

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2020 and 2019



McAlester Regional Health Center Authority
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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, 2020 and 2019, 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, 2020 and 2019, 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 management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by 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, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The financial ratios have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2020, 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.

BKD, LLP

Tulsa, Oklahoma
December 4, 2020

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Balance Sheets
June 30, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 29,955,597	\$ 17,570,571
Short-term investments	5,025,243	4,683,532
Patient accounts receivable, net of allowance; 2020 – \$21,978,589, 2019 – \$20,052,176	11,039,355	14,851,819
Estimated amounts due from third-party payors	-	217,940
Supplies	2,828,253	2,293,197
Prepaid expenses and other	1,735,208	2,820,879
Total current assets	50,583,656	42,437,938
 Noncurrent Cash and Investments		
Restricted cash	879,754	108,163
Held by trustee for capital acquisitions	-	2,108,969
Other long-term investments	9,850,398	9,722,043
Investments in and advances to equity investees	5,581,881	4,942,192
Total noncurrent cash and investments	16,312,033	16,881,367
 Capital Assets, Net		
	43,998,209	43,186,192
Total assets	\$ 110,893,898	\$ 102,505,497

Liabilities and Net Position

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,165,207	\$ 1,324,499
Accounts payable	3,810,386	4,728,773
Accrued expenses	4,845,798	4,508,306
Estimated amounts due to third-party payors	11,999,573	-
Total current liabilities	<u>21,820,964</u>	<u>10,561,578</u>
Other Liabilities		
Long-term debt	10,245,652	11,211,763
Other long-term liability	487,798	-
Total other liabilities	<u>10,733,450</u>	<u>11,211,763</u>
Total liabilities	<u>32,554,414</u>	<u>21,773,341</u>
Net Position		
Net investment in capital assets	32,522,735	32,068,625
Restricted – expendable for		
Capital acquisitions	899,754	750,748
Specific operating activities	19,848	19,848
Unrestricted	44,897,147	47,892,935
Total net position	<u>78,339,484</u>	<u>80,732,156</u>
Total liabilities and net position	<u>\$ 110,893,898</u>	<u>\$ 102,505,497</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, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$16,564,750, 2019 – \$16,382,508	\$ 84,781,548	\$ 93,103,502
Other operating revenues	3,422,954	3,995,546
Total operating revenues	88,204,502	97,099,048
Operating Expenses		
Salaries and wages	42,830,680	41,116,645
Employee benefits	7,537,620	6,305,465
Purchased services and professional fees	19,357,612	17,255,624
Supplies and other expenses	25,175,267	26,871,337
Depreciation	4,776,623	4,753,527
Total operating expenses	99,677,802	96,302,598
Operating Income (Loss)	(11,473,300)	796,450
Nonoperating Revenues (Expenses)		
Gain on investments in equity investees	514,902	3,303,332
Gain (loss) on disposal of capital assets	(50,838)	248
Investment income	674,902	713,599
Noncapital grants and gifts	441,763	498,743
Interest expense	(339,323)	(180,833)
Government grants	7,447,177	-
Total nonoperating revenues (expenses)	8,688,583	4,335,089
Income (Loss) Before Capital Grants and Gifts and Capital Appropriations	(2,784,717)	5,131,539
Capital Grants and Gifts and Capital Appropriations	392,045	392,585
Increase (Decrease) in Net Position	(2,392,672)	5,524,124
Net Position, Beginning of Year	80,732,156	75,208,032
Net Position, End of Year	\$ 78,339,484	\$ 80,732,156

McAlester Regional Health Center Authority
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Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 101,172,001	\$ 89,543,760
Payments to suppliers and contractors	(44,984,034)	(42,753,425)
Payments to employees	(49,587,029)	(47,403,034)
Other receipts, net	3,448,167	3,935,314
Net cash provided by operating activities	10,049,105	3,322,615
Noncapital Financing Activities		
Noncapital grants and gifts	441,763	498,743
Government grants	7,447,177	-
Net cash provided by noncapital financing activities	7,888,940	498,743
Capital and Related Financing Activities		
Principal paid on long-term debt	(1,125,403)	(1,156,716)
Proceeds from issuance of long-term debt	-	400,000
Interest paid on capital debt and leases	(339,323)	(180,833)
Purchase of capital assets	(6,265,137)	(7,972,255)
Appropriations restricted for capital projects – City of McAlester	784,630	-
Proceeds from disposal of capital assets	-	1,190,594
Net cash used in capital and related financing activities	(6,945,233)	(7,719,210)
Investing Activities		
Purchases of investments	(3,217,831)	(9,604,656)
Proceeds from disposition of investments	5,114,625	4,085,997
Investment income	423,104	305,110
Change in restricted certificates of deposit, net	(6,093)	480,180
Proceeds from sale of interest in Dialysis Center	-	4,216,814
Advances to equity investees	(150,000)	(1,134,418)
Distributions from equity investees	-	1,224,578
Cash paid in acquisition, net of cash acquired (<i>Note 5</i>)	-	(153,155)
Net cash provided by (used in) investing activities	2,163,805	(579,550)
Increase (Decrease) in Cash and Cash Equivalents	13,156,617	(4,477,402)
Cash and Cash Equivalents, Beginning of Year	17,678,734	22,156,136
Cash and Cash Equivalents, End of Year	\$ 30,835,351	\$ 17,678,734

See Notes to Financial Statements

	<u>2020</u>	<u>2019</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 29,955,597	\$ 17,570,571
Cash and cash equivalents in restricted cash	<u>879,754</u>	<u>108,163</u>
Total cash and cash equivalents	<u>\$ 30,835,351</u>	<u>\$ 17,678,734</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (11,473,300)	\$ 796,450
Depreciation	4,776,623	4,753,527
Accrued self-insurance costs	(62,541)	(208,006)
Provision for uncollectible accounts	16,564,750	16,382,508
Changes in operating assets and liabilities		
Patient accounts receivable	(12,752,286)	(19,862,368)
Estimated amounts due to/from third-party payors	12,217,513	(138,379)
Accounts payable and accrued expenses	595,103	1,712,072
Supplies and prepaid expenses	<u>183,243</u>	<u>(113,189)</u>
Net cash provided by operating activities	<u>\$ 10,049,105</u>	<u>\$ 3,322,615</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 64,615	\$ 690,274
In 2019, the Authority purchased the remaining membership units of McAlester Ambulatory Surgery Center for \$502,000. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of investments acquired		\$ 1,072,521
Cash paid		(502,000)
Authority equity interest in the Surgery Center		<u>(557,132)</u>
Liabilities assumed		<u>\$ 13,389</u>

McAlester Regional Health Center Authority
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Notes to Financial Statements
June 30, 2020 and 2019

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 (the City), and the surrounding area. The Authority operates, as its sole activity, McAlester Regional Health Center (the Health Center). Substantially all property and equipment used by the Authority is subject to a 50-year lease agreement with the City 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 and a rehabilitation unit 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, tax-exempt 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 as it is essentially operating as a division of the Health Center's operations.

McAlester Ambulatory Surgery Center (the Surgery Center) provides surgical services to patients in McAlester, Oklahoma, and the surrounding area. The Authority holds 100% ownership of the Surgery Center as of January 31, 2019 (see *Note 5*). The Surgery Center is included as a blended component unit of the Authority in the accompanying financial statements as it is essentially operating as a division of the Health Center's operations.

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 and sales tax appropriations) 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, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers.

Included in short-term investments and held by trustee for capital acquisitions on the accompanying balance sheets are money market mutual funds with brokers that the Authority does not consider cash equivalents.

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Investments and Investment Income

All investments are carried at fair value except for non-negotiable certificates of deposit, which are carried at amortized cost. The investment in equity investees is reported on the equity method of accounting. 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 payors, 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, fixed equipment, and leasehold improvements	10–40 years
Major moveable 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 \$61,000 and \$216,000 in 2020 and 2019, respectively.

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical costs and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

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No asset impairment was recognized during the years ended June 30, 2020 and 2019.

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.

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.

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.

Restricted Cash

The Authority received appropriations related to excise taxes levied by two city ordinances to provide revenues for the purpose of financing and constructing a cancer treatment facility, with total funds not to exceed \$1,750,000, and a wellness facility, with total funds not to exceed \$6,000,000, in the City. The Authority reached the maximum funding levels from each excise tax during 2010. Approximately \$95,000 and \$108,000 of the funds under the excise taxes remain unspent and are reflected on the accompanying balance sheets as restricted cash at June 30, 2020 and 2019, respectively.

The Authority also has cash that is externally restricted as discussed in the *County Appropriations* section below.

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June 30, 2020 and 2019

Net Position

Net position of the Authority is classified in three components on its balance sheets.

- 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 payors 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 payors, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. 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 a similar provision of Oklahoma statutes. However, the Authority is subject to federal income tax on any unrelated business taxable income.

County Appropriations

In 2018, the citizens of the City approved a 1/8-cent sales tax ordinance, the proceeds of which are to be earmarked for future construction of a new cancer treatment center, which will provide

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expanded cancer care and ancillary services to the surrounding area. The sales tax went into effect on October 1, 2018. Revenue from city appropriations is recognized in the year in which the sales tax is earned and is recorded as capital grants and gifts and capital appropriations in the accompanying statements of revenues, expenses, and changes in net position. The provisions of this ordinance and the collection of the related sales tax shall expire on July 1, 2033. Approximately \$785,000 of receipts from the sales tax ordinance remain unspent and are reflected in the accompanying balance sheets as restricted cash at June 30, 2020.

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 the City, and cafeteria sales.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2025. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee that 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 is expected to be approximately \$5,775,000 in 2021.

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

	2020	2019
SHOPP funds received	\$ 6,195,000	\$ 6,164,000
SHOPP assessment fees paid	1,324,000	1,692,000
Net benefit under SHOPP	<u>\$ 4,871,000</u>	<u>\$ 4,472,000</u>

Revisions

Certain immaterial revisions have been made to the 2019 financial statements to net certain unspent debt proceeds with the related debt within net investment in capital assets on the accompanying

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balance sheet and to included negotiable certificates of deposit within the fair value hierarchy disclosure. These revisions had no impact on total net position or change in net position.

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. 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 a patient classification system that is 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 51% and 48% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, none of the Authority's bank balances of approximately \$35,539,000 and \$22,150,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

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The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$1,411,000 and \$1,351,000 and carrying values of approximately \$1,468,000 and \$1,479,000 at June 30, 2020 and 2019, respectively.

As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2020 and 2019, the blended component units' cash accounts exceeded federally insured limits by approximately \$637,000 and \$763,000, 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	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
2020					
Corporate bonds	\$ 1,659,440	\$ 362,201	\$ 941,999	\$ 355,240	\$ -
U.S. Treasury obligations	1,095,631	-	335,859	759,772	-
Money market mutual funds	<u>3,809,557</u>	<u>3,809,557</u>	<u>-</u>	<u>-</u>	<u>-</u>
	6,564,628	<u>\$ 4,171,758</u>	<u>\$ 1,277,858</u>	<u>\$ 1,115,012</u>	<u>\$ -</u>
Exchange-traded funds	2,545,097				
Corporate stocks	1,113,071				
Accrued interest	<u>34,366</u>				
	<u>\$ 10,257,162</u>				
2019					
Corporate bonds	\$ 1,441,431	\$ 51,162	\$ 1,281,531	\$ 108,738	\$ -
U.S. Treasury obligations	1,180,502	-	398,804	781,698	-
Money market mutual funds	<u>5,399,076</u>	<u>5,399,076</u>	<u>-</u>	<u>-</u>	<u>-</u>
	8,021,009	<u>\$ 5,450,238</u>	<u>\$ 1,680,335</u>	<u>\$ 890,436</u>	<u>\$ -</u>
Exchange-traded funds	2,440,747				
Corporate stocks	1,103,413				
Accrued interest	<u>40,299</u>				
	<u>\$ 11,605,468</u>				

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.

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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	Moody’s	S & P
2020		
Corporate bonds	Baa2 to Aaa	BBB to AA+
Money market mutual funds	Not rated	Not rated to AAAM
2019		
Corporate bonds	Baa2 to Aa1	BBB to 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, certificates of deposit, and money market investments, to 25% of the market value of the fund in one industry and 10% in any one company. At June 30, 2020, the Authority’s investment in one money market mutual fund of \$3,719,420 constituted approximately 36% of its total investments. At June 30, 2019, the Authority’s investment in two money market mutual funds totaling \$5,228,065 constituted approximately 47% of its total investments.

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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>2020</u>	<u>2019</u>
Carrying value		
Deposits	\$ 35,453,830	\$ 22,587,810
Investments	<u>10,257,162</u>	<u>11,605,468</u>
	<u>\$ 45,710,992</u>	<u>\$ 34,193,278</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 29,955,597	\$ 17,570,571
Short-term investments	5,025,243	4,683,532
Held by trustee for capital acquisitions and restricted cash	879,754	2,217,132
Other long-term investments	<u>9,850,398</u>	<u>9,722,043</u>
	<u>\$ 45,710,992</u>	<u>\$ 34,193,278</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2020</u>	<u>2019</u>
Interest, dividends, and realized gains on sales of investments, net	\$ 423,104	\$ 305,110
Net increase in fair value of investments	<u>251,798</u>	<u>408,489</u>
Total	<u>\$ 674,902</u>	<u>\$ 713,599</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 payor agreements. Patient accounts receivable at June 30 consisted of:

	2020	2019
Medicare	\$ 3,886,372	\$ 5,307,233
Medicaid	1,813,809	2,200,904
Other third-party payors	10,911,089	11,417,706
Patients	16,406,674	15,978,152
	33,017,944	34,903,995
Less allowance for uncollectible accounts	21,978,589	20,052,176
	\$ 11,039,355	\$ 14,851,819

Note 5: Investments in and Advances to Equity Investees

The Authority's investments in and advances to equity investees relate to ownership interest in the following entities accounted for using the equity method as of June 30:

	2020		2019	
	Investment in and Advances to Equity Investee	Approximate Ownership Interest %	Investment in and Advances to Equity Investee	Approximate Ownership Interest %
Tecumseh	\$ 3,401,000	7%	\$ 2,999,000	8%
LifeCare	706,000	10%	678,000	10%
ASLG	1,210,000	50%	1,060,000	50%
Other insignificant investments in equity investees	264,881	Various	205,192	Various
	\$ 5,581,881		\$ 4,942,192	

- **Tecumseh Health Reciprocal Risk Retention (Tecumseh)** – The Authority purchases its professional liability (medical malpractice) and general liability insurance coverage from Tecumseh (see Note 7). For the years ended June 30, 2020 and 2019, the Authority paid approximately \$476,000 and \$498,000, respectively, to Tecumseh for the coverage.
- **McAlester Ambulatory Surgery Center** – The Surgery Center was an equity investee with Warren Clinic through January 31, 2019, organized to operate an ambulatory surgery center in McAlester, Oklahoma. The Authority acquired the remaining 50% interest in the

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Surgery Center effective January 31, 2019 (as discussed below). Through January 31, 2019, the Authority leased employees to the Surgery Center and provided insurance coverage and supplies on a limited basis. The Surgery Center paid the Authority approximately \$561,000 for the period ended January 31, 2019.

On January 31, 2019, the Authority acquired 100% equity ownership of the Surgery Center in exchange for \$502,000. The Authority will operate and maintain the Surgery Center and account for its operations. The acquisition included all of the assets of the Surgery Center. In addition, the Authority assumed accounts payable liabilities of the Surgery Center. The acquisition value of the net position acquired was determined to be approximately \$1,100,000. The Surgery Center was previously recorded as an equity method investment on the Authority's balance sheets; this investment was reduced to eliminate the excess net position received.

- **McAlester Regional Dialysis Center (the Dialysis Center)** – The Dialysis Center was an equity investee with a physician through May 1, 2019, organized to operate a dialysis facility in McAlester, Oklahoma. Effective May 1, 2019, the Authority sold its 50% interest in the Dialysis Center. Through May 1, 2019, the Authority leased employees to the Dialysis Center and provided insurance coverage and supplies on a limited basis. The Dialysis Center paid the Authority approximately \$1,367,000 for the period ended May 1, 2019. The Authority recorded a gain on the sale of its 50% ownership interest in the Dialysis Center of approximately \$3,500,000, which is recorded as a gain on investments in equity investees in the accompanying statements of revenues, expenses, and changes in net position.
- **LifeCare Health Services, L.L.C. (LifeCare)** – 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.
- **Associated Senior Living Group (ASLG)** – ASLG was formed in November 2018 for the purpose of investing in and managing the operations of Belfair of McAlester, LLC (Belfair), which is an assisted living center located in McAlester, Oklahoma. Belfair started operations in May 2019. The Authority has a 50% interest in ASLG, which owns an approximate 52% interest in Associated Healthcare Group, LLC (AHG). AHG owns 95% of Belfair. As a result, the Authority's ownership interest approximates a 25% ownership interest in Belfair. The Authority is listed as a 25% guarantor on a certain AHG loan, with the Authority's total guarantee on the loan being approximately \$1,666,000 and \$1,700,000 as of June 30, 2020 and 2019, respectively. The Authority has determined, as of June 30, 2020 and 2019, no amounts were owed as a result of this guarantee. The operations of ASLG and AHG consist primarily of activity related to transactions with Belfair. During 2020, the Authority contributed another \$150,000 into ASLG as a result of a capital call by AHG to further assist in funding the initial operations of Belfair.
- **Other Insignificant Investments in Equity Investees** – The Authority holds other insignificant investments in MSO Healthcare of Oklahoma, LLC (the Authority dissolved

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its interest in 2019); 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 was issued on January 24, 2018, for approximately \$600,000 and is payable over 60 months, including interest at 4.25%. The Authority has determined, as of June 30, 2020 and 2019, no amounts were owed as a result of this guarantee.

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 Belfair and LifeCare for the years ended June 30, 2020 and 2019 (unaudited); and the audited results of operations for Tecumseh for the years ended December 31, 2019 and 2018.

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

	December 31,	June 30, 2020		
	2019	Tecumseh	LifeCare	Belfair
Current assets	\$ 60,879,392	\$ 7,931,422	\$ 137,883	
Property and other long-term assets, net	-	311,376	11,803,293	
Total assets	\$ 60,879,392	\$ 8,242,798	\$ 11,941,176	
Total liabilities	\$ 18,157,605	\$ 307,385	\$ 9,838,930	
Partners' equity	42,721,787	7,935,413	2,102,246	
Total liabilities and partners' equity	\$ 60,879,392	\$ 8,242,798	\$ 11,941,176	
Revenues	\$ 10,611,790	\$ 2,958,597	\$ 1,339,363	
Excess (deficiency) of revenues over expenses	\$ 5,891,131	\$ 563,373	\$ (1,186,880)	

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	December 31, 2018	June 30, 2019	
	Tecumseh	LifeCare	Belfair
Current assets	\$ 53,529,283	\$ 7,248,946	\$ 259,829
Property and other long-term assets, net	-	309,247	12,154,415
Total assets	<u>\$ 53,529,283</u>	<u>\$ 7,558,193</u>	<u>\$ 12,414,244</u>
Total liabilities	\$ 19,790,296	\$ 208,973	\$ 9,486,521
Partners' equity	33,738,987	7,349,220	2,927,723
Total liabilities and partners' equity	<u>\$ 53,529,283</u>	<u>\$ 7,558,193</u>	<u>\$ 12,414,244</u>
Revenues	<u>\$ 12,839,246</u>	<u>\$ 2,238,969</u>	<u>\$ 61,595</u>
Excess (deficiency) of revenues over expenses	<u>\$ 6,280,005</u>	<u>\$ 437,896</u>	<u>\$ (592,000)</u>

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,182,789	\$ -	\$ -	\$ -	\$ 1,182,789
Land improvements	1,717,687	-	-	435,673	2,153,360
Buildings, fixed equipment, and leasehold improvements	66,860,330	321,226	-	474,251	67,655,807
Major moveable equipment	38,268,329	1,170,168	-	4,778,628	44,217,125
Construction in progress	3,103,151	4,148,084	(50,838)	(5,688,552)	1,511,845
	<u>111,132,286</u>	<u>5,639,478</u>	<u>(50,838)</u>	<u>-</u>	<u>116,720,926</u>
Less accumulated depreciation					
Land improvements	1,375,118	51,649	-	-	1,426,767
Buildings, fixed equipment, and leasehold improvements	37,276,356	2,261,101	-	-	39,537,457
Major moveable equipment	29,294,620	2,463,873	-	-	31,758,493
	<u>67,946,094</u>	<u>4,776,623</u>	<u>-</u>	<u>-</u>	<u>72,722,717</u>
Capital assets, net	<u>\$ 43,186,192</u>	<u>\$ 862,855</u>	<u>\$ (50,838)</u>	<u>\$ -</u>	<u>\$ 43,998,209</u>

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	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,059,793	\$ -	\$ -	\$ 122,996	\$ 1,182,789
Land improvements	1,630,354	-	-	87,333	1,717,687
Buildings, fixed equipment, and leasehold improvements	52,872,137	957,357	-	13,030,836	66,860,330
Major moveable equipment	35,219,894	1,856,442	(16,093)	1,208,086	38,268,329
Construction in progress	14,890,524	3,850,761	(1,188,883)	(14,449,251)	3,103,151
	<u>105,672,702</u>	<u>6,664,560</u>	<u>(1,204,976)</u>	<u>-</u>	<u>111,132,286</u>
Less accumulated depreciation					
Land improvements	1,331,974	43,144	-	-	1,375,118
Buildings, fixed equipment, and leasehold improvements	34,969,170	2,307,186	-	-	37,276,356
Major moveable equipment	26,906,053	2,403,197	(14,630)	-	29,294,620
	<u>63,207,197</u>	<u>4,753,527</u>	<u>(14,630)</u>	<u>-</u>	<u>67,946,094</u>
Capital assets, net	<u>\$ 42,465,505</u>	<u>\$ 1,911,033</u>	<u>\$ (1,190,346)</u>	<u>\$ -</u>	<u>\$ 43,186,192</u>

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 has been made for the years ended June 30, 2020 and 2019. 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. 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 \$150,000 and any

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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.

Effective July 2017, the Authority purchased commercial insurance for risks related to workers' compensation claims. Prior to July 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 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.

Activity in the Authority's accrued employee health claims and workers' compensation liabilities during 2020 and 2019 is summarized as follows:

	Employee Health	Workers' Compensation
2020		
Balance, beginning of year	\$ 288,275	\$ 148,777
Current year claims incurred and changes in estimates for claims incurred in prior years	3,297,454	286,026
Claims and expenses paid	(3,253,676)	(392,345)
Balance, end of year	\$ 332,053	\$ 42,458
2019		
Balance, beginning of year	\$ 437,112	\$ 207,946
Current year claims incurred and changes in estimates for claims incurred in prior years	2,062,134	408,743
Claims and expenses paid	(2,210,971)	(467,912)
Balance, end of year	\$ 288,275	\$ 148,777

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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:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2020					
Notes payable to bank	\$ 12,293,705	\$ -	\$ (988,131)	\$ 11,305,574	\$ 1,066,530
Capital lease obligations	<u>242,557</u>	<u>-</u>	<u>(137,272)</u>	<u>105,285</u>	<u>98,677</u>
Total long-term debt	12,536,262	-	(1,125,403)	11,410,859	1,165,207
Other long-term liability	<u>-</u>	<u>487,798</u>	<u>-</u>	<u>487,798</u>	<u>-</u>
Total long-term obligations	<u>\$ 12,536,262</u>	<u>\$ 487,798</u>	<u>\$ (1,125,403)</u>	<u>\$ 11,898,657</u>	<u>\$ 1,165,207</u>
2019					
Notes payable to bank	\$ 12,859,645	\$ 400,000	\$ (965,940)	\$ 12,293,705	\$ 1,187,227
Capital lease obligations	<u>433,333</u>	<u>-</u>	<u>(190,776)</u>	<u>242,557</u>	<u>137,272</u>
Total long-term debt	<u>\$ 13,292,978</u>	<u>\$ 400,000</u>	<u>\$ (1,156,716)</u>	<u>\$ 12,536,262</u>	<u>\$ 1,324,499</u>

Notes Payable to Bank

The notes payable to bank are due between June 2024 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, 2020, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2021	\$ 1,387,490	\$ 1,066,530	\$ 320,960
2022	1,388,976	1,104,128	284,848
2023	1,372,371	1,124,751	247,620
2024	1,571,084	1,360,537	210,547
2025	1,023,239	856,889	166,350
2026–2030	3,120,908	2,517,182	603,726
2031–2035	2,926,037	2,681,353	244,684
2036	<u>601,746</u>	<u>594,204</u>	<u>7,542</u>
	<u>\$ 13,391,851</u>	<u>\$ 11,305,574</u>	<u>\$ 2,086,277</u>

Included in notes payable are the Series 2016 Hospital Revenue Note (the 2016 Note) and the Series 2017 Hospital Revenue Note (the 2017 Note). The 2016 Note was issued in the original

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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 the 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, as defined. The indenture agreements for each note contain provisions that, in an event of default, allow the lender to accelerate payments of the entire principal amount to be immediately due and payable. The lender has formally approved noncompliance with these financial covenants.

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.

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

	2020	2019
Series 2016 Hospital Revenue Note	\$ 7,223,778	\$ 7,583,454
Series 2017 Hospital Revenue Note	2,187,593	2,617,294
Other notes payable	1,202,195	1,360,283
Promissory note – downtown building	692,008	732,674
	\$ 11,305,574	\$ 12,293,705

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, 2020 and 2019, totaled \$346,779 and \$508,832, net of accumulated depreciation of \$123,850 and \$117,146, respectively.

The following is a schedule by year of future minimum lease payments under capital lease, including interest at rates of 3.54%, with the present value of the future minimum lease payments as of June 30, 2020:

Year Ending June 30,	
2021	\$ 99,952
2022	6,613
Total minimum lease payments	106,565
Less amount representing interest	1,280
Present value of future minimum lease payments	\$ 105,285

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Note 10: Charity Care and Services to the Community

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.

Approximate uncompensated costs relating to these services are as follows:

	2020	2019
Charity allowances	\$ 412,000	\$ 427,000
State Medicaid and other public aid programs	7,936,000	8,269,000
	\$ 8,348,000	\$ 8,696,000

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 costs, 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 both 2020 and 2019. During 2020, contributions actually made by plan members and the Authority aggregated approximately \$1,095,000 and \$532,000, respectively. During 2019, contributions actually made by plan members and the Authority aggregated approximately \$1,098,000 and \$666,000, respectively.

Employees are immediately vested in their contributions plus earnings thereon and become vested in the Authority’s contributions after completion of five years of continuous service, as defined in

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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, 2020 and 2019, forfeitures reduced the Authority's pension expense by approximately \$117,000 and \$0, 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.

Note 12: Lease Obligations

The Authority leases certain equipment and building space for medical and administrative purposes under numerous individually immaterial operating lease arrangements. Total lease expense for all operating leases was approximately \$1,830,000 and \$1,260,000 for the years ended June 30, 2020 and 2019, respectively.

Note 13: 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 14: 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

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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

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 the level within the fair value hierarchy in which the fair value measurements fall at June 30:

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020				
Investments by Fair Value Level				
Money market mutual funds	\$ 3,809,557	\$ 3,809,557	\$ -	\$ -
Certificates of deposit	2,911,833	-	2,911,833	-
Corporate bonds	1,659,440	1,659,440	-	-
U.S. Treasury obligations	1,095,631	1,095,631	-	-
Exchange-traded funds	2,545,097	2,545,097	-	-
Corporate stocks	1,113,071	1,113,071	-	-
Total investments by fair value level	<u>\$ 13,134,629</u>	<u>\$ 10,222,796</u>	<u>\$ 2,911,833</u>	<u>\$ -</u>

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Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Investments by Fair Value Level				
Money market mutual funds	\$ 5,399,076	\$ 5,399,076	\$ -	\$ -
Certificates of deposit	3,224,051	-	3,224,051	-
Corporate bonds	1,441,431	1,441,431	-	-
U.S. Treasury obligations	1,180,502	1,180,502	-	-
Exchange-traded funds	2,440,747	2,440,747	-	-
Corporate stocks	1,103,413	1,103,413	-	-
Total investments by fair value level	<u>\$ 14,789,220</u>	<u>\$ 11,565,169</u>	<u>\$ 3,224,051</u>	<u>\$ -</u>

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, 2020 and 2019.

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Note 15: Combining Component Unit Information

Component Units' Financial Statements

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

	2020					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Assets						
Current Assets						
Cash and cash equivalents	\$ 29,374,298	\$ 499,864	\$ 81,435	\$ 29,955,597	\$ -	\$ 29,955,597
Short-term investments	4,825,532	199,711	-	5,025,243	-	5,025,243
Patient accounts receivable, net of allowance – \$21,978,589	11,039,355	-	-	11,039,355	-	11,039,355
Supplies	2,774,073	-	54,180	2,828,253	-	2,828,253
Prepaid expenses and other	1,977,556	-	5,983	1,983,539	(248,331)	1,735,208
Total current assets	<u>49,990,814</u>	<u>699,575</u>	<u>141,598</u>	<u>50,831,987</u>	<u>(248,331)</u>	<u>50,583,656</u>
Noncurrent Cash and Investments						
Restricted cash	879,754	-	-	879,754	-	879,754
Other long-term investments	9,850,398	-	-	9,850,398	-	9,850,398
Investments in and advances to equity investees	5,581,881	-	-	5,581,881	-	5,581,881
Total noncurrent cash and investments	<u>16,312,033</u>	<u>-</u>	<u>-</u>	<u>16,312,033</u>	<u>-</u>	<u>16,312,033</u>
Capital Assets, Net	<u>43,998,209</u>	<u>-</u>	<u>-</u>	<u>43,998,209</u>	<u>-</u>	<u>43,998,209</u>
Total assets	<u>\$ 110,301,056</u>	<u>\$ 699,575</u>	<u>\$ 141,598</u>	<u>\$ 111,142,229</u>	<u>\$ (248,331)</u>	<u>\$ 110,893,898</u>
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 1,165,207	\$ -	\$ -	\$ 1,165,207	\$ -	\$ 1,165,207
Accounts payable	3,803,082	250,545	5,090	4,058,717	(248,331)	3,810,386
Accrued expenses	4,845,798	-	-	4,845,798	-	4,845,798
Estimated amounts due to third-party payors	11,999,573	-	-	11,999,573	-	11,999,573
Total current liabilities	<u>21,813,660</u>	<u>250,545</u>	<u>5,090</u>	<u>22,069,295</u>	<u>(248,331)</u>	<u>21,820,964</u>
Other Liabilities						
Long-term debt	10,245,652	-	-	10,245,652	-	10,245,652
Other long-term liability	487,798	-	-	487,798	-	487,798
Total other liabilities	<u>10,733,450</u>	<u>-</u>	<u>-</u>	<u>10,733,450</u>	<u>-</u>	<u>10,733,450</u>
Total liabilities	<u>32,547,110</u>	<u>250,545</u>	<u>5,090</u>	<u>32,802,745</u>	<u>(248,331)</u>	<u>32,554,414</u>
Net Position						
Net investment in capital assets	32,522,735	-	-	32,522,735	-	32,522,735
Restricted – expendable for						
Capital acquisitions	879,754	20,000	-	899,754	-	899,754
Specific operating activities	-	19,848	-	19,848	-	19,848
Unrestricted	44,351,457	409,182	136,508	44,897,147	-	44,897,147
Total net position	<u>77,753,946</u>	<u>449,030</u>	<u>136,508</u>	<u>78,339,484</u>	<u>-</u>	<u>78,339,484</u>
Total liabilities and net position	<u>\$ 110,301,056</u>	<u>\$ 699,575</u>	<u>\$ 141,598</u>	<u>\$ 111,142,229</u>	<u>\$ (248,331)</u>	<u>\$ 110,893,898</u>

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	2019					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Assets						
Current Assets						
Cash and cash equivalents	\$ 17,027,911	\$ 448,011	\$ 94,649	\$ 17,570,571	\$ -	\$ 17,570,571
Short-term investments	4,404,493	279,039	-	4,683,532	-	4,683,532
Patient accounts receivable, net of allowance – \$20,052,176	14,851,819	-	-	14,851,819	-	14,851,819
Estimated amounts due from third-party payors	217,940	-	-	217,940	-	217,940
Supplies	2,240,990	-	52,207	2,293,197	-	2,293,197
Prepaid expenses and other	2,860,509	7,500	13,449	2,881,458	(60,579)	2,820,879
Total current assets	<u>41,603,662</u>	<u>734,550</u>	<u>160,305</u>	<u>42,498,517</u>	<u>(60,579)</u>	<u>42,437,938</u>
Noncurrent Cash and Investments						
Restricted cash	108,163	-	-	108,163	-	108,163
Held by trustee for capital acquisitions	2,108,969	-	-	2,108,969	-	2,108,969
Other long-term investments	9,722,043	-	-	9,722,043	-	9,722,043
Investments in and advances to equity investees	4,942,192	-	-	4,942,192	-	4,942,192
Total noncurrent cash and investments	<u>16,881,367</u>	<u>-</u>	<u>-</u>	<u>16,881,367</u>	<u>-</u>	<u>16,881,367</u>
Capital Assets, Net	<u>43,186,192</u>	<u>-</u>	<u>-</u>	<u>43,186,192</u>	<u>-</u>	<u>43,186,192</u>
Total assets	<u>\$ 101,671,221</u>	<u>\$ 734,550</u>	<u>\$ 160,305</u>	<u>\$ 102,566,076</u>	<u>\$ (60,579)</u>	<u>\$ 102,505,497</u>
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 1,324,499	\$ -	\$ -	\$ 1,324,499	\$ -	\$ 1,324,499
Accounts payable	4,592,164	197,188	-	4,789,352	(60,579)	4,728,773
Accrued expenses	4,508,306	-	-	4,508,306	-	4,508,306
Total current liabilities	<u>10,424,969</u>	<u>197,188</u>	<u>-</u>	<u>10,622,157</u>	<u>(60,579)</u>	<u>10,561,578</u>
Long-Term Debt	<u>11,211,763</u>	<u>-</u>	<u>-</u>	<u>11,211,763</u>	<u>-</u>	<u>11,211,763</u>
Total liabilities	<u>21,636,732</u>	<u>197,188</u>	<u>-</u>	<u>21,833,920</u>	<u>(60,579)</u>	<u>21,773,341</u>
Net Position						
Net investment in capital assets	32,068,625	-	-	32,068,625	-	32,068,625
Restricted – expendable for						
Capital acquisitions	500,748	250,000	-	750,748	-	750,748
Specific operating activities	-	19,848	-	19,848	-	19,848
Unrestricted	47,465,116	267,514	160,305	47,892,935	-	47,892,935
Total net position	<u>80,034,489</u>	<u>537,362</u>	<u>160,305</u>	<u>80,732,156</u>	<u>-</u>	<u>80,732,156</u>
Total liabilities and net position	<u>\$ 101,671,221</u>	<u>\$ 734,550</u>	<u>\$ 160,305</u>	<u>\$ 102,566,076</u>	<u>\$ (60,579)</u>	<u>\$ 102,505,497</u>

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

	2020					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts – \$16,564,750	\$ 84,781,548	\$ -	\$ -	\$ 84,781,548	\$ -	\$ 84,781,548
Other operating revenues	3,249,343	-	231,723	3,481,066	(58,112)	3,422,954
Total operating revenues	88,030,891	-	231,723	88,262,614	(58,112)	88,204,502
Operating Expenses						
Salaries and wages	42,830,680	58,203	48,986	42,937,869	(107,189)	42,830,680
Employee benefits	7,537,620	4,638	3,856	7,546,114	(8,494)	7,537,620
Purchased services and professional fees	19,350,285	7,905	2,422	19,360,612	(3,000)	19,357,612
Supplies and other expenses	24,871,247	409,890	200,256	25,481,393	(306,126)	25,175,267
Depreciation	4,776,623	-	-	4,776,623	-	4,776,623
Total operating expenses	99,366,455	480,636	255,520	100,102,611	(424,809)	99,677,802
Operating Loss	(11,335,564)	(480,636)	(23,797)	(11,839,997)	366,697	(11,473,300)
Nonoperating Revenues (Expenses)						
Gain on investments in equity investees	514,902	-	-	514,902	-	514,902
Loss on disposal of capital assets	(50,838)	-	-	(50,838)	-	(50,838)
Investment income	665,848	9,054	-	674,902	-	674,902
Noncapital grants and gifts	195,210	383,250	-	578,460	(136,697)	441,763
Interest expense	(339,323)	-	-	(339,323)	-	(339,323)
Government grants	7,447,177	-	-	7,447,177	-	7,447,177
Total nonoperating revenues (expenses)	8,432,976	392,304	-	8,825,280	(136,697)	8,688,583
Loss Before Capital Grants and Gifts and Capital Appropriations	(2,902,588)	(88,332)	(23,797)	(3,014,717)	230,000	(2,784,717)
Capital Grants and Gifts and Capital Appropriations	622,045	-	-	622,045	(230,000)	392,045
Decrease in Net Position	(2,280,543)	(88,332)	(23,797)	(2,392,672)	-	(2,392,672)
Net Position, Beginning of Year	80,034,489	537,362	160,305	80,732,156	-	80,732,156
Net Position, End of Year	<u>\$ 77,753,946</u>	<u>\$ 449,030</u>	<u>\$ 136,508</u>	<u>\$ 78,339,484</u>	<u>\$ -</u>	<u>\$ 78,339,484</u>

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	2019					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts – \$16,382,508	\$ 93,103,502	\$ -	\$ -	\$ 93,103,502	\$ -	\$ 93,103,502
Other operating revenues	3,745,590	-	314,502	4,060,092	(64,546)	3,995,546
Total operating revenues	<u>96,849,092</u>	<u>-</u>	<u>314,502</u>	<u>97,163,594</u>	<u>(64,546)</u>	<u>97,099,048</u>
Operating Expenses						
Salaries and wages	41,109,655	103,394	43,006	41,256,055	(139,410)	41,116,645
Employee benefits	6,312,455	-	3,387	6,315,842	(10,377)	6,305,465
Purchased services and professional fees	17,238,374	17,932	3,758	17,260,064	(4,440)	17,255,624
Supplies and other expenses	26,120,855	512,021	258,449	26,891,325	(19,988)	26,871,337
Depreciation	4,753,527	-	-	4,753,527	-	4,753,527
Total operating expenses	<u>95,534,866</u>	<u>633,347</u>	<u>308,600</u>	<u>96,476,813</u>	<u>(174,215)</u>	<u>96,302,598</u>
Operating Income (Loss)	<u>1,314,226</u>	<u>(633,347)</u>	<u>5,902</u>	<u>686,781</u>	<u>109,669</u>	<u>796,450</u>
Nonoperating Revenues (Expenses)						
Gain on investments in equity investees	3,303,332	-	-	3,303,332	-	3,303,332
Gain on sale of capital assets	248	-	-	248	-	248
Investment income	705,244	8,355	-	713,599	-	713,599
Noncapital grants and gifts	-	608,412	-	608,412	(109,669)	498,743
Interest expense	(180,833)	-	-	(180,833)	-	(180,833)
Total nonoperating revenues (expenses)	<u>3,827,991</u>	<u>616,767</u>	<u>-</u>	<u>4,444,758</u>	<u>(109,669)</u>	<u>4,335,089</u>
Income (Loss) Before Capital Grants and Gifts and Capital Appropriations	<u>5,142,217</u>	<u>(16,580)</u>	<u>5,902</u>	<u>5,131,539</u>	<u>-</u>	<u>5,131,539</u>
Capital Grants and Gifts and Capital Appropriations	<u>392,585</u>	<u>-</u>	<u>-</u>	<u>392,585</u>	<u>-</u>	<u>392,585</u>
Increase (Decrease) in Net Position	<u>5,534,802</u>	<u>(16,580)</u>	<u>5,902</u>	<u>5,524,124</u>	<u>-</u>	<u>5,524,124</u>
Net Position, Beginning 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>
Net Position, End of Year	<u>\$ 80,034,489</u>	<u>\$ 537,362</u>	<u>\$ 160,305</u>	<u>\$ 80,732,156</u>	<u>\$ -</u>	<u>\$ 80,732,156</u>

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

	2020					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Net Cash Provided by (Used in) Operating Activities	\$ 10,482,098	\$ (419,779)	\$ (13,214)	\$ 10,049,105	\$ -	\$ 10,049,105
Net Cash Provided by Noncapital Financing Activities	7,505,690	383,250	-	7,888,940	-	7,888,940
Net Cash Used in Capital and Related Financing Activities	(6,945,233)	-	-	(6,945,233)	-	(6,945,233)
Net Cash Provided by Investing Activities	2,075,423	88,382	-	2,163,805	-	2,163,805
Increase (Decrease) in Cash and Cash Equivalents	13,117,978	51,853	(13,214)	13,156,617	-	13,156,617
Cash and Cash Equivalents, Beginning of Year	17,136,074	448,011	94,649	17,678,734	-	17,678,734
Cash and Cash Equivalents, End of Year	<u>\$ 30,254,052</u>	<u>\$ 499,864</u>	<u>\$ 81,435</u>	<u>\$ 30,835,351</u>	<u>\$ -</u>	<u>\$ 30,835,351</u>

	2019					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Net Cash Provided by (Used in) Operating Activities	\$ 3,803,357	\$ (496,145)	\$ 15,403	\$ 3,322,615	\$ -	\$ 3,322,615
Net Cash Provided by (Used in) Noncapital Financing Activities	(109,669)	608,412	-	498,743	-	498,743
Net Cash Used in Capital and Related Financing Activities	(7,719,210)	-	-	(7,719,210)	-	(7,719,210)
Net Cash Provided by (Used in) Investing Activities	(580,872)	1,322	-	(579,550)	-	(579,550)
Increase (Decrease) in Cash and Cash Equivalents	(4,606,394)	113,589	15,403	(4,477,402)	-	(4,477,402)
Cash and Cash Equivalents, Beginning of Year	21,742,468	334,422	79,246	22,156,136	-	22,156,136
Cash and Cash Equivalents, End of Year	<u>\$ 17,136,074</u>	<u>\$ 448,011</u>	<u>\$ 94,649</u>	<u>\$ 17,678,734</u>	<u>\$ -</u>	<u>\$ 17,678,734</u>

Note 16: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases.

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Beginning in March 2020, the Authority deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year.

The Authority's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Authority has taken precautionary steps to enhance its operational and financial flexibility and how it reacts to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives
- Reduction of certain planned projects and capital expenditures

In addition, the Authority received approximately \$11,944,000 of accelerated Medicare payments and approximately \$7,447,000 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act).

The extent of the COVID-19 pandemic's adverse effect on the Authority's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Authority's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Authority cannot estimate the length or severity of the effect of the pandemic on the Authority's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the year ended June 30, 2020, the Authority received approximately \$7,447,000 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Authority is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

Subsequent to year-end, the Authority received approximately \$5,770,000 in additional Provider Relief Fund distributions.

The Authority is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the

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funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Authority's operating revenues and expenses through June 30, 2020, the Authority recognized approximately \$7,447,000 related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – government grants in the accompanying statements of revenues, expenses, and changes in net position.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund through the "Post-Payment Notice of Reporting Requirements" on September 19, 2020, and amended on October 22, 2020 and November 2, 2020, and Frequently Asked Questions published on the HHS website on October 28, 2020. This guidance establishes a two-step approach for reporting use of Provider Relief Fund payments received. Recipients must first identify incremental health care-related expenses attributable to coronavirus. Payments not fully expended on expenses may be applied toward the negative change in patient care revenue from calendar year 2019 to 2020. The Authority considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at June 30, 2020. As a result, the amounts recorded in the accompanying financial statements compared to the Authority's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

The Authority will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Authority's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Authority is unable to attest to or comply with current or future terms and conditions, the Authority's ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare Accelerated and Advanced Payment Program

During the year ended June 30, 2020, the Authority requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by the Centers for Medicare & Medicaid Services (CMS) according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and the payback period was extended to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withheld amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29th month at a rate of 4%.

During the year ended June 30, 2020, the Authority received approximately \$11,944,000 from these accelerated Medicare payment requests. No amounts were recouped prior to year-end. The

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unapplied amount of accelerated Medicare payment requests is recorded in estimated amounts due to third-party payors in the accompanying balance sheets.

Payroll Tax Credits

The CARES Act provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. At June 30, 2020, the Authority had deferred \$487,798 of payroll taxes recorded as part of other long-term liability in the accompanying balance sheets.

Note 17: Future Changes in Accounting Principles

Fiduciary Activities

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying new fiduciary activities, including defined benefit pension plans. The Authority expects to first apply GASB 84 during its fiscal year ending June 30, 2021, through retrospective application to previous years' statements for comparative purposes. The impact of applying GASB 84 has not yet been determined.

Accounting for Leases

With the issuance of GASB Statement No. 87, *Leases*, GASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both an intangible asset and a liability. GASB 87 removes the classification of leases between two categories, and all leases will be recorded the same on the statement of revenues, expenses, and changes in net position. GASB 87 also contains amended guidance regarding the identification of lease and non-lease components in an arrangement. GASB 87 is effective for the Authority's fiscal year ending June 30, 2022. The Authority is evaluating the impact GASB 87 will have on the financial statements; however, GASB 87 is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Capitalized Interest

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, requires interest costs incurred before the end of a construction period be recognized as expense in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset. The Authority expects to first apply GASB 89 during its fiscal year ending June 30, 2022. No retrospective application is required.

Supplementary Information – Financial Ratios

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Days Cash on Hand
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	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 29,955,597	\$ 17,570,571
Short-term investments – unrestricted	5,025,243	4,683,532
Long-term investments – unrestricted	<u>9,850,398</u>	<u>9,722,043</u>
Unrestricted cash and investments	<u>\$ 44,831,238</u>	<u>\$ 31,976,146</u>
Operating expenses	\$ 99,677,802	\$ 96,302,598
Less depreciation	<u>(4,776,623)</u>	<u>(4,753,527)</u>
Adjusted expenses	<u>94,901,179</u>	<u>91,549,071</u>
	366	365
Average daily operating expenses	<u>\$ 259,293</u>	<u>\$ 250,819</u>
Days cash on hand	<u>172.90</u>	<u>127.49</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Debt Service Coverage Ratio
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating income (loss)	\$ (11,473,300)	\$ 796,450
Add depreciation	<u>4,776,623</u>	<u>4,753,527</u>
Net income (loss) available for debt service	<u>\$ (6,696,677)</u>	<u>\$ 5,549,977</u>
Principal paid on long-term debt	\$ 1,125,403	\$ 1,156,716
Interest paid on long-term debt	<u>339,323</u>	<u>180,833</u>
	<u>\$ 1,464,726</u>	<u>\$ 1,337,549</u>
Debt service coverage ratio	<u>(4.57)</u>	<u>4.15</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
EBIDA Calculation
Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating income (loss)	\$ (11,473,300)	\$ 796,450
Add depreciation	<u>4,776,623</u>	<u>4,753,527</u>
EBIDA	<u><u>\$ (6,696,677)</u></u>	<u><u>\$ 5,549,977</u></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, 2020, 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 December 4, 2020, 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) as a basis for designing 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001, that we consider to be a material weakness.

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 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*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
December 4, 2020

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2020

Reference Number	Finding
2020-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Management’s procedures for evaluating, reviewing, recording, and documenting financial support of significant estimates surrounding patient accounts receivable were not consistently applied throughout the fiscal year.</p> <p>Context – Management is required to apply consistent, unbiased methodologies to estimate significant balances on the financial statements and to maintain financial support for journal entries recorded.</p> <p>Effect – Material unsupported and unreviewed journal entries were made to the general ledger related to the allowance for patient accounts receivable.</p> <p>Cause – Management did not apply consistent journal entry controls or consistent methodologies when estimating balances in patient accounts receivable throughout the entire fiscal year as there were instances where journal entries recorded were not consistent with management’s normal allowance methodology and those journal entries were not evidenced by support or documentation that all elements of the allowance estimate were reviewed by another individual.</p> <p>Recommendation – Management should ensure that journal entries related to significant estimates are being consistently applied, reviewed, and documented and that monthly financial support for those journal entries is maintained on a consistent basis.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The current finance team identified that the previous finance team was not applying the Authority’s historical patient allowance methodology to patient accounts receivable in mid-year 2020. The current finance team promptly corrected this issue by implementing the Authority’s historical patient allowance methodology for the remainder of 2020. Management is also working on developing a policy to ensure documentation of supporting journal entries, including its review, surrounding significant estimates related to patient accounts receivable is maintained.</p>