

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2019 and 2018



McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
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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, 2019 and 2018, 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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2019, 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
October 30, 2019

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Balance Sheets
June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 17,570,571	\$ 22,035,096
Short-term investments	4,683,532	831,896
Restricted cash	108,163	121,040
Restricted certificates of deposit for workers' compensation	-	480,180
Patient accounts receivable, net of allowance; 2019 – \$20,052,176, 2018 – \$17,440,387	14,851,819	11,178,667
Estimated amounts due from third-party payors	217,940	79,561
Supplies	2,293,197	2,179,803
Prepaid expenses and other	2,820,879	2,349,317
Total current assets	42,546,101	39,255,560
Noncurrent Cash and Investments		
Held by trustee for capital acquisitions	2,108,969	2,197,432
Other long-term investments	9,722,043	7,558,068
Investments in and advances to equity investees	4,942,192	6,477,966
Total noncurrent cash and investments	16,773,204	16,233,466
Capital Assets, Net	43,186,192	42,465,505
Total assets	\$ 102,505,497	\$ 97,954,531

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,324,499	\$ 1,183,308
Accounts payable	4,728,773	4,989,620
Accrued expenses	<u>4,508,306</u>	<u>4,463,901</u>
Total current liabilities	10,561,578	10,636,829
Long-Term Debt	<u>11,211,763</u>	<u>12,109,670</u>
Total liabilities	<u>21,773,341</u>	<u>22,746,499</u>
Net Position		
Net investment in capital assets	29,959,656	26,782,974
Restricted – expendable for		
Capital acquisitions and debt service	2,859,717	2,568,472
Workers’ compensation claims	-	272,234
Specific operating activities	19,848	20,303
Unrestricted	<u>47,892,935</u>	<u>45,564,049</u>
Total net position	<u>80,732,156</u>	<u>75,208,032</u>
Total liabilities and net position	<u>\$ 102,505,497</u>	<u>\$ 97,954,531</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, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$16,382,508, 2018 – \$18,281,421	\$ 93,103,502	\$ 82,065,771
Other operating revenues	3,995,546	3,740,281
Total operating revenues	97,099,048	85,806,052
Operating Expenses		
Salaries and wages	41,116,645	38,685,697
Employee benefits	6,305,465	6,386,453
Purchased services and professional fees	17,255,624	13,803,571
Supplies and other expenses	26,871,337	23,661,884
Depreciation	4,753,527	4,175,486
Total operating expenses	96,302,598	86,713,091
Operating Income (Loss)	796,450	(907,039)
Nonoperating Revenues (Expenses)		
Gain on investments in equity investees	3,303,332	988,688
Gain on sale of capital assets	248	139,875
Investment income	713,599	111,955
Noncapital grants and gifts	498,743	326,023
Interest expense	(180,833)	(149,540)
Total nonoperating revenues (expenses)	4,335,089	1,417,001
Income Before Capital Grants and Gifts and Capital Appropriations	5,131,539	509,962
Capital Grants and Gifts and Capital Appropriations	392,585	257,344
Increase in Net Position	5,524,124	767,306
Net Position, Beginning of Year	75,208,032	74,440,726
Net Position, End of Year	\$ 80,732,156	\$ 75,208,032

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 89,543,760	\$ 83,713,737
Payments to suppliers and contractors	(42,753,425)	(39,154,018)
Payments to employees	(47,403,034)	(44,389,582)
Other receipts, net	3,935,314	3,735,281
	<u>3,322,615</u>	<u>3,905,418</u>
Noncapital Financing Activities		
Noncapital grants and gifts	498,743	326,023
	<u>498,743</u>	<u>326,023</u>
Capital and Related Financing Activities		
Capital grants and gifts	-	257,344
Principal paid on long-term debt	(1,156,716)	(1,029,730)
Proceeds from issuance of long-term debt	400,000	4,000,000
Interest paid on capital debt and leases	(180,833)	(149,540)
Purchase of capital assets	(7,972,255)	(15,108,661)
Proceeds from disposal of capital assets	1,190,594	139,875
	<u>(7,719,210)</u>	<u>(11,890,712)</u>
Investing Activities		
Purchases of investments	(9,604,656)	(8,956,326)
Proceeds from disposition of investments	4,085,997	11,291,506
Investment income	305,110	220,094
Change in restricted certificates of deposit, net	480,180	(3,585)
Proceeds from sale of interest in Dialysis Center	4,216,814	-
Advances to equity investees	(1,134,418)	(162,620)
Distributions from equity investees	1,224,578	579,769
Cash paid in acquisition, net of cash acquired (<i>Note 5</i>)	(153,155)	-
	<u>(579,550)</u>	<u>2,968,838</u>
Decrease in Cash and Cash Equivalents	<u>(4,477,402)</u>	<u>(4,690,433)</u>
Cash and Cash Equivalents, Beginning of Year	<u>22,156,136</u>	<u>26,846,569</u>
Cash and Cash Equivalents, End of Year	<u>\$ 17,678,734</u>	<u>\$ 22,156,136</u>

See Notes to Financial Statements

	<u>2019</u>	<u>2018</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 17,570,571	\$ 22,035,096
Cash and cash equivalents in restricted cash	108,163	121,040
	<u>\$ 17,678,734</u>	<u>\$ 22,156,136</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 796,450	\$ (907,039)
Depreciation	4,753,527	4,175,486
Accrued self-insurance costs	(208,006)	462,031
Provision for uncollectible accounts	16,382,508	18,281,421
Changes in operating assets and liabilities		
Patient accounts receivable	(19,862,368)	(16,514,355)
Estimated amounts due to/from third-party payors	(138,379)	(119,100)
Accounts payable and accrued expenses	1,712,072	(1,360,956)
Supplies and prepaid expenses	(113,189)	(112,070)
	<u>\$ 3,322,615</u>	<u>\$ 3,905,418</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ -	\$ 470,655
Capital asset acquisitions included in accounts payable	\$ 690,274	\$ 2,389,553

The Authority purchased the remaining membership units of McAlester Regional Surgery Center for \$502,000. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of investments acquired	\$ 1,072,521
Cash paid	(502,000)
Authority equity interest in the Surgery Center	<u>(557,132)</u>
	<u>\$ 13,389</u>

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

Nature of Operations

The McAlester Regional Health Center Authority (the Authority) was created by a trust indenture dated August 11, 1969, as a public trust and an agency of the State of Oklahoma for the benefit of the City of McAlester, Oklahoma (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 component unit of the Authority. The Auxiliary's primary function is to raise and hold funds to support the Authority and its programs. The board of the Auxiliary is self-perpetuating, but the director of the Auxiliary is appointed by the chief executive officer of the Authority. Because the Authority's Board of Trustees has final approval for the use of all assets of the Auxiliary, the Auxiliary is included as a component unit in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Auxiliary have been eliminated in the accompanying financial statements.

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McAlester Medical Services, LLC (MMS) employs physicians and other health care providers. The Authority is the sole corporate member of MMS. MMS is included as a blended component unit of the Authority in the accompanying financial statements as it is essentially operating as a division of the Health Center's operations.

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers.

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

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Investments and Investment Income

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

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

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party 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
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 \$216,000 and \$239,000 in 2019 and 2018, 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, 2019 and 2018.

Compensated Absences

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

Risk Management

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

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

Restricted Cash

The Authority received appropriations related to excise taxes levied by two city ordinances to provide revenues for the purpose of financing and constructing a cancer treatment facility, with total funds not to exceed \$1,750,000, and a wellness facility, with total funds not to exceed \$6,000,000, in the City. The Authority reached the maximum funding levels from each excise tax during 2010. Approximately \$108,000 and \$121,000 of the funds under the excise taxes remain unspent and are reflected on the accompanying balance sheets as restricted cash at June 30, 2019 and 2018, respectively.

Restricted Certificates of Deposit

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

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June 30, 2019 and 2018

Net Position

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

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

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

Income Taxes

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

County Appropriations

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

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expanded cancer care and ancillary services to the surrounding area. The sales tax went into effect on October 1, 2018. Revenue from city appropriations is recognized in the year in which the sales tax is earned and is recorded as capital grants and gifts and capital appropriations in the accompanying statements of revenues, expenses and changes in net position. The provisions of this ordinance and the collection of the related sales tax shall expire on July 1, 2033.

Other Operating Revenue

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

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2025. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee that will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of supplies and other expenses on the accompanying statements of revenues, expenses and changes in net position. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different from the amounts received in 2019.

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

	2019	2018
SHOPP funds received	\$ 6,164,000	\$ 7,076,000
SHOPP assessment fees paid	1,692,000	2,224,000
Net benefit under SHOPP	\$ 4,472,000	\$ 4,852,000

Change in Accounting Principle

During 2019, the Authority elected to early adopt Governmental Accounting Standards Board (GASB) Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*, using a prospective method of adoption. GASB 90 defines an equity interest in a legally separate organization and establishes how majority equity interests should be reported in the

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financial statements. Additionally, GASB 90 applies the acquisition provisions of GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, when a government acquires 100% equity interest in a component unit for which the component unit continues to stay a legal separate entity. The Authority applied GASB 90 to its acquisition of the Surgery Center as discussed in *Note 5*.

Revision

A certain immaterial revision has been made to the 2018 financial statements to include certificates of deposit of approximately \$3,400,000 within the custodial credit risk disclosure. This revision had no impact on previously reported uninsured amounts and did not have any impact on financial statement line items.

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 48% and 49% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2019 and 2018, 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.

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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, 2019 and 2018, none of the Authority's bank balances of approximately \$22,150,000 and \$25,257,000, 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 \$1,351,000 and \$717,000 and carrying values of approximately \$1,479,000 and \$713,000 at June 30, 2019 and 2018, respectively.

As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2019 and 2018, the blended component units' cash accounts exceeded federally insured limits by approximately \$763,000 and \$0, 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	2019			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 1,441,431	\$ 51,162	\$ 1,281,531	\$ 108,738	\$ -
U.S. Treasury obligations	1,180,502	-	398,804	781,698	-
Money market mutual funds	<u>5,399,076</u>	<u>5,399,076</u>	<u>-</u>	<u>-</u>	<u>-</u>
Exchange-traded funds	8,021,009	<u>\$ 5,450,238</u>	<u>\$ 1,680,335</u>	<u>\$ 890,436</u>	<u>\$ -</u>
Corporate stocks	2,440,747				
Accrued interest	1,103,413				
	40,299				
	<u>\$ 11,605,468</u>				

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Type	Fair Value	2018			
		Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 1,416,493	\$ 103,055	\$ 988,164	\$ 325,274	\$ -
U.S. Treasury obligations	1,083,534	-	756,808	326,726	-
Money market mutual funds	<u>2,353,285</u>	<u>2,353,285</u>	<u>-</u>	<u>-</u>	<u>-</u>
Exchange-traded funds	4,853,312	<u>\$ 2,456,340</u>	<u>\$ 1,744,972</u>	<u>\$ 652,000</u>	<u>\$ -</u>
Corporate stocks	1,710,039				
Accrued interest	<u>1,003,816</u>				
	<u>\$ 29,913</u>				
	<u>\$ 7,597,080</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.

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

Investments	June 30, 2019	
	Moody’s	S & P
Corporate bonds	Baa2 to Aa1	BBB to AA
Money market mutual funds	Not rated to Aaa-mf	Not rated to AAAM

Investments	June 30, 2018	
	Moody’s	S & P
Corporate bonds	Baa2 to Aa2	BBB- to AA+
Money market mutual funds	Not rated to Aaa-mf	Not rated to AAAM

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

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Concentration of Credit Risk – The Authority limits exposure of the portfolio to any one issuer, other than the U.S. government or its agencies, to 25% of the market value of the fund in one industry and 10% in any one company. At June 30, 2019 and 2018, the Authority’s investment in money market mutual funds of \$5,228,065 and \$2,197,432, respectively, constituted 47% and 29% of its total investments, respectively.

Summary of Carrying Values

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

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 22,587,810	\$ 25,626,632
Investments	<u>11,605,468</u>	<u>7,597,080</u>
	<u>\$ 34,193,278</u>	<u>\$ 33,223,712</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 17,570,571	\$ 22,035,096
Short-term investments	4,683,532	831,896
Restricted cash	108,163	121,040
Restricted certificates of deposit for workers’ compensation	-	480,180
Held by trustee for capital acquisitions	2,108,969	2,197,432
Other long-term investments	<u>9,722,043</u>	<u>7,558,068</u>
	<u>\$ 34,193,278</u>	<u>\$ 33,223,712</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 305,110	\$ 220,094
Net increase (decrease) in fair value of investments	<u>408,489</u>	<u>(108,139)</u>
Total	<u>\$ 713,599</u>	<u>\$ 111,955</u>

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Note 4: Patient Accounts Receivable

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

	2019	2018
Medicare	\$ 5,307,233	\$ 4,563,584
Medicaid	2,200,904	2,221,866
Other third-party payors	11,417,706	7,993,313
Patients	15,978,152	13,840,291
	34,903,995	28,619,054
Less allowance for uncollectible accounts	20,052,176	17,440,387
	<u>\$ 14,851,819</u>	<u>\$ 11,178,667</u>

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:

	2019		2018	
	Investment in and Advances to Equity Investee	Approximate Ownership Interest %	Investment in and Advances to Equity Investee	Approximate Ownership Interest %
Tecumseh	\$ 2,999,000	8%	\$ 2,872,000	10%
Surgery Center	-	100%	1,837,000	50%
Dialysis Center	-	0%	764,000	50%
LifeCare	678,000	10%	678,000	10%
ASLG	1,060,000	50%	-	0%
Other insignificant investments in equity investees	205,192	Various	326,966	Various
	<u>\$ 4,942,192</u>		<u>\$ 6,477,966</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, 2019 and 2018, the Authority paid approximately \$498,000 and \$674,000, respectively, to Tecumseh for the coverage.

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- **McAlester Ambulatory Surgery Center** – The Surgery Center was an equity investee with Warren Clinic through January 31, 2019, organized to operate an ambulatory surgery center in McAlester, Oklahoma. The Authority acquired the remaining 50% interest in the Surgery Center effective January 31, 2019 (as discussed below). Through January 31, 2019, the Authority leased employees to the Surgery Center and provided insurance coverage and supplies on a limited basis. The Surgery Center paid the Authority approximately \$561,000 and \$1,108,000 for the period ended January 31, 2019 and for the year ended June 30, 2018, respectively.

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

- **McAlester Regional Dialysis Center (the Dialysis Center)** – The Dialysis Center was an equity investee with a physician through May 1, 2019, organized to operate a dialysis facility in McAlester, Oklahoma. Effective May 1, 2019, the Authority sold its 50% interest in the Dialysis Center. Through May 1, 2019, the Authority leased employees to the Dialysis Center and provided insurance coverage and supplies on a limited basis. The Dialysis Center paid the Authority approximately \$1,367,000 and \$1,691,000 for the period ended May 1, 2019 and for the year ended June 30, 2018, respectively. The Authority recorded a gain on the sale of its 50% ownership interest in the Dialysis Center for approximately \$3,500,000, which is recorded as a gain on investments in equity investees in the accompanying statements of revenues, expenses and changes in net position.
- **LifeCare Health Services, L.L.C. (LifeCare)** – LifeCare is a joint venture between other hospitals in Oklahoma, organized to collaborate and share expenses and expertise to expand or enhance health care services in the communities served by each participating hospital in furtherance of their independent missions.
- **Associated Senior Living Group (ASLG)** – ASLG was formed in November 2018 for the purpose of investing in and managing the operations of Belfair of McAlester, LLC (Belfair), which is an assisted living center located in McAlester, Oklahoma. Belfair started operations in May 2019. The Authority has a 50% interest in ASLG, which owns an approximate 52% interest in Associated Healthcare Group, LLC (AHG). AHG owns 95% of Belfair. As a result, the Authority's ownership interest approximates a 25% ownership interest in Belfair. The Authority is listed as a 25% guarantor on a certain AHG loan, with the Authority's total guarantee on the loan being approximately \$1,700,000 as of June 30, 2019. The Authority has determined, as of June 30, 2019, no amounts were owed as a result of this guarantee. The operations of ASLG and AHG consist primarily of activity related to transactions with Belfair. Subsequent to year-end, the Authority

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contributed another \$150,000 into ASLG as a result of a capital call by AHG to further assist in funding the initial operations of Belfair.

- **Other Insignificant Investments in Equity Investees** – The Authority holds other insignificant investments in MSO Healthcare of Oklahoma, LLC (the Authority dissolved its interest in 2019); Upper Midwest Consolidated Services Center, LLC; Southeast Alliance Network, Inc.; and Southeast Imaging LLC. The Authority is listed as guarantor on an equipment loan related to Southeast Imaging LLC. The loan is for \$600,000 and is payable over 60 months, including interest at 4.25%. The Authority has determined, as of June 30, 2019, no amounts were owed as a result of this guarantee.

The financial position and results of operations of the significant equity investees are summarized below. The information summarized below represents the results of operations for Belfair and LifeCare for the year ended June 30, 2019 (unaudited); the Surgery Center, the Dialysis Center and LifeCare for the year ended June 30, 2018 (unaudited); and the audited results of operations for Tecumseh for the years ended December 31, 2018 and 2017.

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

	December 31, 2018	June 30, 2019	
	Tecumseh	LifeCare	Belfair
Current assets	\$ 53,529,283	\$ 7,248,946	\$ 260,000
Property and other long-term assets, net	<u>-</u>	<u>309,247</u>	<u>12,154,415</u>
Total assets	<u>\$ 53,529,283</u>	<u>\$ 7,558,193</u>	<u>\$ 12,414,415</u>
Total liabilities	\$ 19,790,296	\$ 208,973	\$ 9,448,916
Partners’ equity	<u>33,738,987</u>	<u>7,349,220</u>	<u>2,927,723</u>
Total liabilities and partners’ equity	<u>\$ 53,529,283</u>	<u>\$ 7,558,193</u>	<u>\$ 12,376,639</u>
Revenues	<u>\$ 12,839,246</u>	<u>\$ 2,238,969</u>	<u>\$ 61,595</u>
Excess (deficiency) of revenues over expenses	<u>\$ 6,280,005</u>	<u>\$ 437,896</u>	<u>\$ (592,000)</u>

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	December 31, 2017		June 30, 2018	
	Tecumseh	Surgery Center	Dialysis Center	LifeCare
Current assets	\$ 52,983,540	\$ 3,247,683	\$ 1,010,862	\$ 6,764,287
Property and other long-term assets, net	<u>-</u>	<u>454,618</u>	<u>829,854</u>	<u>304,243</u>
Total assets	<u>\$ 52,983,540</u>	<u>\$ 3,702,301</u>	<u>\$ 1,840,716</u>	<u>\$ 7,068,530</u>
Total liabilities	\$ 20,235,243	\$ 180,613	\$ 546,240	\$ 167,579
Partners' equity	<u>32,748,297</u>	<u>3,521,688</u>	<u>1,294,476</u>	<u>6,900,951</u>
Total liabilities and partners' equity	<u>\$ 52,983,540</u>	<u>\$ 3,702,301</u>	<u>\$ 1,840,716</u>	<u>\$ 7,068,530</u>
Revenues	<u>\$ 9,259,343</u>	<u>\$ 11,776,223</u>	<u>\$ 3,093,343</u>	<u>\$ 2,132,596</u>
Excess of revenues over expenses	<u>\$ 5,328,231</u>	<u>\$ 286,541</u>	<u>\$ 273,104</u>	<u>\$ 428,950</u>

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

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

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	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 1,059,793	\$ -	\$ -	\$ -	\$ 1,059,793
Land improvements	1,630,354	-	-	-	1,630,354
Buildings, fixed equipment and leasehold improvements	50,620,535	1,626,858	(155,892)	780,636	52,872,137
Major moveable equipment	33,602,808	1,555,935	(3,340)	64,491	35,219,894
Construction in progress	2,556,571	13,179,080	-	(845,127)	14,890,524
	<u>89,470,061</u>	<u>16,361,873</u>	<u>(159,232)</u>	<u>-</u>	<u>105,672,702</u>
Less accumulated depreciation					
Land improvements	1,296,107	35,867	-	-	1,331,974
Buildings, fixed equipment and leasehold improvements	33,210,592	1,914,470	(155,892)	-	34,969,170
Major moveable equipment	24,684,244	2,225,149	(3,340)	-	26,906,053
	<u>59,190,943</u>	<u>4,175,486</u>	<u>(159,232)</u>	<u>-</u>	<u>63,207,197</u>
Capital assets, net	<u>\$ 30,279,118</u>	<u>\$ 12,186,387</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,465,505</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, 2019 and 2018. It is reasonably possible that this estimate could change materially in the near term.

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

Note 8: Self-Insured Claims

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

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excess of the aggregate annual amount of \$150,000 up to \$1,000,000 beginning in January 1, 2018. Through December 31, 2017, commercial stop-loss insurance coverage was purchased for claims in excess of the aggregate annual amount of \$125,000 up to \$1,000,000.

Through June 2017, the Authority was self-insured for risks related to workers' compensation claims up to \$600,000 per occurrence with an annual liability limit for the Authority of \$1,000,000 in 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 2019 and 2018 is summarized as follows:

	June 30, 2019	
	Employee Health	Workers' Compensation
Balance, beginning of year	\$ 437,112	\$ 207,946
Current year claims incurred and changes in estimates for claims incurred in prior years	2,062,134	408,743
Claims and expenses paid	<u>(2,210,971)</u>	<u>(467,912)</u>
Balance, end of year	<u>\$ 288,275</u>	<u>\$ 148,777</u>
	June 30, 2018	
	Employee Health	Workers' Compensation
Balance, beginning of year	\$ (37,610)	\$ 220,637
Current year claims incurred and changes in estimates for claims incurred in prior years	2,355,976	551,427
Claims and expenses paid	<u>(1,881,254)</u>	<u>(564,118)</u>
Balance, end of year	<u>\$ 437,112</u>	<u>\$ 207,946</u>

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

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Note 9: Long-Term Obligations

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

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes payable to bank	\$ 12,859,645	\$ 400,000	\$ (965,940)	\$ 12,293,705	\$ 1,187,227
Capital lease obligations	433,333	-	(190,776)	242,557	137,272
Total long-term debt	<u>\$ 13,292,978</u>	<u>\$ 400,000</u>	<u>\$ (1,156,716)</u>	<u>\$ 12,536,262</u>	<u>\$ 1,324,499</u>

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

Notes Payable to Bank

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

Year Ending June 30,	Total to be Paid	Principal	Interest
2020	\$ 1,539,770	\$ 1,187,227	\$ 352,543
2021	1,342,327	1,029,912	312,415
2022	1,342,324	1,064,212	278,112
2023	1,319,498	1,076,562	242,936
2024	1,524,431	1,316,405	208,026
2025–2029	3,492,260	2,815,627	676,633
2030–2034	2,997,344	2,680,923	316,421
2035–2036	1,151,563	1,122,837	28,726
	<u>\$ 14,709,517</u>	<u>\$ 12,293,705</u>	<u>\$ 2,415,812</u>

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

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

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:

	2019	2018
Series 2016 Hospital Revenue Note	\$ 7,583,454	\$ 7,931,588
Series 2017 Hospital Revenue Note	2,617,294	3,031,470
Other notes payable	1,360,283	1,124,867
Promissory note – downtown building	732,674	771,720
	\$ 12,293,705	\$ 12,859,645

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, 2019 and 2018, totaled \$508,832 and \$851,297, net of accumulated depreciation of \$117,146 and \$171,757, respectively.

The following is a schedule by year of future minimum lease payments under capital lease, including interest at rates of 3.54% to 12.86%, with the present value of the future minimum lease payments as of June 30, 2019:

Year Ending June 30,		
2020	\$	141,994
2021		99,952
2022		6,613
Total minimum lease payments		248,559
Less amount representing interest		6,002
Present value of future minimum lease payments	\$	242,557

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Note 10: Charity Care and Services to the Community

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

Uncompensated costs relating to these services are approximately as follows:

	2019	2018
Charity allowances	\$ 427,000	\$ 304,000
State Medicaid and other public aid programs	8,269,000	6,773,000
	\$ 8,696,000	\$ 7,077,000

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

Note 11: Pension Plan

The Authority contributes to a defined contribution pension plan, the McAlester Regional Health Center Authority Pension Plan, covering substantially all employees. Pension expense is recorded for the amount of the Authority’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority’s Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority’s governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were approximately 3% and 2%, respectively, for both 2019 and 2018. During 2019, contributions actually made by plan members and the Authority aggregated approximately \$1,098,000 and \$666,000, respectively. During 2018, contributions actually made by plan members and the Authority aggregated approximately \$1,056,000 and \$639,000, respectively.

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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, 2019 and 2018, forfeitures reduced the Authority's pension expense by approximately \$0 and \$140,000, 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: Contingencies

Litigation

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

Investments

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

Note 13: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can

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be corroborated by observable market data for substantially the full term of the assets

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

Recurring Measurements

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

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Investments by Fair Value Level				
Money market mutual funds	\$ 5,399,076	\$ 5,399,076	\$ -	\$ -
Corporate bonds	1,441,431	1,441,431	-	-
U.S. Treasury obligations	1,180,502	1,180,502	-	-
Exchange-traded funds	2,440,747	2,440,747	-	-
Corporate stocks	<u>1,103,413</u>	<u>1,103,413</u>	-	-
Total investments by fair value level	<u>\$ 11,565,169</u>	<u>\$ 11,565,169</u>	<u>\$ -</u>	<u>\$ -</u>
2018				
Investments by Fair Value Level				
Money market mutual funds	\$ 2,353,285	\$ 2,353,285	\$ -	\$ -
Corporate bonds	1,416,493	1,365,866	50,627	-
U.S. Treasury obligations	1,083,534	1,083,534	-	-
Exchange-traded funds	1,710,039	1,710,039	-	-
Corporate stocks	<u>1,003,816</u>	<u>1,003,816</u>	-	-
Total investments by fair value level	<u>\$ 7,567,167</u>	<u>\$ 7,516,540</u>	<u>\$ 50,627</u>	<u>\$ -</u>

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Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Authority had no Level 2 or Level 3 investments at June 30, 2019, and had no Level 3 investments at June 30, 2018.

Note 14: 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:

	2019					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Assets						
Current Assets						
Cash and cash equivalents	\$ 17,027,911	\$ 448,011	\$ 94,649	\$ 17,570,571	\$ -	\$ 17,570,571
Short-term investments	4,404,493	279,039	-	4,683,532	-	4,683,532
Restricted cash	108,163	-	-	108,163	-	108,163
Patient accounts receivable, net of allowance – \$20,052,176	14,851,819	-	-	14,851,819	-	14,851,819
Estimated amounts due from third-party payors	217,940	-	-	217,940	-	217,940
Supplies	2,240,990	-	52,207	2,293,197	-	2,293,197
Prepaid expenses and other	2,860,509	7,500	13,449	2,881,458	(60,579)	2,820,879
Total current assets	<u>41,711,825</u>	<u>734,550</u>	<u>160,305</u>	<u>42,606,680</u>	<u>(60,579)</u>	<u>42,546,101</u>
Noncurrent Cash and Investments						
Held by trustee for capital acquisitions	2,108,969	-	-	2,108,969	-	2,108,969
Other long-term investments	9,722,043	-	-	9,722,043	-	9,722,043
Investments in and advances to equity investees	4,942,192	-	-	4,942,192	-	4,942,192
Total noncurrent cash and investments	<u>16,773,204</u>	<u>-</u>	<u>-</u>	<u>16,773,204</u>	<u>-</u>	<u>16,773,204</u>
Capital Assets, Net	<u>43,186,192</u>	<u>-</u>	<u>-</u>	<u>43,186,192</u>	<u>-</u>	<u>43,186,192</u>
Total assets	<u>\$ 101,671,221</u>	<u>\$ 734,550</u>	<u>\$ 160,305</u>	<u>\$ 102,566,076</u>	<u>\$ (60,579)</u>	<u>\$ 102,505,497</u>

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	2019					
	Authority	Foundation	Auxiliary	Total	Eliminations	Combined Balance
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 1,324,499	\$ -	\$ -	\$ 1,324,499	\$ -	\$ 1,324,499
Accounts payable	4,592,164	197,188	-	4,789,352	(60,579)	4,728,773
Accrued expenses	4,508,306	-	-	4,508,306	-	4,508,306
Total current liabilities	10,424,969	197,188	-	10,622,157	(60,579)	10,561,578
Long-Term Debt						
Total liabilities	11,211,763	-	-	11,211,763	-	11,211,763
Total liabilities	21,636,732	197,188	-	21,833,920	(60,579)	21,773,341
Net Position						
Net investment in capital assets	29,959,656	-	-	29,959,656	-	29,959,656
Restricted – expendable for						
Capital acquisitions and debt service	2,609,717	250,000	-	2,859,717	-	2,859,717
Specific operating activities	-	19,848	-	19,848	-	19,848
Unrestricted	47,465,116	267,514	160,305	47,892,935	-	47,892,935
Total net position	80,034,489	537,362	160,305	80,732,156	-	80,732,156
Total liabilities and net position	\$ 101,671,221	\$ 734,550	\$ 160,305	\$ 102,566,076	\$ (60,579)	\$ 102,505,497

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	2018					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Assets						
Current Assets						
Cash and cash equivalents	\$ 21,621,428	\$ 334,422	\$ 79,246	\$ 22,035,096	\$ -	\$ 22,035,096
Short-term investments	559,890	272,006	-	831,896	-	831,896
Restricted cash	121,040	-	-	121,040	-	121,040
Restricted certificates of deposit for workers' compensation	480,180	-	-	480,180	-	480,180
Patient accounts receivable, net of allowance – \$17,440,387	11,178,667	-	-	11,178,667	-	11,178,667
Estimated amounts due from third-party payors	79,561	-	-	79,561	-	79,561
Supplies	2,153,104	-	26,699	2,179,803	-	2,179,803
Prepaid expenses and other	2,334,861	20,120	54,915	2,409,896	(60,579)	2,349,317
Total current assets	<u>38,528,731</u>	<u>626,548</u>	<u>160,860</u>	<u>39,316,139</u>	<u>(60,579)</u>	<u>39,255,560</u>
Noncurrent Cash and Investments						
Held by trustee for capital acquisitions	2,197,432	-	-	2,197,432	-	2,197,432
Other long-term investments	7,558,068	-	-	7,558,068	-	7,558,068
Investments in and advances to equity investees	6,477,966	-	-	6,477,966	-	6,477,966
Total noncurrent cash and investments	<u>16,233,466</u>	<u>-</u>	<u>-</u>	<u>16,233,466</u>	<u>-</u>	<u>16,233,466</u>
Capital Assets, Net	<u>42,465,505</u>	<u>-</u>	<u>-</u>	<u>42,465,505</u>	<u>-</u>	<u>42,465,505</u>
Total assets	<u>\$ 97,227,702</u>	<u>\$ 626,548</u>	<u>\$ 160,860</u>	<u>\$ 98,015,110</u>	<u>\$ (60,579)</u>	<u>\$ 97,954,531</u>
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 1,183,308	\$ -	\$ -	\$ 1,183,308	\$ -	\$ 1,183,308
Accounts payable	4,971,136	72,606	6,457	5,050,199	(60,579)	4,989,620
Accrued expenses	4,463,901	-	-	4,463,901	-	4,463,901
Total current liabilities	<u>10,618,345</u>	<u>72,606</u>	<u>6,457</u>	<u>10,697,408</u>	<u>(60,579)</u>	<u>10,636,829</u>
Long-Term Debt						
	<u>12,109,670</u>	<u>-</u>	<u>-</u>	<u>12,109,670</u>	<u>-</u>	<u>12,109,670</u>
Total liabilities	<u>22,728,015</u>	<u>72,606</u>	<u>6,457</u>	<u>22,807,078</u>	<u>(60,579)</u>	<u>22,746,499</u>
Net Position						
Net investment in capital assets	26,782,974	-	-	26,782,974	-	26,782,974
Restricted – expendable for						
Capital acquisitions and debt service	2,318,472	250,000	-	2,568,472	-	2,568,472
Workers' compensation claims	272,234	-	-	272,234	-	272,234
Specific operating activities	-	20,303	-	20,303	-	20,303
Unrestricted	45,126,007	283,639	154,403	45,564,049	-	45,564,049
Total net position	<u>74,499,687</u>	<u>553,942</u>	<u>154,403</u>	<u>75,208,032</u>	<u>-</u>	<u>75,208,032</u>
Total liabilities and net position	<u>\$ 97,227,702</u>	<u>\$ 626,548</u>	<u>\$ 160,860</u>	<u>\$ 98,015,110</u>	<u>\$ -</u>	<u>\$ 97,954,531</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:

	2019					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts – \$16,382,508	\$ 93,103,502	\$ -	\$ -	\$ 93,103,502	\$ -	\$ 93,103,502
Other operating revenues	3,745,590	-	314,502	4,060,092	(64,546)	3,995,546
Total operating revenues	<u>96,849,092</u>	<u>-</u>	<u>314,502</u>	<u>97,163,594</u>	<u>(64,546)</u>	<u>97,099,048</u>
Operating Expenses						
Salaries and wages	41,109,655	103,394	43,006	41,256,055	(139,410)	41,116,645
Employee benefits	6,312,455	-	3,387	6,315,842	(10,377)	6,305,465
Purchased services and professional fees	17,238,374	17,932	3,758	17,260,064	(4,440)	17,255,624
Supplies and other expenses	26,120,855	512,021	258,449	26,891,325	(19,988)	26,871,337
Depreciation	4,753,527	-	-	4,753,527	-	4,753,527
Total operating expenses	<u>95,534,866</u>	<u>633,347</u>	<u>308,600</u>	<u>96,476,813</u>	<u>(174,215)</u>	<u>96,302,598</u>
Operating Income (Loss)	<u>1,314,226</u>	<u>(633,347)</u>	<u>5,902</u>	<u>686,781</u>	<u>109,669</u>	<u>796,450</u>
Nonoperating Revenues (Expenses)						
Gain on investments in equity investees	3,303,332	-	-	3,303,332	-	3,303,332
Gain on sale of capital assets	248	-	-	248	-	248
Investment income	705,244	8,355	-	713,599	-	713,599
Noncapital grants and gifts	-	608,412	-	608,412	(109,669)	498,743
Interest expense	(180,833)	-	-	(180,833)	-	(180,833)
Total nonoperating revenues (expenses)	<u>3,827,991</u>	<u>616,767</u>	<u>-</u>	<u>4,444,758</u>	<u>(109,669)</u>	<u>4,335,089</u>
Income (Loss) Before Capital Grants and Gifts and Capital Appropriations	<u>5,142,217</u>	<u>(16,580)</u>	<u>5,902</u>	<u>5,131,539</u>	<u>-</u>	<u>5,131,539</u>
Capital Grants and Gifts and Capital Appropriations	<u>392,585</u>	<u>-</u>	<u>-</u>	<u>392,585</u>	<u>-</u>	<u>392,585</u>
Increase (Decrease) in Net Position	<u>5,534,802</u>	<u>(16,580)</u>	<u>5,902</u>	<u>5,524,124</u>	<u>-</u>	<u>5,524,124</u>
Net Position, Beginning of Year	<u>74,499,687</u>	<u>553,942</u>	<u>154,403</u>	<u>75,208,032</u>	<u>-</u>	<u>75,208,032</u>
Net Position, End of Year	<u>\$ 80,034,489</u>	<u>\$ 537,362</u>	<u>\$ 160,305</u>	<u>\$ 80,732,156</u>	<u>\$ -</u>	<u>\$ 80,732,156</u>

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	2018					Combined Balance
	Authority	Foundation	Auxiliary	Total	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts – \$18,281,421	\$ 82,065,771	\$ -	\$ -	\$ 82,065,771	\$ -	\$ 82,065,771
Other operating revenues	3,492,351	-	301,029	3,793,380	(53,099)	3,740,281
Total operating revenues	<u>85,558,122</u>	<u>-</u>	<u>301,029</u>	<u>85,859,151</u>	<u>(53,099)</u>	<u>85,806,052</u>
Operating Expenses						
Salaries and wages	38,685,697	99,040	36,711	38,821,448	(135,751)	38,685,697
Employee benefits	6,386,453	6,991	2,877	6,396,321	(9,868)	6,386,453
Purchased services and professional fees	13,803,571	6,746	-	13,810,317	(6,746)	13,803,571
Supplies and other expenses	23,052,238	568,936	254,669	23,875,843	(213,959)	23,661,884
Depreciation	4,175,486	-	-	4,175,486	-	4,175,486
Total operating expenses	<u>86,103,445</u>	<u>681,713</u>	<u>294,257</u>	<u>87,079,415</u>	<u>(366,324)</u>	<u>86,713,091</u>
Operating Income (Loss)	<u>(545,323)</u>	<u>(681,713)</u>	<u>6,772</u>	<u>(1,220,264)</u>	<u>313,225</u>	<u>(907,039)</u>
Nonoperating Revenues (Expenses)						
Gain on investments in equity investees	988,688	-	-	988,688	-	988,688
Gain on sale of capital assets	139,875	-	-	139,875	-	139,875
Investment income	107,770	4,185	-	111,955	-	111,955
Noncapital grants and gifts	-	439,248	-	439,248	(113,225)	326,023
Interest expense	(149,540)	-	-	(149,540)	-	(149,540)
Total nonoperating revenues (expenses)	<u>1,086,793</u>	<u>443,433</u>	<u>-</u>	<u>1,530,226</u>	<u>(113,225)</u>	<u>1,417,001</u>
Income (Loss) Before Capital Grants and Gifts and Capital Appropriations	541,470	(238,280)	6,772	309,962	200,000	509,962
Capital Grants and Gifts and Capital Appropriations	<u>257,344</u>	<u>200,000</u>	<u>-</u>	<u>457,344</u>	<u>(200,000)</u>	<u>257,344</u>
Increase (Decrease) in Net Position	798,814	(38,280)	6,772	767,306	-	767,306
Net Position, Beginning of Year	<u>73,700,873</u>	<u>592,222</u>	<u>147,631</u>	<u>74,440,726</u>	<u>-</u>	<u>74,440,726</u>
Net Position, End of Year	<u>\$ 74,499,687</u>	<u>\$ 553,942</u>	<u>\$ 154,403</u>	<u>\$ 75,208,032</u>	<u>\$ -</u>	<u>\$ 75,208,032</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Notes to Financial Statements
June 30, 2019 and 2018

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:

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

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

Supplementary Information – Financial Ratios

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Days Cash on Hand
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Unrestricted cash	<u>\$ 31,976,146</u>	<u>\$ 30,905,240</u>
Operating expenses	\$ 96,302,598	\$ 86,713,091
Less depreciation	<u>(4,753,527)</u>	<u>(4,175,486)</u>
Adjusted expenses	91,549,071	82,537,605
	<u>365</u>	<u>365</u>
Average daily operating expense	<u>\$ 250,819</u>	<u>\$ 226,130</u>
Days cash on hand	<u>127.49</u>	<u>136.67</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Debt Service Coverage Ratio
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating income (loss)	\$ 796,450	\$ (907,039)
Add depreciation	<u>4,753,527</u>	<u>4,175,486</u>
Net income available for debt service	<u>\$ 5,549,977</u>	<u>\$ 3,268,447</u>
Principal paid on long-term debt	\$ 1,156,716	\$ 1,029,730
Interest paid on long-term debt	<u>180,833</u>	<u>149,540</u>
	<u>\$ 1,337,549</u>	<u>\$ 1,179,270</u>
Debt service coverage ratio	<u>4.15</u>	<u>2.77</u>

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
EBIDA Calculation
Years Ended June 30, 2019 and 2018

	2019	2018
Operating income (loss)	\$ 796,450	\$ (907,039)
Add depreciation	4,753,527	4,175,486
EBIDA	\$ 5,549,977	\$ 3,268,447

**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, 2019, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2019, which contained an *Other Matters* paragraph regarding omission of required supplementary information.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
McAlester Regional Health Center Authority

Compliance and Other Matters

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

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
October 30, 2019

McAlester Regional Health Center Authority
A Component Unit of the City of McAlester, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2019

Reference Number	Finding
	No matters are reportable.