liabilities	(1,951)	(2,193)
Proceeds from disposal of capital assets	334,119	7,000
Purchase of capital assets	(324,272)	(1,286,030)
Net Cash used for Capital and Capital Related Financing Activities	(168,887)	(1,466,068)
Investing Activities		
Investment income	513,168	196,244
Redemption of certificates of deposit	10,571,509	-
Purchase of certificates of deposit	(9,310,914)	(3,038,622)
Reinvestment of earnings	(417,743)	(172,135)
Net Cash from (used for) Investing Activities	1,356,020	(3,014,513)
Net Change in Cash and Cash Equivalents	(243,036)	(4,250,026)
Cash and Cash Equivalents, Beginning of Year	931,057	5,181,083
Cash and Cash Equivalents, End of Year	\$ 688,021	\$ 931,057
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 319,058	\$ 896,506
Internally designated cash for scholarships	34,788	34,551
Internally designated cash for specific operating purposes	334,175	-
Total Cash and Cash Equivalents	\$ 688,021	\$ 931,057

Choctaw County – City of Hugo Hospital Authority

Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Operating Loss to Net Cash		
used for Operating Activities		
Operating loss	\$ (2,403,897)	\$ (1,923,032)
Adjustments to reconcile operating loss to net cash		
used for operating activities		
Depreciation and amortization	569,055	533,948
Provision for bad debts	2,481,381	2,304,655
Changes in assets and liabilities		
Patient receivables	(2,897,568)	(2,175,079)
Supplies	(97)	77,154
Prepaid expenses and other	(8,249)	(15,503)
Accounts payable	2,414	(61,592)
Accrued expenses	14,907	14,084
Estimated third-party payor settlements	<u>(285,507)</u>	<u>198,404</u>
Net Cash used for Operating Activities	<u><u>\$ (2,527,561)</u></u>	<u><u>\$ (1,046,961)</u></u>

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Choctaw County – City of Hugo Hospital 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 operates a 34-bed short-term acute care hospital located in Hugo, Oklahoma as Choctaw Memorial Hospital. The governing boards of Choctaw County and the City of Hugo appoint members to the Board of Trustees of the Authority on an alternating basis. The Board of Trustees exercises governing oversight responsibility for the Authority which includes such duties as budget review, care of patients, and management of the facilities as set forth by the ordinance of the City of Hugo.

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:

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.

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Short-Term Investments

Short-term investments include certificates of deposit with an original maturity of three to forty-eight months, excluding internally designated or restricted cash and investments. The certificates of deposit greater than twelve months are considered short-term as they can be redeemed at any time and the Authority considers them short-term because, if needed, they will not be held for the entire term. In addition, the penalties for withdrawal of the certificates of deposit are not considered significant.

Restricted and Internally Designated Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments that have restrictions which change the nature or normal understanding of availability of the asset are reported separately on the statements of net position. Restricted cash and investments include funds that are restricted by a bank for debt service. Internally designated for specific operating purposes consist of certificates of deposit set aside by the Board of Trustees for future operating purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Certificates of deposit are recorded at historical cost. Restricted and internally designated cash and investments that are available for obligations classified as current liabilities are reported in current assets, as well as those intended to be used for operations.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid 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, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$1,500 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. The estimated useful lives of capital assets are as follows:

Land improvements	10-40 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.

Right to Use Leased Assets

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 2 to 5 years.

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 June 30, 2024 and 2023.

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 expenses in the accompanying financial statements.

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.

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 amortization 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, 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 considered in the recognition of revenue 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 \$5,000 and \$2,000 for the years ended June 30, 2024 and 2023, 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues (expenses).

Sales Tax Revenue

Effective April 1, 2009, the citizens of Choctaw County, Oklahoma, approved a 0.75% sales tax for furnishing, equipping, renovating and maintaining the Authority, including the payment of principal and interest on any indebtedness. The tax will continue until repealed by the voters. For the years ended June 30, 2024 and 2023, the Authority recorded approximately \$1,309,000 and \$1,299,000, or 13% and 13% of its revenue, from the tax appropriation. Revenue from tax appropriations is recognized in the year in which the sales taxes are earned.

Note 2 - Net Patient Service Revenue

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

Medicare: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended June 30, 2021.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Other payors: 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 June 30, 2024 and 2023 is as follows:

	2024	2023
Medicare	30%	34%
Medicaid	24%	27%
Commercial and other payors	40%	34%
Self pay	6%	5%
	<u>100%</u>	<u>100%</u>

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 for the years ended June 30, 2024 and 2023 increased approximately \$94,000 and \$278,000, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, and adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2024 and 2023

For the year ended June 30, 2024, additional revenue of approximately \$133,000 was recognized due to changes in its estimates of allowance for doubtful accounts and contractual adjustments for performance obligations satisfied in prior years. Adjustments arising from a change in the estimate of allowance for doubtful accounts and contractual adjustments or performance obligations were not significant in 2023.

Note 3 - Deposits

The carrying amounts of deposits consisted of the following at June 30, 2024 and 2023:

	2024	2023
Carrying Amount		
Cash and cash equivalents	\$ 688,021	\$ 931,057
Certificates of deposit	11,736,679	12,579,531
	<u>\$ 12,424,700</u>	<u>\$ 13,510,588</u>

Deposits are reported in the following statement of net position captions:

	2024	2023
Cash and cash equivalents	\$ 319,058	\$ 896,506
Internally designated cash for scholarships	34,788	34,551
Internally designated cash for specific operating purposes	334,175	-
Short-term investments - certificates of deposit	10,061,687	10,739,166
Short-term investments - internally designated for specific operating purposes	1,573,668	1,573,668
Short-term investments - restricted by bank for debt service	101,324	266,697
	<u>\$ 12,424,700</u>	<u>\$ 13,510,588</u>

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. State statutes authorize the Authority to invest its excess cash balances generally in time deposits, open accounts, certificates of deposit or certain repurchase agreements of commercial banks or trust companies, state or generally chartered savings and loan associations or generally chartered savings banks having offices in the state and in certain circumstances, specified United States Treasury obligations.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The Authority has a general investment policy to minimize custodial credit risk.

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2024 and 2023

The Authority's deposits in banks at June 30, 2024 and 2023 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2024 are as follows:

	Balance June 30, 2023	Additions	Transfers and Retirements	Balance June 30, 2024
Capital assets not being depreciated				
Land	\$ 15,512	\$ -	\$ -	\$ 15,512
Construction in progress	227,848	26,617	(254,465)	-
Total capital assets not being depreciated	<u>\$ 243,360</u>	<u>\$ 26,617</u>	<u>\$ (254,465)</u>	<u>\$ 15,512</u>
Capital assets being depreciated				
Building and improvements	\$ 9,021,496	\$ 65,347	\$ 254,466	\$ 9,341,309
Equipment	5,624,279	232,308	(15,240)	5,841,347
Total capital assets being depreciated	<u>\$ 14,645,775</u>	<u>\$ 297,655</u>	<u>\$ 239,226</u>	<u>\$ 15,182,656</u>
Less accumulated depreciation for				
Building and improvements	\$ (5,182,314)	\$ (375,737)	\$ 15,239	\$ (5,542,812)
Equipment	(4,964,464)	(184,698)	-	(5,149,162)
Total accumulated depreciation	<u>\$ (10,146,778)</u>	<u>\$ (560,435)</u>	<u>\$ 15,239</u>	<u>\$ (10,691,974)</u>
Net depreciable capital assets	<u>\$ 4,498,997</u>			<u>\$ 4,490,682</u>
Right-to-use leased assets being amortized				
Equipment	\$ 37,554	\$ -	\$ -	\$ 37,554
Accumulated amortization equipment	(10,775)	(8,620)	-	(19,395)
Net right-to-use leased assets	<u>\$ 26,779</u>	<u>\$ (8,620)</u>	<u>\$ -</u>	<u>\$ 18,159</u>
Capital assets, net	<u>\$ 4,769,136</u>			<u>\$ 4,524,353</u>

In 2024, the Authority received \$334,119 in insurance proceeds which will be used to apply a roofing membrane to the existing roof structure. The roof is considered fully impaired. The project will be funded using insurance proceeds and the Authority's county sales tax fund. The project is expected to be completed by June 2025.

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2024 and 2023

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2023 are as follows:

	Balance June 30, 2022	Additions	Transfers and Retirements	Balance June 30, 2023
Capital assets not being depreciated				
Land	\$ 15,512	\$ -	\$ -	\$ 15,512
Construction in progress	471,971	1,186,238	(1,430,361)	227,848
Total capital assets not being depreciated	<u>\$ 487,483</u>	<u>\$ 1,186,238</u>	<u>\$ (1,430,361)</u>	<u>\$ 243,360</u>
Capital assets being depreciated				
Building and improvements	\$ 7,551,381	\$ 53,702	\$ 1,416,413	\$ 9,021,496
Equipment	5,815,460	46,090	(237,271)	5,624,279
Total capital assets being depreciated	<u>\$ 13,366,841</u>	<u>\$ 99,792</u>	<u>\$ 1,179,142</u>	<u>\$ 14,645,775</u>
Less accumulated depreciation for				
Building and improvements	\$ (4,757,311)	\$ (320,069)	\$ (104,934)	\$ (5,182,314)
Equipment	(5,117,097)	(196,624)	349,257	(4,964,464)
Total accumulated depreciation	<u>\$ (9,874,408)</u>	<u>\$ (516,693)</u>	<u>\$ 244,323</u>	<u>\$ (10,146,778)</u>
Net depreciable capital assets	<u>\$ 3,492,433</u>			<u>\$ 4,498,997</u>
Right-to-use leased assets being amortized				
Equipment	\$ 307,206	\$ -	\$ (269,652)	\$ 37,554
Accumulated amortization equipment	(263,172)	(17,255)	269,652	(10,775)
Net right-to-use leased assets	<u>\$ 44,034</u>	<u>\$ (17,255)</u>	<u>\$ -</u>	<u>\$ 26,779</u>
Capital assets, net	<u>\$ 4,023,950</u>			<u>\$ 4,769,136</u>

Note 5 - Lease Obligations

The Authority has entered into lease agreements for medical and office equipment. The Authority is required to make principal and interest payments through March 2027. The lease liabilities were valued using stated and discount rates between 2.21% and 6.00% 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 June 30, 2024 and 2023 are as follows:

	Balance June 30, 2023	Additions	Payments	Balance June 30, 2024	Due Within One Year
Liabilities for right to use equipment	\$ 28,671	\$ -	\$ (7,463)	\$ 21,208	\$ 6,823

	Balance June 30, 2022	Additions	Payments	Balance June 30, 2023	Due Within One Year
Liabilities for right to use equipment	\$ 44,404	\$ -	\$ (15,733)	\$ 28,671	\$ 7,143

As of June 30, 2024 the value of the lease liability are \$21,208, the leased assets are \$18,159 which consisted of the following right to use asset:

- Right to use office equipment with a lease liability of \$21,208. The Authority is required to make monthly principal and interest payments of \$722 through March 2027. The lease liability was valued using a discount rate of 6% based on the Authority's incremental borrowing rate. The lease agreement contains a purchase option for fair market value.

Remaining principal and interest payments on leases are as follows:

Years Ending June 30,	Principal	Interest
2025	\$ 6,823	\$ 1,085
2026	8,051	618
2027	6,334	139
Total	\$ 21,208	\$ 1,842

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2024 and 2023

Note 6 - Note Payable

A schedule of changes in the Authority's note payable at June 30, 2024 and 2023 consists of:

	Balance June 30, 2023	Additions	Payments	Balance June 30, 2024	Due Within One Year
Direct borrowing	\$ 266,697	\$ -	\$ (165,373)	\$ 101,324	\$ 101,324
	Balance June 30, 2022	Additions	Payments	Balance June 30, 2023	Due Within One Year
Direct borrowing	\$ 428,349	\$ -	\$ (161,652)	\$ 266,697	\$ 266,697

Short-Term Direct Borrowing

In March 2015, the Authority obtained a \$1,494,000 short-term note payable to a bank which includes interest at 2.1% and is due on demand. The note matures annually and was extended for an additional year in February 2024 in the amount of \$156,879. If no demand is made, the note matures February 2025. The note is collateralized by one of the Authority's certificates of deposit. Under an agreement with the bank, the Authority is making monthly payments on the note based on a 120-month amortization schedule.

Note 7 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2024 and 2023 was as follows:

	2024	2023
Medicare	21%	21%
Medicare Advantage	8%	10%
Medicaid	11%	17%
Other third-party payors and patients	31%	26%
Self-pay	29%	26%
	100%	100%

Note 8 - Pension Plan

The Authority has a defined contribution pension plan under which employees can become participants upon hiring. Employer contributions are made on a discretionary basis. The Authority did not make any contributions for the years ended June 30, 2024, 2023 and 2022.

Note 9 - Supplemental Hospital Offset Payment Program

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 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 scheduled to sunset on December 31, 2025, however, may be significantly reduced due to the State of Oklahoma's expected shift to managed care Medicaid, which is expected in fiscal year 2024. In August 2023, the Authority received approximately \$219,000 as a result of a funding provision in Oklahoma Senate Bill 32x for hospitals participating in the SHOPP program. The SHOPP 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 does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

SHOPP revenue and assessment fees are recorded as part of net patient service revenue on the accompanying statements of revenues, expenses and changes in net position. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. The net SHOPP benefit consisted of the following for the years ended June 30, 2024 and 2023:

	2024	2023
SHOPP funds revenue	\$ 1,184,297	\$ 832,985
SHOPP assessment fees expense	<u>(356,458)</u>	<u>(274,536)</u>
Net SHOPP benefit	<u>\$ 827,839</u>	<u>\$ 558,449</u>

Note 10 - 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.

Litigations, Claims, and Disputes

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

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.



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
Choctaw County – City of Hugo Hospital Authority
Hugo, 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 (*Government Auditing Standards*), the financial statements of Choctaw County – City of Hugo Hospital Authority (Authority), as of and for the year ended June 30, 2024, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 30, 2025.

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 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2024-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
January 30, 2025

Significant Deficiency in Internal Control Over Financial Reporting:

2024-001 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: As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The Authority does not have an internal control system designed to provide for the complete preparation of the financial statements, including footnotes, as required by GAAP. During the audit process, as part of the preparation of financial statements, we recommended certain adjustments related to the Authority's net patient receivables and estimated third-party payor settlements which were reflected in the financial statements.

Cause: The accounting and finance team responsible for accurate presentation of the financial statements has other responsibilities that required attention and effort. Obtaining the resources and expertise necessary to prepare complete financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly.

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. In addition, certain adjustments subsequent to year-end were required to accurately present the financial statements.

Auditor's Recommendation: We recommend management review its processes and ensure that operation of effective control is consistent with established policies. This situation is not unusual for an organization of your size, but it's the responsibility of management and governance to monitor balances and activity to ensure the financial statements are accurate.

Views of Responsible Officials: Management agrees with the finding.