McAlester Regional Health Center Authority

A Component Unit of the City of McAlester, Oklahoma

Independent Auditor's Reports and Financial Statements

June 30, 2022

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
June 30, 2022

Contents

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Independent Auditor's Report

Board of Trustees
McAlester Regional Health Center Authority
McAlester, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of McAlester Regional Health Center Authority (the Authority) as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2022 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, on July 1, 2021, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

Other Matter

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 GASB, 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 November 16, 2022 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.

FORVIS, LLP

Tulsa, Oklahoma
November 16, 2022

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Balance Sheet
June 30, 2022

Assets

Current Assets	
Cash and cash equivalents	$ 20,474,740
Short-term investments	1,215,030
Patient accounts receivable, net of allowance; $11,428,667	9,344,429
Supplies	2,230,235
Prepaid expenses and other	2,248,721
Total current assets	35,513,155
Noncurrent Cash and Investments	
Restricted cash	1,886,398
Other long-term investments	9,477,099
Investments in and advances to equity investees	5,682,653
Total noncurrent cash and investments	17,046,150
Capital Assets, Net	39,221,536
Lease Assets, Net	4,516,382
Leases Receivable	783,535
Total assets	$ 97,080,758

Liabilities, Deferred Inflows of Resources, and Net Position

Current Liabilities	
Current maturities of long-term debt	$ 8,272,791
Current portion of lease liabilities	1,133,790
Accounts payable	4,649,449
Accrued expenses	6,678,603
Estimated amounts due to third-party payors	2,692,486
Total current liabilities	23,427,119
Other Liabilities	
Long-term debt	1,117,129
Lease liabilities	3,517,278
Total other liabilities	4,634,407
Total liabilities	28,061,526
Deferred Inflows of Resources	787,452
Net Position	
Net investment in capital assets	29,696,930
Restricted – expendable for	
Capital acquisitions	1,886,398
Unrestricted	36,648,452
Total net position	68,231,780
Total liabilities, deferred inflows of resources, and net position	$ 97,080,758

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2022

Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts; $8,397,068	$ 90,285,690
Other operating revenues	2,763,896
Total operating revenues	93,049,586
Operating Expenses	
Salaries and wages	44,019,018
Employee benefits	6,851,526
Purchased services and professional fees	20,092,285
Supplies and other expenses	26,104,804
Depreciation and amortization	6,631,878
Total operating expenses	103,699,511
Operating Loss	(10,649,925)
Nonoperating Revenues (Expenses)	
Gain on investments in equity investees	226,815
Investment return	(1,821,051)
Noncapital grants and gifts	376,263
Interest expense	(574,096)
Government grants	4,513,402
Total nonoperating revenues (expenses)	2,721,333
Loss Before Capital Grants and Gifts and Capital Appropriations	(7,928,592)
Capital Grants and Gifts and Capital Appropriations	462,128
Decrease in Net Position	(7,466,464)
Net Position, Beginning of Year	75,698,244
Net Position, End of Year	$ 68,231,780

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Statement of Cash Flows
Year Ended June 30, 2022

Cash Flows from Operating Activities	
Receipts from and on behalf of patients	$ 83,171,407
Payments to suppliers and contractors	(46,209,358)
Payments to employees	(51,833,586)
Other receipts, net	2,937,976
Net cash used in operating activities	(11,933,561)
Cash Flows from Noncapital Financing Activities	
Noncapital grants and gifts	376,263
Government grants	4,513,402
Net cash provided by noncapital financing activities	4,889,665
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	(1,226,690)
Interest paid on long-term debt	(264,211)
Proceeds from issuance of long-term debt	133,776
Purchase of capital assets	(1,631,517)
Principal paid on leases payable	(1,162,287)
Interest paid on leases payable	(309,885)
Appropriations restricted for capital projects – City of McAlester	462,128
Net cash used in capital and related financing activities	(3,998,686)
Cash Flows from Investing Activities	
Purchases of investments	(8,764,613)
Proceeds from disposition of investments	10,865,668
Investment loss	1,063,083
Advances to equity investees	(534,924)
Distributions from equity investees	500,035
Net cash provided by investing activities	3,129,249
Decrease in Cash and Cash Equivalents	(7,913,333)
Cash and Cash Equivalents, Beginning of Year	30,274,471
Cash and Cash Equivalents, End of Year	$ 22,361,138

Reconciliation of Cash and Cash Equivalents to the Balance Sheet	
Cash and cash equivalents in current assets	$ 20,474,740
Cash and cash equivalents in restricted cash	1,886,398
Total cash and cash equivalents	$ 22,361,138
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	$ (10,649,925)
Depreciation and amortization	6,631,878
Accrued self-insurance costs	244,441
Provision for uncollectible accounts	8,397,068
Changes in operating assets and liabilities	
Patient accounts receivable	(7,410,351)
Estimated amounts due to/from third-party payors	(8,293,183)
Accounts payable and accrued expenses	(446,239)
Supplies and prepaid expenses	(581,330)
Other assets and liabilities	174,080
Net cash used in operating activities	$ (11,933,561)
Supplemental Cash Flows Information	
Lease obligation incurred for lease assets	$ 1,855,769

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2022

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.

McAlester Medical Services, LLC (MMS) employs physicians and other healthcare 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, liabilities, and deferred inflows of resources 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, liabilities, and deferred inflows of resources 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, 2022, cash equivalents consisted primarily of money market accounts with brokers.

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

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 $0 in 2022.

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Capital and Lease Asset Impairment

The Authority evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease 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.

No asset impairment was recognized during the year ended June 30, 2022.

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 and workers' compensation claims. Annual estimated provisions are accrued for the self-insured portion of employee health and workers' compensation 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 $79,000 of the funds under the excise taxes remain unspent and are reflected on the accompanying balance sheet as restricted cash at June 30, 2022.

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

Deferred Inflows of Resources

The Authority reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet.

Net Position

Net position of the Authority is classified in three components on its balance sheet:

- 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 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 statement 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 $1,807,000 of receipts from the sales tax ordinance remain unspent and are reflected in the accompanying balance sheet as restricted cash at June 30, 2022. Sales tax revenue was approximately $575,000 for the year ended June 30, 2022.

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 statement 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 in 2023 is expected to be materially consistent with the amounts received in 2022.

During the year ended June 30, 2022, the Authority had the following activity related to the SHOPP:

SHOPP funds received	$ 9,084,000
SHOPP assessment fees paid	1,419,000
Net benefit under SHOPP	$ 7,665,000

Change in Accounting Principle

On July 1, 2021, the Authority adopted GASB Statement No. 87, *Leases*, using a retrospective method of adoption to all leases in place and not yet completed at the beginning of the earliest period presented. GASB 87 requires lessees to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, and a leased asset.

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 58% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2022. 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, 2022, none of the Authority's bank balances of approximately $21,982,000 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 $1,161,000 and carrying values of approximately $967,000 at June 30, 2022.

As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2022, the blended component units' cash accounts exceeded federally insured limits by approximately $396,000.

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, 2022, the Authority had the following investments and maturities:

		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
Money market mutual funds	$ 92,662	$ 92,662	$ -	$ -	$ -
Mutual funds	6,400,826	6,400,826	-	-	-
	6,493,488	$ 6,493,488	$ -	$ -	$ -
Exchange-traded funds	2,465,864				
	$ 8,959,352				

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy does not specifically address management of credit risk.

At June 30, 2022, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

Investments	Moody's	S & P
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.

Summary of Carrying Values

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

Carrying value	
Deposits	$ 24,093,915
Investments	8,959,352
	$ 33,053,267
Included in the following balance sheet captions	
Cash and cash equivalents	$ 20,474,740
Short-term investments	1,215,030
Restricted cash	1,886,398
Other long-term investments	9,477,099
	$ 33,053,267

Investment Income

Investment income for the year ended June 30, 2022 consisted of:

Interest, dividends, and realized gains on sales of investments, net	$ 4,778,482
Net decrease in fair value of investments	(2,957,431)
Total	$ 1,821,051

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, 2022 consisted of:

Medicare	$ 6,070,824
Medicaid	2,923,624
Other third-party payors	9,475,900
Patients	2,302,748
	20,773,096
Less allowance for uncollectible accounts	11,428,667
	$ 9,344,429

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, 2022:

	Investments in and Advances to Equity Investees	Approximate Ownership Interest %
Tecumseh	$ 2,866,000	7%
LifeCare	706,000	12%
ASLG	1,448,000	50%
LAIE	588,000	10%
Other insignificant investments in equity investees	74,653	Various
	$ 5,682,653	

- **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 year ended June 30, 2022, the Authority paid approximately $406,000 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 healthcare 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 $1,727,000 as of June 30, 2022. The Authority has determined, as of June 30, 2022, 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.

- **Other Insignificant Investments in Equity Investees** – The Authority holds other insignificant investments in Upper Midwest Consolidated Services Center, LLC and Southeast Alliance Network, Inc.

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 LifeCare for the year ended June 30, 2022 (unaudited) and the results of operations for Tecumseh, LAIE, and Belfair for the year ended December 31, 2021 (audited).

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

	December 31, 2021			June 30, 2022
	Tecumseh	**LAIE**	**Belfair**	**LifeCare**
Current assets	$ 64,053,891	$ 4,383,577	$ 94,002	$ 8,445,379
Property and other long-term assets, net	-	38,822	10,317,626	1,523,778
Total assets	$ 64,053,891	$ 4,422,399	$ 10,411,628	$ 9,969,157
Total liabilities	$ 22,494,081	$ 45,020	$ 7,793,145	$ 579,549
Partners' equity	41,559,810	4,377,379	2,618,483	9,389,608
Total liabilities and partners' equity	$ 64,053,891	$ 4,422,399	$ 10,411,628	$ 9,969,157
Revenues	$ 14,456,940	$ 657,829	$ 1,730,579	$ 3,306,883
Excess (deficiency) of revenues over expenses	$ 5,698,527	$ 489,459	$ (954,407)	$ 980,001

Note 6: Capital and Lease Assets

Capital assets activity for the year ended June 30, 2022 was:

	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	70,220,900	513,758	-	74,730	70,809,388
Major moveable equipment	47,441,330	653,133	-		48,094,463
Construction in progress	87,474	464,626	-	(74,730)	477,370
	121,085,853	1,631,517	-	-	122,717,370
Less accumulated depreciation					
Land improvements	1,492,111	65,053	-	-	1,557,164
Buildings, fixed equipment, and leasehold improvements	41,856,818	2,283,902	-	-	44,140,720
Major moveable equipment	34,793,120	3,004,830	-	-	37,797,950
	78,142,049	5,353,785	-	-	83,495,834
Capital assets, net	$ 42,943,804	$ (3,722,268)	$ -	$ -	$ 39,221,536

Lease assets activity for the year ended June 30, 2022 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings	$ 3,227,789	$ 64,694	$ -	$ -	$ 3,292,483
Major moveable equipment	690,190	1,791,075	-	-	2,481,265
	3,917,979	1,855,769	-	-	5,773,748
Less accumulated depreciation					
Buildings	-	734,845	-	-	734,845
Major moveable equipment	-	522,521	-	-	522,521
	-	1,257,366	-	-	1,257,366
Lease assets, net	$ 3,917,979	$ 598,403	$ -	$ -	$ 4,516,382

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 healthcare 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 year ended June 30, 2022. 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 healthcare 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 $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 2022 is summarized as follows:

	Employee Health	Workers' Compensation
Balance, beginning of year	$ 893,910	$ 159,135
Current year claims incurred and changes in estimates for claims incurred in prior years	2,905,230	209,077
Claims and expenses paid	(2,628,730)	(241,136)
Balance, end of year	$ 1,170,410	$ 127,076

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the year ended June 30, 2022:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable to bank	$ 10,482,834	$ 133,776	$ (1,226,690)	$ 9,389,920	$ 8,272,791
Other long-term liabilities					
Lease liability	3,957,586	1,855,769	(1,162,287)	4,651,068	1,133,790
Employer payroll tax deferral	1,077,964	-	(1,077,964)	-	-
Total long-term obligations	$ 15,518,384	$ 1,989,545	$ (3,466,941)	$ 14,040,988	$ 9,406,581

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.

The originally scheduled principal and interest payments as of June 30, 2022, 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
2023	$ 1,639,728	$ 1,388,564	$ 251,164
2024	1,583,029	1,372,438	210,591
2025	1,030,993	864,643	166,350
2026	652,740	504,895	147,845
2027	621,228	486,604	134,624
2028–2032	3,106,141	2,643,604	462,537
2033–2036	2,240,118	2,129,172	110,946
	$ 10,873,977	$ 9,389,920	$ 1,484,057

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, 2022, 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 sheet at June 30, 2022.

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, 2022 is as follows:

Series 2016 Hospital Revenue Note	$ 6,473,009
Series 2017 Hospital Revenue Note	1,280,213
Other notes payable	1,031,595
Promissory note – downtown building	605,103
	$ 9,389,920

Lease Liabilities

The Authority leases equipment and clinic space, the terms of which expire in various years through 2031. Variable payments based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance.

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30,	Total to be Paid	Principal	Interest
2023	$ 1,381,761	$ 1,133,790	$ 247,971
2024	1,174,011	991,455	182,556
2025	1,102,140	977,161	124,979
2026	739,789	667,583	72,206
2027	378,327	335,743	42,584
2028–2031	594,749	545,336	49,413
	$ 5,370,777	$ 4,651,068	$ 719,709

Other Long-Term Liability

The Authority elected to defer certain payroll taxes under provisions of the CARES Act. See *Note 15* 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:

Charity allowances	$ 114,000
State Medicaid and other public aid programs	11,367,000
	$ 11,481,000

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 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 2022, contribution rates for plan members and the Authority expressed as a percentage of covered payroll were approximately 2.9% and 0.9%, respectively. During 2022, contributions actually made by plan members and the Authority aggregated approximately $1,261,000 and $431,000, 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 year ended June 30, 2022, forfeitures reduced the Authority's pension expense by approximately $434,000.

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: 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 sheet.

Note 13: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

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, 2022:

		Fair Value Measurements Using		
Type	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments by Fair Value Level				
Money market mutual funds	$ 92,662	$ 92,662	$ -	$ -
Certificates of deposit	1,730,946	-	1,730,946	-
Mutual funds	6,400,826	6,400,826	-	-
Exchange-traded funds	2,465,864	2,465,864	-	-
Total investments by fair value level	$ 10,690,298	$ 8,959,352	$ 1,730,946	$ -

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, 2022.

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2022

Note 14: Combining Component Unit Information

Component Units' Financial Statements

The following table includes 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, 2022:

	Authority	Foundation	Auxiliary	Total	Eliminations	Combined Balance
Assets						
Current Assets						
Cash and cash equivalents	$ 19,904,667	$ 524,697	$ 45,376	$ 20,474,740	$ -	$ 20,474,740
Short-term investments	1,012,250	202,780	-	1,215,030	-	1,215,030
Patient accounts receivable, net of allowance; $11,428,667	9,344,429	-	-	9,344,429	-	9,344,429
Supplies	2,139,543	-	90,692	2,230,235	-	2,230,235
Prepaid expenses and other	2,262,868	13,297	9,037	2,285,202	(36,481)	2,248,721
Total current assets	34,663,757	740,774	145,105	35,549,636	(36,481)	35,513,155
Noncurrent Cash and Investments						
Restricted cash	1,886,398	-	-	1,886,398	-	1,886,398
Other long-term investments	9,477,099	-	-	9,477,099	-	9,477,099
Investments in and advances to equity investees	5,682,653	-	-	5,682,653	-	5,682,653
Total noncurrent cash and investments	17,046,150	-	-	17,046,150	-	17,046,150
Capital Assets, Net	39,221,536	-	-	39,221,536	-	39,221,536
Lease Assets, Net	4,516,382	-	-	4,516,382	-	4,516,382
Leases Receivable	783,535	-	-	783,535	-	783,535
Total assets	$ 96,231,360	$ 740,774	$ 145,105	$ 97,117,239	$ (36,481)	$ 97,080,758
Liabilities, Deferred Inflows of Resources, and Net Position						
Current Liabilities						
Current maturities of long-term debt	$ 8,272,791	$ -	$ -	$ 8,272,791	$ -	$ 8,272,791
Current portion of lease liabilities	1,133,790	-	-	1,133,790	-	1,133,790
Accounts payable	4,651,652	28,773	5,505	4,685,930	(36,481)	4,649,449
Accrued expenses	6,678,603	-	-	6,678,603	-	6,678,603
Estimated amounts due to third-party payors	2,692,486	-	-	2,692,486	-	2,692,486
Total current liabilities	23,429,322	28,773	5,505	23,463,600	(36,481)	23,427,119
Other Liabilities						
Long-term debt	1,117,129	-	-	1,117,129	-	1,117,129
Lease liabilities	3,517,278	-	-	3,517,278	-	3,517,278
Total other liabilities	4,634,407	-	-	4,634,407	-	4,634,407
Total liabilities	28,063,729	28,773	5,505	28,098,007	(36,481)	28,061,526
Deferred Inflows of Resources	787,452	-	-	787,452	-	787,452
Net Position						
Net investment in capital assets	29,696,930	-	-	29,696,930	-	29,696,930
Restricted – expendable for Capital acquisitions	1,886,398	-	-	1,886,398	-	1,886,398
Unrestricted	35,796,851	712,001	139,600	36,648,452	-	36,648,452
Total net position	67,380,179	712,001	139,600	68,231,780	-	68,231,780
Total liabilities, deferred inflows of resources, and net position	$ 96,231,360	$ 740,774	$ 145,105	$ 97,117,239	$ (36,481)	$ 97,080,758

The following table includes combining statement 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 year ended June 30, 2022:

	Authority	Foundation	Auxiliary	Total	Eliminations	Combined Balance
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; $8,397,068	$ 90,285,690	$ -	$ -	$ 90,285,690	$ -	$ 90,285,690
Other operating revenues	2,623,327	-	140,569	2,763,896	-	2,763,896
Total operating revenues	92,909,017	-	140,569	93,049,586	-	93,049,586
Operating Expenses						
Salaries and wages	44,019,018	128,146	-	44,147,164	(128,146)	44,019,018
Employee benefits	6,851,526	10,069	-	6,861,595	(10,069)	6,851,526
Purchased services and professional fees	20,088,250	7,035	-	20,095,285	(3,000)	20,092,285
Supplies and other expenses	25,902,537	69,235	144,632	26,116,404	(11,600)	26,104,804
Depreciation and amortization	6,631,878	-	-	6,631,878	-	6,631,878
Total operating expenses	103,493,209	214,485	144,632	103,852,326	(152,815)	103,699,511
Operating Loss	(10,584,192)	(214,485)	(4,063)	(10,802,740)	152,815	(10,649,925)
Nonoperating Revenues (Expenses)						
Gain on investments in equity investees	226,815	-	-	226,815	-	226,815
Investment return	(1,805,876)	(15,175)	-	(1,821,051)	-	(1,821,051)
Noncapital grants and gifts	181,116	347,962	-	529,078	(152,815)	376,263
Interest expense	(574,096)	-	-	(574,096)	-	(574,096)
Government grants	4,513,402	-	-	4,513,402	-	4,513,402
Total nonoperating revenues (expenses)	2,541,361	332,787	-	2,874,148	(152,815)	2,721,333
Gain (Loss) Before Capital Grants and Gifts and Capital Appropriations	(8,042,831)	118,302	(4,063)	(7,928,592)	-	(7,928,592)
Capital Grants and Gifts and Capital Appropriations	462,128	-	-	462,128	-	462,128
Increase (Decrease) in Net Position	(7,580,703)	118,302	(4,063)	(7,466,464)	-	(7,466,464)
Net Position, Beginning of Year	74,960,882	593,699	143,663	75,698,244	-	75,698,244
Net Position, End of Year	$ 67,380,179	$ 712,001	$ 139,600	$ 68,231,780	$ -	$ 68,231,780

The following table includes condensed combining statement 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 year ended June 30, 2022:

	Authority	Foundation	Auxiliary	Total	Combined Balance
Net Cash Used in Operating Activities	$ (11,681,038)	$ (214,526)	$ (37,997)	$ (11,933,561)	$ (11,933,561)
Net Cash Provided by Noncapital Financing Activities	4,541,703	347,962	-	4,889,665	4,889,665
Net Cash Used in Capital and Related Financing Activities	(3,998,686)	-	-	(3,998,686)	(3,998,686)
Net Cash Provided by Investing Activities	3,127,460	1,789	-	3,129,249	3,129,249
Increase (Decrease) in Cash and Cash Equivalents	(8,010,561)	135,225	(37,997)	(7,913,333)	(7,913,333)
Cash and Cash Equivalents, Beginning of Year	29,801,626	389,472	83,373	30,274,471	30,274,471
Cash and Cash Equivalents, End of Year	$ 21,791,065	$ 524,697	$ 45,376	$ 22,361,138	$ 22,361,138

Note 15: Leases Receivable

The Authority leases a portion of its office space to various third parties, the terms of which expire 2023 through 2027.

Revenue recognized under lease contracts during the year ended June 30, 2022 was approximately $477,000, which includes both lease revenue and interest.

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.

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.

Provider Relief Fund

During the year ended June 30, 2022, the Authority received approximately $4,513,000 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 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 $4,513,000 during the year ended June 30, 2022 related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – government grants in the accompanying statement of revenues, expenses, and changes in net position.

The Authority has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2022. 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.

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 healthcare 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 healthcare 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 year ended June 30, 2022, Medicare applied approximately $7,630,000 from these accelerated Medicare payment requests against filed claims. As of June 30, 2022, the Authority had approximately $2,873,000 of accelerated payments due to CMS outstanding, all of which were recorded as estimated amounts due to third-party payors in the accompanying balance sheet.

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, 2022 and 2021, the Authority had deferred $0 and $1,077,964, respectively, of payroll taxes (see *Note 9*).

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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, 2022 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 November 16, 2022, which contained an *Other Matter* paragraph regarding omission of required supplementary information and an *Emphasis of Matter* paragraph regarding a change in accounting principles.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 or significant deficiencies may exist that were not identified.

Board of Trustees
McAlester Regional Health Center Authority

Report on Compliance and Other Matters

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

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.

FORVIS, LLP

Tulsa, Oklahoma
November 16, 2022