

**McAlester Regional Health Center Authority**  
**A Component Unit of the City of McAlester, Oklahoma**  
Independent Auditor's Reports and Financial Statements  
June 30, 2021 and 2020

**McAlester Regional Health Center Authority**  
**A Component Unit of the City of McAlester, Oklahoma**  
**June 30, 2021 and 2020**

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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, 2021 and 2020, 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, 2021 and 2020, 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2021, 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 8, 2021

**McAlester Regional Health Center Authority**  
**A Component Unit of the City of McAlester, Oklahoma**  
**Balance Sheets**  
**June 30, 2021 and 2020**

**Assets**

	<b>2021</b>	<b>2020</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 28,806,755	\$ 29,955,597
Short-term investments	6,369,487	5,025,243
Patient accounts receivable, net of allowance; 2021 – \$28,468,698, 2020 – \$21,978,589	10,331,146	11,039,355
Supplies	2,037,337	2,828,253
Prepaid expenses and other	1,877,099	1,735,208
Total current assets	49,421,824	50,583,656
 <b>Noncurrent Cash and Investments</b>		
Restricted cash	1,467,716	879,754
Other long-term investments	9,307,831	9,850,398
Investments in and advances to equity investees	5,595,029	5,581,881
Total noncurrent cash and investments	16,370,576	16,312,033
 <b>Capital Assets, Net</b>		
	42,943,804	43,998,209
Total assets	\$ 108,736,204	\$ 110,893,898

## Liabilities and Net Position

	<u>2021</u>	<u>2020</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 9,031,964	\$ 1,165,207
Accounts payable	4,818,008	3,810,386
Accrued expenses	5,911,524	4,845,798
Estimated amounts due to third-party payors	8,446,988	11,999,573
	<u>28,208,484</u>	<u>21,820,964</u>
<b>Other Liabilities</b>		
Long-term debt	1,500,939	10,245,652
Estimated amounts due to third-party payors	2,538,681	-
Other long-term liability	789,856	487,798
	<u>4,829,476</u>	<u>10,733,450</u>
	<u>33,037,960</u>	<u>32,554,414</u>
<b>Net Position</b>		
Net investment in capital assets	32,410,901	32,522,735
Restricted – expendable for		
Capital acquisitions	1,467,716	899,754
Specific operating activities	-	19,848
Unrestricted	41,819,627	44,897,147
	<u>75,698,244</u>	<u>78,339,484</u>
	<u>\$ 108,736,204</u>	<u>\$ 110,893,898</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, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$21,196,933, 2020 – \$16,564,750	\$ 87,778,323	\$ 84,781,548
Other operating revenues	2,981,212	3,422,954
Total operating revenues	90,759,535	88,204,502
<b>Operating Expenses</b>		
Salaries and wages	42,681,769	42,830,680
Employee benefits	7,812,744	7,537,620
Purchased services and professional fees	17,645,864	19,357,612
Supplies and other expenses	26,769,898	25,175,267
Depreciation	5,419,332	4,776,623
Total operating expenses	100,329,607	99,677,802
<b>Operating Loss</b>	<b>(9,570,072)</b>	<b>(11,473,300)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Gain (loss) on investments in equity investees	(446,263)	514,902
Loss on disposal of capital assets	-	(50,838)
Investment income	865,125	674,902
Noncapital grants and gifts	456,205	441,763
Interest expense	(322,243)	(339,323)
Government grants	5,815,347	7,447,177
Total nonoperating revenues (expenses)	6,368,171	8,688,583
<b>Loss Before Capital Grants and Gifts and Capital Appropriations</b>	<b>(3,201,901)</b>	<b>(2,784,717)</b>
<b>Capital Grants and Gifts and Capital Appropriations</b>	<b>560,661</b>	<b>392,045</b>
<b>Decrease in Net Position</b>	<b>(2,641,240)</b>	<b>(2,392,672)</b>
<b>Net Position, Beginning of Year</b>	<b>78,339,484</b>	<b>80,732,156</b>
<b>Net Position, End of Year</b>	<b>\$ 75,698,244</b>	<b>\$ 78,339,484</b>

**McAlester Regional Health Center Authority**  
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**Statements of Cash Flows**  
**Years Ended June 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 87,605,225	\$ 101,172,001
Payments to suppliers and contractors	(41,959,794)	(44,984,034)
Payments to employees	(49,994,032)	(49,587,029)
Other receipts, net	2,981,212	3,448,167
Net cash provided by (used in) operating activities	(1,367,389)	10,049,105
<b>Noncapital Financing Activities</b>		
Noncapital grants and gifts	456,205	441,763
Government grants	5,770,442	7,447,177
Net cash provided by noncapital financing activities	6,226,647	7,888,940
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(1,224,250)	(1,125,403)
Proceeds from issuance of long-term debt	-	-
Interest paid on capital debt and leases	(322,243)	(339,323)
Purchase of capital assets	(4,036,617)	(6,265,137)
Appropriations restricted for capital projects – City of McAlester	560,661	784,630
Net cash used in capital and related financing activities	(5,022,449)	(6,945,233)
<b>Investing Activities</b>		
Purchases of investments	(2,114,278)	(3,217,831)
Proceeds from disposition of investments	1,790,830	5,114,625
Investment income	431,801	423,104
Change in restricted certificates of deposit, net	-	(6,093)
Advances to equity investees	(203,147)	(150,000)
Acquisition of SEI	(302,895)	-
Net cash provided by (used in) investing activities	(397,689)	2,163,805
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(560,880)	13,156,617
<b>Cash and Cash Equivalents, Beginning of Year</b>	30,835,351	17,678,734
<b>Cash and Cash Equivalents, End of Year</b>	\$ 30,274,471	\$ 30,835,351

See Notes to Financial Statements



	<u>2021</u>	<u>2020</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 28,806,755	\$ 29,955,597
Cash and cash equivalents in restricted cash	<u>1,467,716</u>	<u>879,754</u>
Total cash and cash equivalents	<u>\$ 30,274,471</u>	<u>\$ 30,835,351</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in)</b>		
<b>Operating Activities</b>		
Operating loss	\$ (9,570,072)	\$ (11,473,300)
Depreciation	5,419,332	4,776,623
Accrued self-insurance costs	678,534	(62,541)
Provision for uncollectible accounts	21,196,933	16,564,750
Changes in operating assets and liabilities		
Patient accounts receivable	(20,488,724)	(12,752,286)
Estimated amounts due to/from third-party payors	(1,013,904)	12,217,513
Accounts payable and accrued expenses	1,761,487	595,103
Supplies and prepaid expenses	<u>649,025</u>	<u>183,243</u>
Net cash provided by (used in) operating activities	<u>\$ (1,367,389)</u>	<u>\$ 10,049,105</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ -	\$ 64,615

**McAlester Regional Health Center Authority**  
**A Component Unit of the City of McAlester, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**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. 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, 2021 and 2020, cash equivalents consisted primarily of money market accounts with brokers.

Included in short-term investments on the accompanying balance sheets are money market mutual funds with brokers that the Authority does not consider cash equivalents.

**McAlester Regional Health Center Authority**  
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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 \$0 and \$61,000 in 2021 and 2020, 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, 2021 and 2020.

***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 employee health claims; 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 \$122,000 and \$95,000 of the funds under the excise taxes remain unspent and are reflected on the accompanying balance sheets as restricted cash at June 30, 2021 and 2020, respectively.

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

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**Notes to Financial Statements**  
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***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 as required by bond indentures, 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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**Notes to Financial Statements**  
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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 \$1,345,000 and \$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, 2021 and 2020, respectively.

**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 (CMS) 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 \$7,000,000 in 2022.

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

	<b>2021</b>	<b>2020</b>
SHOPP funds received	\$ 7,068,000	\$ 6,195,000
SHOPP assessment fees paid	1,083,000	1,324,000
Net benefit under SHOPP	\$ 5,985,000	\$ 4,871,000

**McAlester Regional Health Center Authority**  
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**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**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 54% and 51% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, approximately \$909,000 and \$0 of the Authority's bank balances of approximately \$35,577,000 and \$35,539,000, 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 \$1,117,000 and \$1,411,000 and carrying values of approximately \$929,000 and \$1,468,000 at June 30, 2021 and 2020, respectively.



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As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2021 and 2020, the blended component units' cash accounts exceeded federally insured limits by approximately \$279,000 and \$637,000, 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
<b>2021</b>					
Corporate bonds	\$ 1,428,065	\$ 185,349	\$ 902,554	\$ 340,162	\$ -
U.S. Treasury obligations	1,309,672	-	780,392	529,280	-
Money market mutual funds	<u>3,536,970</u>	<u>3,536,970</u>	<u>-</u>	<u>-</u>	<u>-</u>
	6,274,707	<u>\$ 3,722,319</u>	<u>\$ 1,682,946</u>	<u>\$ 869,442</u>	<u>\$ -</u>
Exchange-traded funds	2,999,822				
Corporate stocks	1,467,900				
Accrued interest	<u>31,987</u>				
	<u>\$ 10,774,416</u>				
<b>2020</b>					
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>				

**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:

<b>Investments</b>	<b>Moody’s</b>	<b>S &amp; P</b>
<b>2021</b>		
Corporate bonds	Baa2 to Aa1	BBB to AA+
Money market mutual funds	Not rated to Aaa-mf	Not rated to AAAM
<b>2020</b>		
Corporate bonds	Baa2 to Aaa	BBB to AA+
Money market mutual funds	Not rated	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, 2021, the Authority’s investment in one money market mutual fund of \$3,427,170 constituted approximately 32% of its total investments. At June 30, 2020, the Authority’s investment in one money market mutual fund totaling \$3,719,420 constituted approximately 36% of its total investments.

**Summary of Carrying Values**

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

	<b>2021</b>	<b>2020</b>
Carrying value		
Deposits	\$ 35,177,373	\$ 35,453,830
Investments	10,774,416	10,257,162
	<u>\$ 45,951,789</u>	<u>\$ 45,710,992</u>

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	<b>2021</b>	<b>2020</b>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 28,806,755	\$ 29,955,597
Short-term investments	6,369,487	5,025,243
Restricted cash	1,467,716	879,754
Other long-term investments	9,307,831	9,850,398
	\$ 45,951,789	\$ 45,710,992

**Investment Income**

Investment income for the years ended June 30 consisted of:

	<b>2021</b>	<b>2020</b>
Interest, dividends, and realized gains on sales of investments, net	\$ 386,896	\$ 423,104
Net increase in fair value of investments	478,229	251,798
Total	\$ 865,125	\$ 674,902

**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:

	<b>2021</b>	<b>2020</b>
Medicare	\$ 7,932,829	\$ 3,886,372
Medicaid	3,097,470	1,813,809
Other third-party payors	14,960,957	10,911,089
Patients	12,808,588	16,406,674
	38,799,844	33,017,944
Less allowance for uncollectible accounts	28,468,698	21,978,589
	\$ 10,331,146	\$ 11,039,355

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**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:

	<b>2021</b>		<b>2020</b>	
	<b>Investments in and Advances to Equity Investees</b>	<b>Approximate Ownership Interest %</b>	<b>Investments in and Advances to Equity Investees</b>	<b>Approximate Ownership Interest %</b>
Tecumseh	\$ 3,401,000	7%	\$ 3,401,000	7%
LifeCare	706,000	10%	706,000	10%
ASLG	1,413,000	50%	1,210,000	50%
Other insignificant investments in equity investees	<u>75,029</u>	Various	<u>264,881</u>	Various
	<u><u>\$ 5,595,029</u></u>		<u><u>\$ 5,581,881</u></u>	

- **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, 2021 and 2020, the Authority paid approximately \$431,000 and \$476,000, respectively, to Tecumseh for the coverage.
- **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 \$1,653,000 and \$1,666,000 as of June 30, 2021 and 2020, respectively. The Authority has determined, as of June 30, 2021 and 2020, 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 2021 and 2020, the Authority contributed approximately \$203,000 and \$150,000, respectively, into ASLG as a result of a capital call by AHG to further assist in funding the operations of Belfair.

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- **Other Insignificant Investments in Equity Investees** – The Authority holds other insignificant investments in Upper Midwest Consolidated Services Center, LLC; Southeast Alliance Network, Inc.; and Southeast Imaging LLC (SEI). The Authority is listed as guarantor on an equipment loan related to SEI. The loan was issued on January 24, 2018, for approximately \$600,000 and is payable over 60 months, including interest at 4.25%. During 2021, the Authority purchased the remaining 50% ownership interest in SEI for approximately \$46,000 and assumed its remaining debt of approximately \$346,000. The acquisition included substantially all of SEI’s assets to be used by the Authority in its normal operations. The Authority dissolved this entity upon purchase and wrote down any goodwill recorded at the date of the acquisition to \$0 at June 30, 2021.

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, 2021 and 2020 (unaudited) and the audited results of operations for Tecumseh for the years ended December 31, 2020 and 2019.

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

	<b>December 31,</b>		
	<b>2020</b>	<b>June 30, 2021</b>	
	<b>Tecumseh</b>	<b>LifeCare</b>	<b>Belfair</b>
Current assets	\$ 67,980,770	\$ 9,521,874	\$ 6,459
Property and other long-term assets, net	-	306,377	10,667,072
<b>Total assets</b>	<b>\$ 67,980,770</b>	<b>\$ 9,828,251</b>	<b>\$ 10,673,531</b>
Total liabilities	\$ 19,612,365	\$ 481,209	\$ 7,503,108
Partners’ equity	48,368,405	9,347,042	3,170,423
<b>Total liabilities and partners’ equity</b>	<b>\$ 67,980,770</b>	<b>\$ 9,828,251</b>	<b>\$ 10,673,531</b>
Revenues	\$ 11,042,745	\$ 3,491,532	\$ 1,686,148
Excess (deficiency) of revenues over expenses	\$ 3,091,751	\$ 596,968	\$ (1,167,047)

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	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	<u>-</u>	<u>311,376</u>	<u>11,803,293</u>	
Total assets	<u>\$ 60,879,392</u>	<u>\$ 8,242,798</u>	<u>\$ 11,941,176</u>	
Total liabilities	\$ 18,157,605	\$ 307,385	\$ 9,838,930	
Partners' equity	<u>42,721,787</u>	<u>7,935,413</u>	<u>2,102,246</u>	
Total liabilities and partners' equity	<u>\$ 60,879,392</u>	<u>\$ 8,242,798</u>	<u>\$ 11,941,176</u>	
Revenues	<u>\$ 10,611,790</u>	<u>\$ 2,958,597</u>	<u>\$ 1,339,363</u>	
Excess (deficiency) of revenues over expenses	<u>\$ 5,891,131</u>	<u>\$ 563,373</u>	<u>\$ (1,186,880)</u>	

**Note 6: Capital Assets**

Capital assets activity for the years ended June 30 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,182,789	\$ -	\$ -	\$ -	\$ 1,182,789
Land improvements	2,153,360	-	-	-	2,153,360
Buildings, fixed equipment, and leasehold improvements	67,655,807	466,172	-	2,098,921	70,220,900
Major moveable equipment	44,217,125	3,174,502	-	49,703	47,441,330
Construction in progress	1,511,845	724,253	-	(2,148,624)	87,474
	<u>116,720,926</u>	<u>4,364,927</u>	<u>-</u>	<u>-</u>	<u>121,085,853</u>
Less accumulated depreciation					
Land improvements	1,426,767	65,344	-	-	1,492,111
Buildings, fixed equipment, and leasehold improvements	39,537,457	2,319,361	-	-	41,856,818
Major moveable equipment	<u>31,758,493</u>	<u>3,034,627</u>	<u>-</u>	<u>-</u>	<u>34,793,120</u>
	<u>72,722,717</u>	<u>5,419,332</u>	<u>-</u>	<u>-</u>	<u>78,142,049</u>
Capital assets, net	<u>\$ 43,998,209</u>	<u>\$ (1,054,405)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,943,804</u>

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	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>

**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, 2021 and 2020. 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.

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**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 \$155,000 and any amounts exceeding \$1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of \$155,000 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 2021 and 2020 is summarized as follows:

	<u>Employee Health</u>	<u>Workers’ Compensation</u>
<b>2021</b>		
Balance, beginning of year	\$ 332,053	\$ 42,458
Current year claims incurred and changes in estimates for claims incurred in prior years	3,737,839	399,278
Claims and expenses paid	<u>(3,175,982)</u>	<u>(282,601)</u>
Balance, end of year	<u>\$ 893,910</u>	<u>\$ 159,135</u>
<b>2020</b>		
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	<u>(3,253,676)</u>	<u>(392,345)</u>
Balance, end of year	<u>\$ 332,053</u>	<u>\$ 42,458</u>



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**Note 9: Long-Term Obligations**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
<b>2021</b>					
Notes payable to bank	\$ 11,305,574	\$ 346,294	\$ (1,169,034)	\$ 10,482,834	\$ 8,981,895
Capital lease obligations	<u>105,285</u>	<u>-</u>	<u>(55,216)</u>	<u>50,069</u>	<u>50,069</u>
Total long-term debt	11,410,859	346,294	(1,224,250)	10,532,903	9,031,964
Other long-term liability	<u>487,798</u>	<u>1,091,912</u>	<u>(501,746)</u>	<u>1,077,964</u>	<u>288,108</u>
Total long-term obligations	<u>\$ 11,898,657</u>	<u>\$ 1,438,206</u>	<u>\$ (1,725,996)</u>	<u>\$ 11,610,867</u>	<u>\$ 9,320,072</u>
<b>2020</b>					
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>

**Notes Payable to Bank**

The notes payable to bank are due between January 2023 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.

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The originally scheduled principal and interest payments as of June 30, 2021, excluding consideration of the potential acceleration of debt due to debt covenant violations discussed below, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2022	\$ 1,518,711	\$ 1,224,918	\$ 293,793
2023	1,505,952	1,254,788	251,164
2024	1,582,958	1,372,367	210,591
2025	1,028,438	862,088	166,350
2026	652,710	504,865	147,845
2027–2031	3,106,140	2,572,050	534,090
2032–2036	<u>2,865,775</u>	<u>2,691,758</u>	<u>174,017</u>
	<u>\$ 12,260,684</u>	<u>\$ 10,482,834</u>	<u>\$ 1,777,850</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 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. These notes 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. At June 30, 2021, the Authority did not meet the debt service coverage ratio and a waiver was not obtained. As a result, the 2016 Note and 2017 Note are reflected as current in the accompanying balance sheets at June 30, 2021.

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:

	<u>2021</u>	<u>2020</u>
Series 2016 Hospital Revenue Note	\$ 6,853,731	\$ 7,223,778
Series 2017 Hospital Revenue Note	1,741,948	2,187,593
Other notes payable	1,237,672	1,202,195
Promissory note – downtown building	<u>649,483</u>	<u>692,008</u>
	<u>\$ 10,482,834</u>	<u>\$ 11,305,574</u>

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**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, 2021 and 2020, totaled \$346,779, net of accumulated depreciation of \$173,390 and \$123,850, respectively.

The following is a schedule by year of future minimum lease payments under capital lease, including interest at 3.54%, with the present value of the future minimum lease payments as of June 30, 2021:

Year Ending June 30,		
2022	\$	50,484
Total minimum lease payments		50,484
Less amount representing interest		415
Present value of future minimum lease payments	\$	50,069

**Other Long-Term Liability**

The Authority elected to defer certain payroll taxes under provisions of the CARES Act. See *Note 16* for further information.

**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:

	2021	2020
Charity allowances	\$ 106,000	\$ 412,000
State Medicaid and other public aid programs	6,865,000	7,936,000
	\$ 6,971,000	\$ 8,348,000

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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 that 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 401(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 a third-party administrator. 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. During 2021, contribution rates for plan members and the Authority expressed as a percentage of covered payroll were approximately 2% and 1%, respectively. During 2020, contribution rates for plan members and the Authority expressed as a percentage of covered payroll were approximately 3% and 2%, respectively. During 2021, contributions actually made by plan members and the Authority aggregated approximately \$779,000 and \$486,000, respectively. During 2020, contributions actually made by plan members and the Authority aggregated approximately \$1,095,000 and \$532,000, 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 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, 2021 and 2020, forfeitures reduced the Authority's pension expense by approximately \$354,000 and \$117,000, 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.

**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 \$2,008,000 and \$1,830,000 for the years ended June 30, 2021 and 2020, respectively.

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**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 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 table presents 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, 2021 and 2020.

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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)
<b>2021</b>				
<b>Investments by Fair Value Level</b>				
Money market mutual funds	\$ 3,536,970	\$ 3,536,970	\$ -	\$ -
Certificates of deposit	1,722,672	-	1,722,672	-
Corporate bonds	1,428,065	1,428,065	-	-
U.S. Treasury obligations	1,309,672	1,309,672	-	-
Exchange-traded funds	2,999,822	2,999,822	-	-
Corporate stocks	1,467,900	1,467,900	-	-
Total investments by fair value level	<u>\$ 12,465,101</u>	<u>\$ 10,742,429</u>	<u>\$ 1,722,672</u>	<u>\$ -</u>
<b>2020</b>				
<b>Investments by Fair Value Level</b>				
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>

**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, 2021 and 2020.

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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:

	2021					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
<b>Assets</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 28,333,910	\$ 389,472	\$ 83,373	\$ 28,806,755	\$ -	\$ 28,806,755
Short-term investments	6,149,743	219,744	-	6,369,487	-	6,369,487
Patient accounts receivable, net of allowance – \$28,468,698	10,331,146	-	-	10,331,146	-	10,331,146
Supplies	1,981,753	-	55,584	2,037,337	-	2,037,337
Prepaid expenses and other	1,889,863	7,700	8,279	1,905,842	(28,743)	1,877,099
Total current assets	<u>48,686,415</u>	<u>616,916</u>	<u>147,236</u>	<u>49,450,567</u>	<u>(28,743)</u>	<u>49,421,824</u>
<b>Noncurrent Cash and Investments</b>						
Restricted cash	1,467,716	-	-	1,467,716	-	1,467,716
Other long-term investments	9,307,831	-	-	9,307,831	-	9,307,831
Investments in and advances to equity investees	5,595,029	-	-	5,595,029	-	5,595,029
Total noncurrent cash and investments	<u>16,370,576</u>	<u>-</u>	<u>-</u>	<u>16,370,576</u>	<u>-</u>	<u>16,370,576</u>
<b>Capital Assets, Net</b>						
	<u>42,943,804</u>	<u>-</u>	<u>-</u>	<u>42,943,804</u>	<u>-</u>	<u>42,943,804</u>
Total assets	<u>\$ 108,000,795</u>	<u>\$ 616,916</u>	<u>\$ 147,236</u>	<u>\$ 108,764,947</u>	<u>\$ (28,743)</u>	<u>\$ 108,736,204</u>
<b>Liabilities and Net Position</b>						
<b>Current Liabilities</b>						
Current maturities of long-term debt	\$ 9,031,964	\$ -	\$ -	\$ 9,031,964	\$ -	\$ 9,031,964
Accounts payable	4,819,961	23,217	3,573	4,846,751	(28,743)	4,818,008
Accrued expenses	5,911,524	-	-	5,911,524	-	5,911,524
Estimated amounts due to third-party payors	8,446,988	-	-	8,446,988	-	8,446,988
Total current liabilities	<u>28,210,437</u>	<u>23,217</u>	<u>3,573</u>	<u>28,237,227</u>	<u>(28,743)</u>	<u>28,208,484</u>
<b>Other Liabilities</b>						
Long-term debt	1,500,939	-	-	1,500,939	-	1,500,939
Estimated amounts due to third-party payors	2,538,681	-	-	2,538,681	-	2,538,681
Other long-term liability	789,856	-	-	789,856	-	789,856
Total other liabilities	<u>4,829,476</u>	<u>-</u>	<u>-</u>	<u>4,829,476</u>	<u>-</u>	<u>4,829,476</u>
Total liabilities	<u>33,039,913</u>	<u>23,217</u>	<u>3,573</u>	<u>33,066,703</u>	<u>(28,743)</u>	<u>33,037,960</u>
<b>Net Position</b>						
Net investment in capital assets	32,410,901	-	-	32,410,901	-	32,410,901
Restricted – expendable for						
Capital acquisitions	1,467,716	-	-	1,467,716	-	1,467,716
Unrestricted	41,082,265	593,699	143,663	41,819,627	-	41,819,627
Total net position	<u>74,960,882</u>	<u>593,699</u>	<u>143,663</u>	<u>75,698,244</u>	<u>-</u>	<u>75,698,244</u>
Total liabilities and net position	<u>\$ 108,000,795</u>	<u>\$ 616,916</u>	<u>\$ 147,236</u>	<u>\$ 108,764,947</u>	<u>\$ (28,743)</u>	<u>\$ 108,736,204</u>

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	2020					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
<b>Assets</b>						
<b>Current Assets</b>						
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>
<b>Noncurrent Cash and Investments</b>						
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>
<b>Capital Assets, Net</b>						
	<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>
<b>Liabilities and Net Position</b>						
<b>Current Liabilities</b>						
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>
<b>Other Liabilities</b>						
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>
<b>Net Position</b>						
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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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:

	2021					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
<b>Operating Revenues</b>						
Net patient service revenue, net of provision for uncollectible accounts – \$21,196,933	\$ 87,778,323	\$ -	\$ -	\$ 87,778,323	\$ -	\$ 87,778,323
Other operating revenues	2,864,646	-	116,566	2,981,212	-	2,981,212
Total operating revenues	<u>90,642,969</u>	<u>-</u>	<u>116,566</u>	<u>90,759,535</u>	<u>-</u>	<u>90,759,535</u>
<b>Operating Expenses</b>						
Salaries and wages	42,681,769	131,544	-	42,813,313	(131,544)	42,681,769
Employee benefits	7,812,744	10,409	-	7,823,153	(10,409)	7,812,744
Purchased services and professional fees	17,645,131	3,733	-	17,648,864	(3,000)	17,645,864
Supplies and other expenses	26,548,043	137,427	109,411	26,794,881	(24,983)	26,769,898
Depreciation	5,419,332	-	-	5,419,332	-	5,419,332
Total operating expenses	<u>100,107,019</u>	<u>283,113</u>	<u>109,411</u>	<u>100,499,543</u>	<u>(169,936)</u>	<u>100,329,607</u>
<b>Operating Income (Loss)</b>	<u>(9,464,050)</u>	<u>(283,113)</u>	<u>7,155</u>	<u>(9,740,008)</u>	<u>169,936</u>	<u>(9,570,072)</u>
<b>Nonoperating Revenues (Expenses)</b>						
Loss on investments in equity investees	(446,263)	-	-	(446,263)	-	(446,263)
Investment income	843,302	21,823	-	865,125	-	865,125
Noncapital grants and gifts	220,182	405,959	-	626,141	(169,936)	456,205
Interest expense	(322,243)	-	-	(322,243)	-	(322,243)
Government grants	5,815,347	-	-	5,815,347	-	5,815,347
Total nonoperating revenues (expenses)	<u>6,110,325</u>	<u>427,782</u>	<u>-</u>	<u>6,538,107</u>	<u>(169,936)</u>	<u>6,368,171</u>
<b>Gain (Loss) Before Capital Grants and Gifts and Capital Appropriations</b>	<u>(3,353,725)</u>	<u>144,669</u>	<u>7,155</u>	<u>(3,201,901)</u>	<u>-</u>	<u>(3,201,901)</u>
<b>Capital Grants and Gifts and Capital Appropriations</b>	<u>560,661</u>	<u>-</u>	<u>-</u>	<u>560,661</u>	<u>-</u>	<u>560,661</u>
<b>Increase (Decrease) in Net Position</b>	<u>(2,793,064)</u>	<u>144,669</u>	<u>7,155</u>	<u>(2,641,240)</u>	<u>-</u>	<u>(2,641,240)</u>
<b>Net Position, Beginning of Year</b>	<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>
<b>Net Position, End of Year</b>	<u>\$ 74,960,882</u>	<u>\$ 593,699</u>	<u>\$ 143,663</u>	<u>\$ 75,698,244</u>	<u>\$ -</u>	<u>\$ 75,698,244</u>

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	2020					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
<b>Operating Revenues</b>						
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	<u>88,030,891</u>	<u>-</u>	<u>231,723</u>	<u>88,262,614</u>	<u>(58,112)</u>	<u>88,204,502</u>
<b>Operating Expenses</b>						
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	<u>99,366,455</u>	<u>480,636</u>	<u>255,520</u>	<u>100,102,611</u>	<u>(424,809)</u>	<u>99,677,802</u>
<b>Operating Loss</b>	<u>(11,335,564)</u>	<u>(480,636)</u>	<u>(23,797)</u>	<u>(11,839,997)</u>	<u>366,697</u>	<u>(11,473,300)</u>
<b>Nonoperating Revenues (Expenses)</b>						
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)	<u>8,432,976</u>	<u>392,304</u>	<u>-</u>	<u>8,825,280</u>	<u>(136,697)</u>	<u>8,688,583</u>
<b>Loss Before Capital Grants and Gifts and Capital Appropriations</b>	<u>(2,902,588)</u>	<u>(88,332)</u>	<u>(23,797)</u>	<u>(3,014,717)</u>	<u>230,000</u>	<u>(2,784,717)</u>
<b>Capital Grants and Gifts and Capital Appropriations</b>	<u>622,045</u>	<u>-</u>	<u>-</u>	<u>622,045</u>	<u>(230,000)</u>	<u>392,045</u>
<b>Decrease in Net Position</b>	<u>(2,280,543)</u>	<u>(88,332)</u>	<u>(23,797)</u>	<u>(2,392,672)</u>	<u>-</u>	<u>(2,392,672)</u>
<b>Net Position, Beginning of Year</b>	<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>
<b>Net Position, End of Year</b>	<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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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:

	<b>2021</b>					<b>Combined Balance</b>
	<b>Authority</b>	<b>Foundation</b>	<b>Auxiliary</b>	<b>Total</b>	<b>Eliminations</b>	
Net Cash Provided by (Used in) Operating Activities	\$ (851,186)	\$ (518,141)	\$ 1,938	\$ (1,367,389)	\$ -	\$ (1,367,389)
Net Cash Provided by Noncapital Financing Activities	5,820,688	405,959	-	6,226,647	-	6,226,647
Net Cash Used in Capital and Related Financing Activities	(5,022,449)	-	-	(5,022,449)	-	(5,022,449)
Net Cash Provided by (Used in) Investing Activities	(399,479)	1,790	-	(397,689)	-	(397,689)
Increase (Decrease) in Cash and Cash Equivalents	(452,426)	(110,392)	1,938	(560,880)	-	(560,880)
Cash and Cash Equivalents, Beginning of Year	30,254,052	499,864	81,435	30,835,351	-	30,835,351
Cash and Cash Equivalents, End of Year	<u>\$ 29,801,626</u>	<u>\$ 389,472</u>	<u>\$ 83,373</u>	<u>\$ 30,274,471</u>	<u>\$ -</u>	<u>\$ 30,274,471</u>
	<b>2020</b>					<b>Combined Balance</b>
	<b>Authority</b>	<b>Foundation</b>	<b>Auxiliary</b>	<b>Total</b>	<b>Eliminations</b>	
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>

**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.

The extent of the COVID-19 pandemic's adverse impact 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.

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Because of these and other uncertainties, the Authority cannot estimate the length or severity of the impact of the pandemic on the Authority's business. Decreases in cash flows and results of operations may have an impact 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 patient accounts, and self-insured health liability reserves.

In addition to the government assistance programs discussed below, in November, the Authority also received an additional \$4,023,000 through the American Rescue Plan related to the Authority's operation of 13 rural health clinics in its geographic area.

***Provider Relief Fund***

During the years ended June 30, 2021 and 2020, the Authority received approximately \$5,770,000 and \$7,447,000, respectively, 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 U.S. Department of Health and Human Services (HHS).

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 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 year-end, the Authority recognized approximately \$5,770,000 and \$7,447,000, respectively, during the years ended June 30, 2021 and 2020, 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.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Authority has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to June 30, 2021, in accordance with Governmental Accounting Standards Board (GASB) Codification Section 2250 and has concluded that any impact of the July 1, 2021, FAQs would be recognized.

The Authority has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2021, and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. 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, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the accompanying financial statements compared to the Authority's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

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***Medicare Accelerated and Advance 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 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. During the years ended June 30, 2021 and 2020, Medicare has applied approximately \$1,442,000 and \$0, respectively, from these accelerated Medicare payment requests against filed claims. As of June 30, 2021, \$7,963,200 and \$2,538,681 of accelerated Medicare payment requests are recorded as current and noncurrent estimated amounts due to third-party payors in the accompanying balance sheets. As of June 30, 2020, all of the accelerated Medicare payment requests were recorded as current liabilities 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, 2021 and 2020, the Authority had deferred \$1,077,964 and \$487,798, respectively, of payroll taxes. In 2021, this amount included in the captions for accrued expenses and other and other long-term liability, on the accompanying balance sheets. In 2020, this amount is included in the captions for other long-term liability, on the accompanying balance sheets.

In addition, the CARES Act created the Employee Retention Credit to encourage companies to retain employees during the pandemic. During the years ended June 30, 2021 and 2020, the Authority evaluated its eligibility for this credit and determined not to record employee retention payroll tax credits pursuant to the CARES Act.

**McAlester Regional Health Center Authority**  
**A Component Unit of the City of McAlester, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2021 and 2020**

**Note 17: Future Changes in Accounting Principles**

***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.

**Note 18: Subsequent Event**

In June 2020, voters in Oklahoma passed a Medicaid expansion ballot initiative. Medicaid expansion in Oklahoma goes into effect on July 1, 2021. While it is difficult to estimate the impact of Medicaid expansion, it is projected to significantly increase the number of Oklahoma residents eligible for Medicaid benefits. The impact to the Authority as a result of Medicaid expansion cannot be currently estimated but could be material.

In addition to the increased number of Oklahoma residents that will be eligible for Medicaid benefits, the SHOPP described in *Note 1* will also increase with the additional federal funds provided to the Medicaid program. It is currently estimated that SHOPP revenue could increase by 20%–25% in fiscal year 2022 and beyond.

**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, 2021, 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 8, 2021, 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. 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 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*.

### ***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 8, 2021