

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2018 and 2017



McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
McAlester Regional Health Center Authority
McAlester, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of McAlester Regional Health Center Authority (the Authority), a component unit of the City of McAlester, Oklahoma, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The financial ratios listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018, 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 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.

BKD, LLP

Tulsa, Oklahoma
October 29, 2018

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Balance Sheets
June 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 22,035,096	\$ 26,726,014
Short-term investments	831,896	618,316
Restricted cash	121,040	120,555
Restricted certificates of deposit for workers' compensation	480,180	476,595
Patient accounts receivable, net of allowance; 2018 – \$17,440,387, 2017 – \$14,041,949	11,178,667	12,945,733
Estimated amounts due from third-party payers	79,561	-
Supplies	2,179,803	2,462,086
Prepaid expenses and other	2,349,317	1,954,964
Total current assets	39,255,560	45,304,263
Noncurrent Cash and Investments		
Held by trustee for capital acquisitions	2,197,432	8,130,340
Other long-term investments	7,558,068	4,275,967
Investments in and advances to equity investees	6,477,966	5,912,519
Total noncurrent cash and investments	16,233,466	18,318,826
Capital Assets, Net	42,465,505	30,279,118
Total assets	\$ 97,954,531	\$ 93,902,207

Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,183,308	\$ 751,875
Accounts payable	4,989,620	5,975,678
Accrued expenses	4,463,901	3,594,211
Estimated amounts due to third-party payers	<u>-</u>	<u>39,539</u>
Total current liabilities	10,636,829	10,361,303
Long-Term Debt	<u>12,109,670</u>	<u>9,100,178</u>
Total liabilities	<u>22,746,499</u>	<u>19,461,481</u>
Net Position		
Net investment in capital assets	26,782,974	18,820,069
Restricted – expendable for		
Capital acquisitions and debt service	2,568,472	8,500,895
Workers' compensation claims	272,234	255,958
Specific operating activities	20,303	20,303
Unrestricted	<u>45,564,049</u>	<u>46,843,501</u>
Total net position	<u>75,208,032</u>	<u>74,440,726</u>
Total liabilities and net position	<u>\$ 97,954,531</u>	<u>\$ 93,902,207</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$18,281,421, 2017 – \$15,138,162	\$ 82,065,771	\$ 85,509,987
Other operating revenues	3,740,281	4,315,485
Total operating revenues	85,806,052	89,825,472
Operating Expenses		
Salaries and wages	38,685,697	39,903,555
Employee benefits	6,386,453	7,475,802
Purchased services and professional fees	13,803,571	13,402,226
Supplies and other expenses	23,661,884	25,459,585
Depreciation and amortization	4,175,486	3,643,456
Total operating expenses	86,713,091	89,884,624
Operating Loss	(907,039)	(59,152)
Nonoperating Revenues (Expenses)		
Gain on investments in equity investees	988,688	987,251
Gain on sale of capital assets	139,875	-
Investment income	111,955	181,992
Noncapital grants and gifts	326,023	360,765
Interest expense	(149,540)	(84,442)
Total nonoperating revenues (expenses)	1,417,001	1,445,566
Excess of Revenues over Expenses Before Capital Grants and Gifts	509,962	1,386,414
Gifts to Purchase Capital Assets and Other Capital Grants and Gifts	257,344	250,000
Increase in Net Position	767,306	1,636,414
Net Position, Beginning of Year	74,440,726	72,804,312
Net Position, End of Year	\$ 75,208,032	\$ 74,440,726

McAlester Regional Health Center Authority
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Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	\$ 83,713,737	\$ 83,718,502
Payments to suppliers and contractors	(39,154,018)	(36,622,778)
Payments to employees	(44,389,582)	(47,899,854)
Other receipts, net	3,735,281	4,237,526
Net cash provided by operating activities	3,905,418	3,433,396
Noncapital Financing Activities		
Noncapital grants and gifts	326,023	360,765
Net cash provided by noncapital financing activities	326,023	360,765
Capital and Related Financing Activities		
Capital grants and gifts	257,344	125,000
Principal payments made on long-term debt	(1,029,730)	(751,483)
Proceeds from issuance of long-term debt	4,000,000	-
Interest payments on capital debt and leases	(149,540)	(84,442)
Purchase of capital assets	(15,108,661)	(6,231,422)
Proceeds from disposal of capital assets	139,875	-
Net cash used in capital and related financing activities	(11,890,712)	(6,942,347)
Investing Activities		
Purchases of investments	(8,956,326)	(971,506)
Proceeds from disposition of investments	11,291,506	1,515,643
Investment income	220,094	160,100
Change in restricted certificates of deposit, net	(3,585)	(2,849)
Advances to equity investees	(162,620)	(45,683)
Distributions from equity investees	579,769	-
Net cash provided by investing activities	2,968,838	655,705
Decrease in Cash and Cash Equivalents	(4,690,433)	(2,492,481)
Cash and Cash Equivalents, Beginning of Year	26,846,569	29,339,050
Cash and Cash Equivalents, End of Year	\$ 22,156,136	\$ 26,846,569

See Notes to Financial Statements

	<u>2018</u>	<u>2017</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 22,035,096	\$ 26,726,014
Cash and cash equivalents in restricted cash	<u>121,040</u>	<u>120,555</u>
Total cash and cash equivalents	<u><u>\$ 22,156,136</u></u>	<u><u>\$ 26,846,569</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (907,039)	\$ (59,152)
Depreciation and amortization	4,175,486	3,643,456
Accrued self-insurance costs	462,031	(405,426)
Provision for uncollectible accounts	18,281,421	15,138,162
Impairment of note receivable	-	193,002
Changes in operating assets and liabilities		
Patient accounts receivable	(16,514,355)	(16,625,939)
Estimated amounts due to third-party payers	(119,100)	(303,708)
Accounts payable and accrued expenses	(1,360,956)	1,846,133
Supplies and prepaid expenses	<u>(112,070)</u>	<u>6,868</u>
Net cash provided by operating activities	<u><u>\$ 3,905,418</u></u>	<u><u>\$ 3,433,396</u></u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 470,655	\$ 87,617
Prepaid insurance included in accrued expenses	\$ 271,526	\$ 353,341
Capital asset acquisitions included in accounts payable	\$ 2,389,553	\$ 1,606,996
Noncash distribution from equity investee	\$ -	\$ 582,045
Capital assets acquired through noncash capital gifts	\$ -	\$ 125,000

McAlester Regional Health Center Authority
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Notes to Financial Statements
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Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The McAlester Regional Health Center Authority (the Authority) was created by a trust indenture dated August 11, 1969, as a public trust and an agency of the State of Oklahoma for the benefit of the City of McAlester, Oklahoma, and the surrounding area. The Authority operates, as its sole activity, McAlester Regional Health Center. Substantially all property and equipment used by the Authority is subject to a 50-year lease agreement with the City of McAlester commencing December 19, 1973. Effective May 1, 2016, the Authority amended the lease agreement for an additional 20 years until December 18, 2043.

The Authority primarily earns revenues by providing inpatient, outpatient and emergency services to patients in McAlester, Oklahoma, and surrounding communities. The Authority also operates physician clinics, a rehabilitation unit and a skilled nursing unit (closed May 2017) and provides home health services in the same geographic area.

Reporting Entity

The accompanying financial statements present the Authority and its blended component units, entities for which the Authority is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government and do not issue separate financial statements.

Blended Component Units

The McAlester Regional Health Center Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Authority. The Foundation's primary purpose is to raise and hold funds to support the Authority and its programs. Although the Authority does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are to be used for the benefit of the Authority. The Authority appoints the Board of Directors of the Foundation and, accordingly, the Foundation is included as a component unit in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the accompanying financial statements.

The Auxiliary Volunteer Services of McAlester Regional Health Center (the Auxiliary) is a legally separate component unit of the Authority. The Auxiliary's primary function is to raise and hold funds to support the Authority and its programs. The board of the Auxiliary is self-perpetuating, but the director of the Auxiliary is appointed by the chief executive officer of the Authority. Because the Authority's Board of Trustees has final approval for the use of all assets of the Auxiliary, the Auxiliary is included as a component unit in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Auxiliary have been eliminated in the accompanying financial statements.

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McAlester Medical Services, LLC (MMS) employs physicians and other health care providers. The Authority is the sole corporate member of MMS. MMS is included as a blended component unit of the Authority in the accompanying financial statements.

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers.

Included in held by trustee for capital acquisitions on the accompanying balance sheets are money market mutual funds with brokers that the Authority does not consider a cash equivalent.

Risk Management

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

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The Authority is self-insured for a portion of its exposure to risk of loss from workers' compensation claims and employee health claims; however, beginning in July 2017, the Authority was no longer self-insured for workers' compensation claims. Annual estimated provisions are accrued for the self-insured portion of workers' compensation and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. The investment in equity investees is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments sold and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Land improvements	15–20 years
Buildings and leasehold improvements	10–40 years
Equipment	3–20 years

The Authority capitalizes interest costs as a component of construction in progress based on interest costs of borrowings specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized by the Authority was approximately \$239,000 and \$214,000 in 2018 and 2017, respectively.

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Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Restricted Cash

The Authority received appropriations related to excise taxes levied by two city ordinances to provide revenues for the purpose of financing and construction of a cancer treatment facility, total funds not to exceed \$1,750,000, and a wellness facility, total funds not to exceed \$6,000,000, in the City of McAlester, Oklahoma. The Authority reached the maximum funding levels from each excise tax during 2010. Approximately \$121,000 of the funds under the excise taxes remain unspent and are reflected on the accompanying balance sheets as restricted cash at June 30, 2018 and 2017.

Restricted Certificates of Deposit

The Oklahoma Workers' Compensation Court requires the Authority to post collateral for self-insured claims in the form of a certificate of deposit in the event the Authority is unable to pay its claims. As of June 30, 2018 and 2017, the pledged restricted certificates of deposit of approximately \$480,000 and \$477,000, respectively, are reflected on the accompanying balance sheets as restricted certificates of deposit for workers' compensation.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts.

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Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (the Code) and a similar provision of state law. The Authority's blended component units are generally exempt from income taxes under Section 501 of the Code and under a similar provision of Oklahoma statutes. However, the Authority is subject to federal income tax on any unrelated business taxable income.

County Appropriations

The citizens of Pittsburg County approved a 1/8th cent sales tax in February 2018 that is to be earmarked for future construction of a new cancer treatment center, which will provide expanded cancer care and ancillary services to the surrounding area. The sales tax will go into effect on October 1, 2018.

Electronic Health Records Incentive Programs

The Electronic Health Records Incentive Programs, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provide for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. Eligibility under the Medicaid program generally requires a minimum Medicaid payer mix threshold. The final amount for any payment year is determined based on an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the programs.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

McAlester Regional Health Center Authority
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Notes to Financial Statements
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In 2017, the Authority completed the fourth-year requirements under the Medicare program and recorded revenue of approximately \$438,000, which is included in other operating revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Other Operating Revenue

Other operating revenue primarily includes revenue from the residents of the Authority’s assisted living community (Van Buren House), fees associated with wellness programs available to employees of the Authority and residents of McAlester, cafeteria sales and EHR revenue.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of supplies and other expenses 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. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different than the amounts received in 2018.

During the years ended June 30, the Authority had the following activity related to the SHOPP:

	2018	2017
SHOPP funds received	\$ 7,076,000	\$ 6,599,000
SHOPP assessment fees paid	2,224,000	2,390,000
Net benefit under SHOPP	\$ 4,852,000	\$ 4,209,000

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the changes in financial position.

McAlester Regional Health Center Authority
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Notes to Financial Statements
June 30, 2018 and 2017

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

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 patient classification systems that are based on clinical, diagnostic and other factors. 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.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined rates with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 49% and 45% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider 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.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance or other acceptable collateral in specific amounts.

At June 30, 2018 and 2017, approximately \$0 and \$367,000, respectively, of the Authority's bank balances of approximately \$21,866,000 and \$27,611,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$717,000 and \$864,000 and carrying values of approximately \$713,000 and \$856,000 at June 30, 2018 and 2017, respectively.

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As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2018 and 2017, the blended component units' cash accounts exceeded federally insured limits by approximately \$0 and \$374,000, respectively.

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds, mutual funds and other equity securities as approved by the board of trustees.

At June 30, the Authority had the following investments and maturities:

Type	Fair Value	2018			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 1,416,493	\$ 103,055	\$ 988,164	\$ 325,274	\$ -
U.S. Treasury obligations	1,083,534	-	756,808	326,726	-
Money market mutual funds	<u>2,353,285</u>	<u>2,353,285</u>	<u>-</u>	<u>-</u>	<u>-</u>
	4,853,312	<u>\$ 2,456,340</u>	<u>\$ 1,744,972</u>	<u>\$ 652,000</u>	<u>\$ -</u>
Exchanged-traded funds	1,710,039				
Corporate stocks	1,003,816				
Accrued interest	<u>29,913</u>				
	<u>\$ 7,597,080</u>				
Type	Fair Value	2017			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 1,377,329	\$ 333,665	\$ 571,294	\$ 472,370	\$ -
U.S. Treasury obligations	1,074,128	-	549,780	524,348	-
U.S. agencies obligations	101,763	101,763	-	-	-
Money market mutual funds	<u>9,314,540</u>	<u>9,314,540</u>	<u>-</u>	<u>-</u>	<u>-</u>
	11,867,760	<u>\$ 9,749,968</u>	<u>\$ 1,121,074</u>	<u>\$ 996,718</u>	<u>\$ -</u>
Corporate stocks	873,859				
Accrued interest	<u>15,233</u>				
	<u>\$ 12,756,852</u>				

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Interest Rate Risk – The Authority’s investment policy does not specifically limit the maturity of investments as a means of limiting its exposure to fair value losses arising from rising interest rates. The money market mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy does not specifically address management of credit risk. At June 30, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

Investments	June 30, 2018	
	Moody’s	S & P
Corporate bonds	Baa2 to Aaa	BBB- to AA+
Money market mutual funds	Not rated to Aaa-mf	Not rated to AAAm

Investments	June 30, 2017	
	Moody’s	S & P
Corporate bonds	Baa3 to Aaa	BBB- to AA+
U.S. agencies obligations	Aaa	AA+
Money market mutual funds	Not rated to Aaa-mf	Not rated to AAAm

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investment policy does not address custodial credit risk.

Concentration of Credit Risk – The Authority limits exposure of the portfolio to any one issuer, other than the U.S. government or its agencies, to 25% of the market value of the fund in one industry and 10% in any one company. At June 30, 2018 and 2017, the Authority’s investment in one money market mutual fund of \$2,197,432 and \$8,130,340, respectively, constituted 29% and 64% of its total investments, respectively.

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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits	\$ 25,626,632	\$ 27,590,935
Investments	<u>7,597,080</u>	<u>12,756,852</u>
	<u><u>\$ 33,223,712</u></u>	<u><u>\$ 40,347,787</u></u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 22,035,096	\$ 26,726,014
Short-term investments	831,896	618,316
Restricted cash	121,040	120,555
Restricted certificates of deposit for workers' compensation	480,180	476,595
Held by trustee for capital acquisitions	2,197,432	8,130,340
Other long-term investments	<u>7,558,068</u>	<u>4,275,967</u>
	<u><u>\$ 33,223,712</u></u>	<u><u>\$ 40,347,787</u></u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 220,094	\$ 123,957
Net increase (decrease) in fair value of investments	<u>(108,139)</u>	<u>58,035</u>
Total	<u><u>\$ 111,955</u></u>	<u><u>\$ 181,992</u></u>

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Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30 consisted of:

	2018	2017
Medicare	\$ 4,563,584	\$ 4,083,101
Medicaid	2,221,866	2,375,645
Other third-party payers	7,993,313	6,720,958
Patients	13,840,291	13,807,978
	28,619,054	26,987,682
Less allowance for uncollectible accounts	17,440,387	14,041,949
	\$ 11,178,667	\$ 12,945,733

Note 5: Investments in and Advances to Equity Investees

The investments in and advances to equity investees relate to a 33% ownership in Heartland Healthcare Reciprocal Risk Retention Group (Heartland) through December 31, 2016. Effective January 1, 2017, Heartland merged with another entity to form Tecumseh Health Reciprocal Risk Retention Group (Tecumseh). At June 30, 2018 and 2017, the Authority has an approximate 10% ownership in Tecumseh; a 50% ownership in McAlester Ambulatory Surgery Center, LLC (the Surgery Center); a 50% ownership in McAlester Regional Dialysis Center, LLC (the Dialysis Center); a 9.91% ownership in LifeCare Health Services, L.L.C. (LifeCare); and other insignificant investments in MSO Healthcare of Oklahoma, LLC; Upper Midwest Consolidated Services Center, LLC; Southeast Alliance Network, Inc.; and Southeast Imaging LLC. The Authority is listed as guarantor on an equipment loan related to Southeast Imaging LLC. The loan is for \$600,000 and is payable over 60 months, including interest at 4.25%. The Authority has determined, as of June 30, 2018, no amounts were owed as a result of this guarantee. These investments in and advances to equity investees are accounted for using the equity method.

The financial position and results of operations of the significant equity investees are summarized below. The information summarized below represents the results of operations for the Surgery Center, the Dialysis Center and LifeCare for the fiscal years ended June 30, 2018 (unaudited) and June 30, 2017 (unaudited), and the results of operations from Tecumseh's fiscal years ended December 31, 2017 and 2016.

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	December 31, 2017		June 30, 2018	
	Tecumseh	Surgery Center	Dialysis Center	LifeCare
	Tecumseh	Surgery Center	Dialysis Center	LifeCare
Current assets	\$ 52,983,540	\$ 3,247,683	\$ 1,010,862	\$ 6,764,287
Property and other long-term assets, net	-	454,618	829,854	304,243
Total assets	\$ 52,983,540	\$ 3,702,301	\$ 1,840,716	\$ 7,068,530
Total liabilities	\$ 20,235,243	\$ 180,613	\$ 546,240	\$ 167,579
Partners' equity	32,748,297	3,521,688	1,294,476	6,900,951
Total liabilities and partners' equity	\$ 52,983,540	\$ 3,702,301	\$ 1,840,716	\$ 7,068,530
Revenues	\$ 9,259,343	\$ 11,776,223	\$ 3,093,343	\$ 2,132,596
Excess of revenues over expenses	\$ 5,328,231	\$ 286,541	\$ 273,104	\$ 428,950
	December 31, 2016		June 30, 2017	
	Heartland	Surgery Center	Dialysis Center	LifeCare
	Heartland	Surgery Center	Dialysis Center	LifeCare
Current assets	\$ 12,952,360	\$ 4,020,722	\$ 1,009,861	\$ 6,146,385
Property and other long-term assets, net	-	489,241	674,530	482,550
Total assets	\$ 12,952,360	\$ 4,509,963	\$ 1,684,391	\$ 6,628,935
Total liabilities	\$ 4,772,360	\$ 231,664	\$ 463,019	\$ 212,074
Partners' equity	8,180,000	4,278,299	1,221,372	6,416,861
Total liabilities and partners' equity	\$ 12,952,360	\$ 4,509,963	\$ 1,684,391	\$ 6,628,935
Revenues	\$ 3,008,261	\$ 3,065,659	\$ 3,851,324	\$ 1,018,679
Excess (deficiency) of revenues over expenses	\$ 1,395,277	\$ 401,737	\$ (51,644)	\$ 122,410

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Complete financial statements of the equity investees may be obtained by contacting the Authority's management.

The Authority purchases its professional liability (medical malpractice) and general liability insurance coverage from Tecumseh (previously Heartland) (see *Note 7*). For the years ended June 30, 2018 and 2017, the Authority paid approximately \$674,000 and \$871,000, respectively, to Tecumseh and Heartland for the coverage. The Authority's investment in Tecumseh and Heartland was approximately \$2,872,000 and \$2,252,000 as of June 30, 2018 and 2017, respectively.

The Surgery Center is an equity investee with Warren Clinic, organized to operate an ambulatory surgery center in McAlester, Oklahoma. The Authority leases employees to the Surgery Center and provides insurance coverage and supplies on a limited basis. The Surgery Center paid the Authority approximately \$1,108,000 and \$1,198,000 during the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the Surgery Center owed the Authority approximately \$76,000 and \$95,000, respectively. The Authority's investment in the Surgery Center was approximately \$1,837,000 and \$2,194,000 as of June 30, 2018 and 2017, respectively.

The Dialysis Center is an equity investee with a physician, organized to operate a dialysis facility in McAlester, Oklahoma. The Authority leases employees to the Dialysis Center and provides insurance coverage and supplies on a limited basis. The Dialysis Center paid the Authority approximately \$1,691,000 and \$1,407,000 during the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the Dialysis Center owed the Authority approximately \$404,000 and \$495,000, respectively. The Authority's investment in the Dialysis Center was approximately \$764,000 and \$721,000 as of June 30, 2018 and 2017, respectively.

LifeCare is a joint venture between other hospitals in Oklahoma, organized to collaborate and share expenses and expertise to expand or enhance health care services in the communities served by each participating hospital in furtherance of their independent missions. The Authority's investment in LifeCare was approximately \$678,000 and \$594,000 as of June 30, 2018 and 2017 respectively.

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Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,059,793	\$ -	\$ -	\$ -	\$ 1,059,793
Land improvements	1,630,354	-	-	-	1,630,354
Buildings and fixed equipment	50,620,535	1,626,858	(155,892)	780,636	52,872,137
Major moveable equipment	33,602,808	1,555,935	(3,340)	64,491	35,219,894
Construction in progress	<u>2,556,571</u>	<u>13,179,080</u>	<u>-</u>	<u>(845,127)</u>	<u>14,890,524</u>
	<u>89,470,061</u>	<u>16,361,873</u>	<u>(159,232)</u>	<u>-</u>	<u>105,672,702</u>
Less accumulated depreciation					
Land improvements	1,296,107	35,867	-	-	1,331,974
Buildings and fixed equipment	33,210,592	1,914,470	(155,892)	-	34,969,170
Major moveable equipment	<u>24,684,244</u>	<u>2,225,149</u>	<u>(3,340)</u>	<u>-</u>	<u>26,906,053</u>
	<u>59,190,943</u>	<u>4,175,486</u>	<u>(159,232)</u>	<u>-</u>	<u>63,207,197</u>
Capital assets, net	<u><u>\$ 30,279,118</u></u>	<u><u>\$ 12,186,387</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,465,505</u></u>
	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,059,793	\$ -	\$ -	\$ -	\$ 1,059,793
Land improvements	1,595,404	34,950	-	-	1,630,354
Buildings and fixed equipment	46,871,049	662,389	(4,385)	3,091,482	50,620,535
Major moveable equipment	31,591,981	3,046,552	(917,863)	(117,862)	33,602,808
Construction in progress	<u>1,533,084</u>	<u>3,997,107</u>	<u>-</u>	<u>(2,973,620)</u>	<u>2,556,571</u>
	<u>82,651,311</u>	<u>7,740,998</u>	<u>(922,248)</u>	<u>-</u>	<u>89,470,061</u>
Less accumulated depreciation					
Land improvements	1,263,153	32,954	-	-	1,296,107
Buildings and fixed equipment	31,617,324	1,593,268	-	-	33,210,592
Major moveable equipment	<u>23,602,772</u>	<u>2,003,720</u>	<u>(922,248)</u>	<u>-</u>	<u>24,684,244</u>
	<u>56,483,249</u>	<u>3,629,942</u>	<u>(922,248)</u>	<u>-</u>	<u>59,190,943</u>
Capital assets, net	<u><u>\$ 26,168,062</u></u>	<u><u>\$ 4,111,056</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 30,279,118</u></u>

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Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, an accrual of approximately \$134,000 and \$159,000 has been made as of June 30, 2018 and 2017, respectively. It is reasonably possible that this estimate could change materially in the near term.

Effective January 1, 2017, the Authority is a subscriber (member) of Tecumseh, an entity approved by the State of Vermont to provide hospital professional and general liability coverage to its subscribers. Through December 31, 2016, the Authority was a subscriber of Heartland, which merged into Tecumseh on January 1, 2017. Tecumseh was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Tecumseh members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. See *Note 5* for additional information about Tecumseh.

Note 8: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$125,000 and any amounts over \$1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of \$150,000 up to \$1,000,000 beginning in January 1, 2018. Through December 31, 2017, commercial stop-loss insurance coverage was purchased for claims in excess of the aggregate annual amount of \$125,000 up to \$1,000,000.

Through June 2017, the Authority was self-insured for risks related to workers' compensation claims up to \$600,000 per occurrence with an annual liability limit for the Authority of \$1,000,000 in the aggregate.

A provision is accrued for self-insured employee health claims and workers' compensation claims, including both claims reported and claims incurred but not yet reported. The accruals are estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Authority's estimates will change by a material amount in the near term.

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Activity in the Authority's accrued employee health claims and workers' compensation liabilities during 2018 and 2017 is summarized as follows:

	June 30, 2018	
	Employee Health	Workers' Compensation
Balance, beginning of year	\$ (37,610)	\$ 220,637
Current year claims incurred and changes in estimates for claims incurred in prior years	2,355,976	551,427
Claims and expenses paid	(1,881,254)	(564,118)
Balance, end of year	\$ 437,112	\$ 207,946

	June 30, 2017	
	Employee Health	Workers' Compensation
Balance, beginning of year	\$ 439,273	\$ 149,180
Current year claims incurred and changes in estimates for claims incurred in prior years	3,672,009	448,904
Claims and expenses paid	(4,148,892)	(377,447)
Balance, end of year	\$ (37,610)	\$ 220,637

Included in the provision for self-insured employee health claims as of June 30, 2017, is approximately \$586,000 of estimated recoveries for claims in excess of the Authority's stop-loss insurance coverage.

Note 9: Long-Term Obligations

The following is a summary of long-term debt obligation transactions for the Authority for the years ended June 30:

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable to bank	\$ 9,655,057	\$ 4,000,000	\$ (795,412)	\$ 12,859,645	\$ 975,111
Capital lease obligations	196,996	470,655	(234,318)	433,333	208,197
Total long-term debt	\$ 9,852,053	\$ 4,470,655	\$ (1,029,730)	\$ 13,292,978	\$ 1,183,308

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	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable to bank	\$ 10,294,909	\$ -	\$ (639,852)	\$ 9,655,057	\$ 625,971
Capital lease obligations	221,010	87,617	(111,631)	196,996	125,904
Total long-term debt	\$ 10,515,919	\$ 87,617	\$ (751,483)	\$ 9,852,053	\$ 751,875

Notes Payable to Bank

The notes payable to bank are due between December 2019 and June 2036, payable monthly, including interest at rates of 2.55% to 5.15%. The notes are secured by real estate and certain capital assets. The debt service requirements as of June 30, 2018, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2019	\$ 1,349,321	\$ 975,111	\$ 374,210
2020	1,531,935	1,195,018	336,917
2021	1,293,450	995,289	298,161
2022	1,293,451	1,028,157	265,294
2023	1,272,659	1,041,050	231,609
2024–2028	4,125,764	3,358,098	767,666
2029–2033	3,068,932	2,679,774	389,158
2034–2036	1,650,356	1,587,148	63,208
	\$ 15,585,868	\$ 12,859,645	\$ 2,726,223

Included in notes payable are the Series 2016 Hospital Revenue Note and the Series 2017 Hospital Revenue Note (the 2016 Note and the 2017 Note, respectively). The 2016 Note was issued in the original amount of \$8,600,000 dated May 1, 2016, which bears interest monthly at 2.55%. The 2017 Note was issued in the original amount of \$3,200,000 dated December 1, 2017, which bears interest monthly at 3.54%. The 2016 Note and 2017 Note are secured by the gross revenues of the Authority and require certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for capital acquisitions in the accompanying balance sheets. These notes also require the Authority to comply with certain restrictive covenants, including maintaining a debt service coverage ratio of 1.20 to 1.00 and days cash on hand of 75 days.

Also included in notes payable is a promissory note in the original amount of \$800,000 dated September 29, 2017, which bears interest monthly at 4.22%. The promissory note is secured by certain property of the Authority.

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The total debt outstanding on these notes as of June 30 is as follows:

	2018	2017
Series 2016 Hospital Revenue Note	\$ 7,931,588	\$ 8,246,598
Series 2017 Hospital Revenue Note	3,031,470	-
Other notes payable	1,124,867	1,408,459
Promissory note – downtown building	771,720	-
	\$ 12,859,645	\$ 9,655,057

Capital Lease Obligations

The Authority is obligated under various leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2018 and 2017, totaled \$851,297 and \$380,642, net of accumulated depreciation of \$171,757 and \$94,477, respectively.

The following is a schedule by year of future minimum lease payments under capital lease, including interest at a rate of 1.96% to 12.86%, with the present value of the future minimum lease payments as of June 30, 2018:

Year Ending June 30,	
2019	\$ 220,404
2020	117,782
2021	99,952
2022	13,404
Total minimum lease payments	451,542
Less amount representing interest	18,209
Present value of future minimum lease payments	\$ 433,333

Note 10: Charity Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

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Uncompensated costs relating to these services are approximately as follows:

	2018	2017
Charity allowances	\$ 304,000	\$ 506,000
State Medicaid and other public aid programs	6,773,000	7,641,000
	\$ 7,077,000	\$ 8,147,000

The cost of charity care is estimated by applying the cost to charge ratio from the Authority’s most recent Medicare cost report to the gross uncompensated charges. In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services, which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, prenatal education and care, community educational services and various support groups.

Note 11: Pension Plan

The Authority contributes to a defined contribution pension plan, the McAlester Regional Health Center Authority Pension Plan, covering substantially all employees. Pension expense is recorded for the amount of the Authority’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority’s Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority’s governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were approximately 3% and 2%, respectively, for 2018. Contributions actually made by plan members and the Authority aggregated approximately \$1,056,000 and \$639,000, respectively, during 2018. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were approximately 3% and 2%, respectively, for 2017. Contributions actually made by plan members and the Authority aggregated approximately \$1,103,000 and \$667,000, respectively, during 2017.

Employees are immediately vested in their contributions plus earnings thereon and become vested in Authority contributions after completion of five years of continuous service as defined in the plan document. Nonvested Authority contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan’s administrative expenses. For the years ended June 30, 2018 and 2017, forfeitures reduced the Authority’s pension expense by approximately \$140,000 and \$160,000, respectively.

The Authority also provides a deferred compensation plan (457 Plan) to substantially all employees of the Authority. The Authority does not make contributions to the 457 Plan.

There are no publicly available financial reports for these defined contribution pension plans.

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Note 12: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's self-insurance program (discussed elsewhere in these notes) or by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

The Authority invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

Note 13: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and level within the fair value hierarchy in which the fair value measurements fall at June 30:

		2018			
		Fair Value Measurements Using			
Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by Fair Value Level					
Money market mutual funds	\$ 2,353,285	\$ 2,353,285	\$ -	\$ -	-
Corporate bonds	1,416,493	1,365,866	50,627	-	-
U.S. Treasury obligations	1,083,534	1,083,534	-	-	-
Exchanged-traded and closed-end funds	1,710,039	1,710,039	-	-	-
Corporate stocks	1,003,816	1,003,816	-	-	-
Total investments by fair value level	<u>\$ 7,567,167</u>	<u>\$ 7,516,540</u>	<u>\$ 50,627</u>	<u>\$ -</u>	<u>-</u>

		2017			
		Fair Value Measurements Using			
Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments by Fair Value Level					
Money market mutual funds	\$ 9,314,540	\$ 9,314,540	\$ -	\$ -	-
Corporate bonds	1,377,329	1,377,329	-	-	-
U.S. Treasury obligations	1,074,128	1,074,128	-	-	-
U.S. agencies obligations	101,763	101,763	-	-	-
Corporate stocks	873,859	873,859	-	-	-
Total investments by fair value level	<u>\$ 12,741,619</u>	<u>\$ 12,741,619</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

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Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Authority had no Level 3 investments at June 30, 2018, and had no Level 2 or Level 3 investments at June 30, 2017.

Note 14: Combining Component Unit Information

Component Units' Financial Statements

The following tables include combining balance sheet information for the Authority (including MMS) and its blended component units, the Foundation and the Auxiliary, as of June 30:

	2018					
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	Combined Balance
Assets						
Current Assets						
Cash and cash equivalents	\$ 21,621,428	\$ 334,422	\$ 79,246	\$ 22,035,096	\$ -	\$ 22,035,096
Short-term investments	559,890	272,006	-	831,896	-	831,896
Restricted cash	121,040	-	-	121,040	-	121,040
Restricted certificates of deposit for workers' compensation	480,180	-	-	480,180	-	480,180
Patient accounts receivable, net of allowance; \$17,440,387	11,178,667	-	-	11,178,667	-	11,178,667
Estimated amounts due from third-party payers	79,561	-	-	79,561	-	79,561
Supplies	2,153,104	-	26,699	2,179,803	-	2,179,803
Prepaid expenses and other	2,334,861	20,120	54,915	2,409,896	(60,579)	2,349,317
Total current assets	<u>38,528,731</u>	<u>626,548</u>	<u>160,860</u>	<u>39,316,139</u>	<u>(60,579)</u>	<u>39,255,560</u>
Noncurrent Cash and Investments						
Held by trustee for capital acquisitions	2,197,432	-	-	2,197,432	-	2,197,432
Other long-term investments	7,558,068	-	-	7,558,068	-	7,558,068
Investments in and advances to equity investees	6,477,966	-	-	6,477,966	-	6,477,966
Total noncurrent cash and investments	<u>16,233,466</u>	<u>-</u>	<u>-</u>	<u>16,233,466</u>	<u>-</u>	<u>16,233,466</u>
Capital Assets, Net	<u>42,465,505</u>	<u>-</u>	<u>-</u>	<u>42,465,505</u>	<u>-</u>	<u>42,465,505</u>
Total assets	<u>\$ 97,227,702</u>	<u>\$ 626,548</u>	<u>\$ 160,860</u>	<u>\$ 98,015,110</u>	<u>\$ (60,579)</u>	<u>\$ 97,954,531</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2018 and 2017

	2018					
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	Combined Balance
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 1,183,308	\$ -	\$ -	\$ 1,183,308	\$ -	\$ 1,183,308
Accounts payable	4,971,136	72,606	6,457	5,050,199	(60,579)	4,989,620
Accrued expenses	4,463,901	-	-	4,463,901	-	4,463,901
Total current liabilities	10,618,345	72,606	6,457	10,697,408	(60,579)	10,636,829
Long-Term Debt	12,109,670	-	-	12,109,670	-	12,109,670
Total liabilities	22,728,015	72,606	6,457	22,807,078	(60,579)	22,746,499
Net Position						
Net investment in capital assets	26,782,974	-	-	26,782,974	-	26,782,974
Restricted – expendable for						
Capital acquisitions and debt service	2,318,472	250,000	-	2,568,472	-	2,568,472
Workers' compensation claims	272,234	-	-	272,234	-	272,234
Specific operating activities	-	20,303	-	20,303	-	20,303
Unrestricted	45,126,007	283,639	154,403	45,564,049	-	45,564,049
Total net position	74,499,687	553,942	154,403	75,208,032	-	75,208,032
Total liabilities and net position	<u>\$ 97,227,702</u>	<u>\$ 626,548</u>	<u>\$ 160,860</u>	<u>\$ 98,015,110</u>	<u>\$ (60,579)</u>	<u>\$ 97,954,531</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2018 and 2017

	2017					
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	Combined Balance
Assets						
Current Assets						
Cash and cash equivalents	\$ 26,335,308	\$ 315,713	\$ 74,993	\$ 26,726,014	\$ -	\$ 26,726,014
Short-term investments	349,115	269,201	-	618,316	-	618,316
Restricted cash	120,555	-	-	120,555	-	120,555
Restricted certificates of deposit for workers' compensation	476,595	-	-	476,595	-	476,595
Patient accounts receivable, net of allowance; \$14,041,949	12,945,733	-	-	12,945,733	-	12,945,733
Supplies	2,410,216	-	51,870	2,462,086	-	2,462,086
Prepaid expenses and other	1,920,330	9,000	25,634	1,954,964	-	1,954,964
Total current assets	<u>44,557,852</u>	<u>593,914</u>	<u>152,497</u>	<u>45,304,263</u>	<u>-</u>	<u>45,304,263</u>
Noncurrent Cash and Investments						
Held by trustee for capital acquisitions	8,130,340	-	-	8,130,340	-	8,130,340
Other long-term investments	4,275,967	-	-	4,275,967	-	4,275,967
Investments in and advances to equity investees	5,912,519	-	-	5,912,519	-	5,912,519
Total noncurrent cash and investments	<u>18,318,826</u>	<u>-</u>	<u>-</u>	<u>18,318,826</u>	<u>-</u>	<u>18,318,826</u>
Capital Assets, Net						
	<u>30,279,118</u>	<u>-</u>	<u>-</u>	<u>30,279,118</u>	<u>-</u>	<u>30,279,118</u>
Total assets	<u>\$ 93,155,796</u>	<u>\$ 593,914</u>	<u>\$ 152,497</u>	<u>\$ 93,902,207</u>	<u>\$ -</u>	<u>\$ 93,902,207</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2018 and 2017

	2017					
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	Combined Balance
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 751,875	\$ -	\$ -	\$ 751,875	\$ -	\$ 751,875
Accounts payable	5,969,120	1,692	4,866	5,975,678	-	5,975,678
Accrued expenses	3,594,211	-	-	3,594,211	-	3,594,211
Estimated amounts due to third-party payers	39,539	-	-	39,539	-	39,539
Total current liabilities	10,354,745	1,692	4,866	10,361,303	-	10,361,303
Long-Term Debt	9,100,178	-	-	9,100,178	-	9,100,178
Total liabilities	19,454,923	1,692	4,866	19,461,481	-	19,461,481
Net Position						
Net investment in capital assets	18,820,069	-	-	18,820,069	-	18,820,069
Restricted – expendable for						
Capital acquisitions and debt service	8,250,895	250,000	-	8,500,895	-	8,500,895
Workers' compensation claims	255,958	-	-	255,958	-	255,958
Specific operating activities	-	20,303	-	20,303	-	20,303
Unrestricted	46,373,951	321,919	147,631	46,843,501	-	46,843,501
Total net position	73,700,873	592,222	147,631	74,440,726	-	74,440,726
Total liabilities and net position	\$ 93,155,796	\$ 593,914	\$ 152,497	\$ 93,902,207	\$ -	\$ 93,902,207

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2018 and 2017

The following tables include combining statements of revenues, expenses and changes in net position information for the Authority (including MMS) and its blended component units, the Foundation and the Auxiliary, for the years ended June 30:

	2018					Combined Balance
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts – \$18,281,421	\$ 82,065,771	\$ -	\$ -	\$ 82,065,771	\$ -	\$ 82,065,771
Other operating revenues	3,492,351	-	301,029	3,793,380	(53,099)	3,740,281
Total operating revenues	<u>85,558,122</u>	<u>-</u>	<u>301,029</u>	<u>85,859,151</u>	<u>(53,099)</u>	<u>85,806,052</u>
Operating Expenses						
Salaries and wages	38,685,697	-	-	38,685,697	-	38,685,697
Employee benefits	6,386,453	-	-	6,386,453	-	6,386,453
Purchased services and professional fees	13,803,571	-	-	13,803,571	-	13,803,571
Supplies and other expenses	23,052,238	681,713	294,257	24,028,208	(366,324)	23,661,884
Depreciation and amortization	4,175,486	-	-	4,175,486	-	4,175,486
Total operating expenses	<u>86,103,445</u>	<u>681,713</u>	<u>294,257</u>	<u>87,079,415</u>	<u>(366,324)</u>	<u>86,713,091</u>
Operating Income (Loss)	<u>(545,323)</u>	<u>(681,713)</u>	<u>6,772</u>	<u>(1,220,264)</u>	<u>313,225</u>	<u>(907,039)</u>
Nonoperating Revenues (Expenses)						
Gain on investments in equity investees	988,688	-	-	988,688	-	988,688
Gain on sale of capital assets	139,875	-	-	139,875	-	139,875
Investment income	107,770	4,185	-	111,955	-	111,955
Noncapital grants and gifts	-	439,248	-	439,248	(113,225)	326,023
Interest expense	(149,540)	-	-	(149,540)	-	(149,540)
Total nonoperating revenues (expenses)	<u>1,086,793</u>	<u>443,433</u>	<u>-</u>	<u>1,530,226</u>	<u>(113,225)</u>	<u>1,417,001</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	541,470	(238,280)	6,772	309,962	200,000	509,962
Gifts to Purchase Capital Assets and Other Capital Grants and Gifts	<u>257,344</u>	<u>200,000</u>	<u>-</u>	<u>457,344</u>	<u>(200,000)</u>	<u>257,344</u>
Increase (Decrease) in Net Position	798,814	(38,280)	6,772	767,306	-	767,306
Net Position, Beginning of Year	<u>73,700,873</u>	<u>592,222</u>	<u>147,631</u>	<u>74,440,726</u>	<u>-</u>	<u>74,440,726</u>
Net Position, End of Year	<u>\$ 74,499,687</u>	<u>\$ 553,942</u>	<u>\$ 154,403</u>	<u>\$ 75,208,032</u>	<u>\$ -</u>	<u>\$ 75,208,032</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2018 and 2017

	2017					Combined Balance
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts – \$15,138,162	\$ 85,509,987	\$ -	\$ -	\$ 85,509,987	\$ -	\$ 85,509,987
Other operating revenues	4,086,631	-	280,847	4,367,478	(51,993)	4,315,485
Total operating revenues	<u>89,596,618</u>	<u>-</u>	<u>280,847</u>	<u>89,877,465</u>	<u>(51,993)</u>	<u>89,825,472</u>
Operating Expenses						
Salaries and wages	39,903,555	-	-	39,903,555	-	39,903,555
Employee benefits	7,475,802	-	-	7,475,802	-	7,475,802
Purchased services and professional fees	13,402,226	-	-	13,402,226	-	13,402,226
Supplies and other expenses	24,802,800	520,106	275,938	25,598,844	(139,259)	25,459,585
Depreciation and amortization	3,643,456	-	-	3,643,456	-	3,643,456
Total operating expenses	<u>89,227,839</u>	<u>520,106</u>	<u>275,938</u>	<u>90,023,883</u>	<u>(139,259)</u>	<u>89,884,624</u>
Operating Income (Loss)	<u>368,779</u>	<u>(520,106)</u>	<u>4,909</u>	<u>(146,418)</u>	<u>87,266</u>	<u>(59,152)</u>
Nonoperating Revenues (Expenses)						
Gain on investments in equity investees	987,251	-	-	987,251	-	987,251
Investment income	176,637	5,355	-	181,992	-	181,992
Noncapital grants and gifts	-	448,031	-	448,031	(87,266)	360,765
Interest expense	(84,442)	-	-	(84,442)	-	(84,442)
Total nonoperating revenues (expenses)	<u>1,079,446</u>	<u>453,386</u>	<u>-</u>	<u>1,532,832</u>	<u>(87,266)</u>	<u>1,445,566</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	1,448,225	(66,720)	4,909	1,386,414	-	1,386,414
Gifts to Purchase Capital Assets and Other Capital Grants and Gifts	250,000	-	-	250,000	-	250,000
Increase (Decrease) in Net Position	1,698,225	(66,720)	4,909	1,636,414	-	1,636,414
Net Position, Beginning of Year	<u>72,002,648</u>	<u>658,942</u>	<u>142,722</u>	<u>72,804,312</u>	<u>-</u>	<u>72,804,312</u>
Net Position, End of Year	<u>\$ 73,700,873</u>	<u>\$ 592,222</u>	<u>\$ 147,631</u>	<u>\$ 74,440,726</u>	<u>\$ -</u>	<u>\$ 74,440,726</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2018 and 2017

The following tables include condensed combining statements of cash flows information for the Authority (including MMS) and its blended component units, the Foundation and the Auxiliary, for the years ended June 30:

	2018					
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	Combined Balance
Net Cash Provided by (Used in) Operating Activities	\$ 4,523,084	\$ (621,919)	\$ 4,253	\$ 3,905,418	\$ -	\$ 3,905,418
Net Cash Provided by (Used in) Noncapital Financing Activities	(113,225)	439,248	-	326,023	-	326,023
Net Cash Provided by (Used in) Capital and Related Financing Activities	(12,090,712)	200,000	-	(11,890,712)	-	(11,890,712)
Net Cash Provided by Investing Activities	2,967,458	1,380	-	2,968,838	-	2,968,838
Increase (Decrease) in Cash and Cash Equivalents	(4,713,395)	18,709	4,253	(4,690,433)	-	(4,690,433)
Cash and Cash Equivalents, Beginning of Year	26,455,863	315,713	74,993	26,846,569	-	26,846,569
Cash and Cash Equivalents, End of Year	<u>\$ 21,742,468</u>	<u>\$ 334,422</u>	<u>\$ 79,246</u>	<u>\$ 22,156,136</u>	<u>\$ -</u>	<u>\$ 22,156,136</u>

	2017					
	McAlester Regional Health Center Authority	McAlester Regional Health Center Foundation	Auxiliary Volunteer Services of McAlester Regional Health Center	Total	Eliminations	Combined Balance
Net Cash Provided by (Used in) Operating Activities	\$ 4,022,373	\$ (546,524)	\$ (42,453)	\$ 3,433,396	\$ -	\$ 3,433,396
Net Cash Provided by (Used in) Noncapital Financing Activities	(87,266)	448,031	-	360,765	-	360,765
Net Cash Used in Capital and Related Financing Activities	(6,942,347)	-	-	(6,942,347)	-	(6,942,347)
Net Cash Provided by Investing Activities	577,909	77,796	-	655,705	-	655,705
Decrease in Cash and Cash Equivalents	(2,429,331)	(20,697)	(42,453)	(2,492,481)	-	(2,492,481)
Cash and Cash Equivalents, Beginning of Year	28,885,194	336,410	117,446	29,339,050	-	29,339,050
Cash and Cash Equivalents, End of Year	<u>\$ 26,455,863</u>	<u>\$ 315,713</u>	<u>\$ 74,993</u>	<u>\$ 26,846,569</u>	<u>\$ -</u>	<u>\$ 26,846,569</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2018 and 2017

Note 15: Construction Project

In 2017, the Authority signed contracts with Manhattan Construction Company for the design and construction of a new emergency department. The project was completed in September 2018 with total cost of the project approximating \$12,500,000. The Authority has incurred approximately \$11,700,000 of expenditures (excluding approximately \$400,000 of capitalized interest) as of June 30, 2018, related to the construction.

Note 16: Subsequent Events

Subsequent events have been evaluated through October 29, 2018, which is the date the financial statements were available to be issued.

Supplementary Information – Financial Ratios

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Days Cash on Hand
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted cash	\$ 30,905,240	\$ 32,096,892
Operating expenses	\$ 86,713,091	\$ 89,884,624
Less depreciation and amortization	(4,175,486)	(3,643,456)
Adjusted expenses	82,537,605	86,241,168
	<u>365</u>	<u>365</u>
Average daily operating expense	\$ 226,130	\$ 236,277
Days cash on hand	<u>136.67</u>	<u>135.84</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Debt Service Coverage Ratio
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating loss	\$ (907,039)	\$ (59,152)
Add depreciation and amortization	<u>4,175,486</u>	<u>3,643,456</u>
Net income available for debt service	<u>\$ 3,268,447</u>	<u>\$ 3,584,304</u>
Principal payments on long-term debt	\$ 1,029,730	\$ 751,483
Interest payments on long-term debt	<u>149,540</u>	<u>84,442</u>
	<u>\$ 1,179,270</u>	<u>\$ 835,925</u>
Debt service coverage ratio	<u>2.77</u>	<u>4.29</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
EBIDA Calculation
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating loss	\$ (907,039)	\$ (59,152)
Add depreciation and amortization	<u>4,175,486</u>	<u>3,643,456</u>
EBIDA	<u>\$ 3,268,447</u>	<u>\$ 3,584,304</u>

**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**

Independent Auditor's Report

Board of Trustees
McAlester Regional Health Center Authority
McAlester, 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 McAlester Regional Health Center Authority (the Authority), a component unit of the City of McAlester, Oklahoma, which comprise the balance sheet as of June 30, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2018, which contained an *Other Matters* paragraph regarding omission of required supplementary information.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
McAlester Regional Health Center Authority

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 determination of financial statement amounts. 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*.

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.

BKD, LLP

Tulsa, Oklahoma
October 29, 2018

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2018

Reference Number	Finding
	No matters are reportable.