

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2021 and 2020

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
June 30, 2021 and 2020**

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Independent Auditor's Report

Board of Trustees
The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
Hobart, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital), a component unit of Kiowa County, Oklahoma, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital'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 Hospital as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 13*, the Hospital has suffered recurring losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in *Note 13*. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2022, on our consideration of the Hospital'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 Hospital'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 Hospital's internal control over financial reporting and compliance.

FORVIS, LLP

Tulsa, Oklahoma
September 9, 2022

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma**

**Balance Sheets
June 30, 2021 and 2020**

Assets

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 2,198,383	\$ 7,399,092
Short-term investments	333,944	501,248
Patient accounts receivable, net of allowance; 2021 – \$1,781,000, 2020 – \$1,417,000	1,753,059	1,293,355
Estimated amounts due from third-party payors	260,000	145,000
Supplies	300,067	270,287
Prepaid expenses and other	<u>126,165</u>	<u>98,636</u>
Total current assets	4,971,618	9,707,618
Noncurrent Investments	184,119	-
Capital Assets, Net	5,330,670	3,559,929
Construction Deposit	<u>2,653,678</u>	<u>-</u>
Total assets	<u>\$ 13,140,085</u>	<u>\$ 13,267,547</u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 189,761	\$ 508,368
Accounts payable	414,236	396,161
Accrued expenses	433,929	587,082
Deferred revenues	-	3,676,430
Estimated amounts due to third-party payors	<u>1,313,494</u>	<u>1,843,990</u>
Total current liabilities	2,351,420	7,012,031
Estimated Amounts Due to Third-Party Payors, Long-Term	336,821	-
Long-Term Debt	<u>4,475</u>	<u>651,323</u>
Total liabilities	<u>2,692,716</u>	<u>7,663,354</u>
Net Position		
Net investment in capital assets	5,293,886	3,447,438
Unrestricted	<u>5,153,483</u>	<u>2,156,755</u>
Total net position	<u>10,447,369</u>	<u>5,604,193</u>
Total liabilities and net position	<u>\$ 13,140,085</u>	<u>\$ 13,267,547</u>

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2021 and 2020**

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$2,068,897, 2020 – \$2,410,110	\$ 11,328,842	\$ 11,096,732
Other	47,025	46,089
Total operating revenues	11,375,867	11,142,821
Operating Expenses		
Salaries and wages	5,553,814	5,444,724
Employee benefits	759,665	703,956
Purchased services and professional fees	1,511,999	1,266,587
Medical supplies and drugs	286,113	344,488
Supplies and other	3,295,523	3,190,838
Depreciation	524,158	611,173
Total operating expenses	11,931,272	11,561,766
Operating Loss	(555,405)	(418,945)
Nonoperating Revenues (Expenses)		
Investment return	50,913	(4,047)
Noncapital gifts	251,333	16,430
Interest expense	(6,061)	(1,546)
Gain on insurance proceeds	378,766	-
Gain on forgiveness of PPP loan	1,047,200	-
Government grants	3,676,430	-
Total nonoperating revenues (expenses)	5,398,581	10,837
Excess (Deficiency) of Revenues over Expenses and Increase (Decrease) in Net Position	4,843,176	(408,108)
Net Position, Beginning of Year	5,604,193	6,012,301
Net Position, End of Year	\$ 10,447,369	\$ 5,604,193

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from and on behalf of patients	\$ 10,560,463	\$ 13,225,469
Payments to suppliers and contractors	(5,081,134)	(4,802,373)
Payments to and on behalf of employees	(6,466,632)	(6,128,227)
Other receipts, net	47,025	46,089
Net cash provided by (used in) operating activities	(940,278)	2,340,958
Noncapital and Related Financing Activities		
Proceeds from issuance of noncapital debt	-	1,197,200
Government grants	-	3,676,430
Principal paid on noncapital debt	-	(150,000)
Noncapital grants and gifts	251,333	16,430
Net cash provided by noncapital and related financing activities	251,333	4,740,060
Capital and Related Financing Activities		
Proceeds from issuance of notes payable to banks	138,777	94,625
Principal paid on long-term debt	(57,032)	(20,497)
Interest paid on long-term debt	(6,061)	(1,546)
Payment of construction deposit	(2,653,678)	
Purchase of capital assets	(2,346,634)	(141,405)
Proceeds from insurance	378,766	-
Proceeds from sale of capital assets	-	15,574
Net cash used in capital and related financing activities	(4,545,862)	(53,249)
Investing Activities		
Purchases of investments	(486,000)	(481,000)
Proceeds from disposition of investments	491,482	325,776
Interest on investments	28,616	15,675
Net cash provided by (used in) investing activities	34,098	(139,549)
Increase (Decrease) in Cash and Cash Equivalents	(5,200,709)	6,888,220
Cash and Cash Equivalents, Beginning of Year	7,399,092	510,872
Cash and Cash Equivalents, End of Year	\$ 2,198,383	\$ 7,399,092

See Notes to Financial Statements

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in)		
Operating Activities		
Operating loss	\$ (555,405)	\$ (418,945)
Depreciation	524,158	611,173
Gain on disposal of capital assets	21,235	(6,060)
Provision for uncollectible accounts	2,068,897	2,410,110
Changes in operating assets and liabilities		
Patient accounts receivable	(2,528,601)	(2,105,363)
Supplies and prepaid expenses	(57,309)	(7,349)
Estimated amounts due to/from third-party payors	(308,675)	1,823,990
Accounts payable and accrued expenses	<u>(104,578)</u>	<u>33,402</u>
Net cash provided by (used in) operating activities	<u>\$ (940,278)</u>	<u>\$ 2,340,958</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 30,500	\$ -
Capital lease obligation incurred for capital assets	\$ -	\$ 9,161
Gain on forgiveness of PPP loan	\$ 1,047,200	\$ -

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2021 and 2020**

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital) is a public trust organized under the provisions of Title 60 of the Oklahoma statutes. Kiowa County, Oklahoma (the County) is the Hospital's beneficiary. The Hospital is a component unit of the County, and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital.

The Hospital primarily earns revenues by operating a 38-bed, short-term acute care hospital. The Hospital also operates physician clinics in the same geographical area.

Basis of Accounting and Presentation

The accompanying financial statements of the Hospital 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 county 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 (such as county appropriations), property taxes, investment income, and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital 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 and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2021 and 2020, cash equivalents consisted primarily of insured cash sweep accounts.

**The Kiowa County Hospital Authority
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Notes to Financial Statements
June 30, 2021 and 2020**

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Hospital 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.

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. 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 carried at other than fair value, and the net change for the year in the fair value of investments carried at fair value.

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 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 Hospital:

Land improvements	5–25 years
Buildings and improvements	5–40 years
Equipment	3–25 years

Capital Asset Impairment

The Hospital 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, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended June 30, 2021 and 2020.

The Kiowa County Hospital Authority
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Notes to Financial Statements
June 30, 2021 and 2020

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave 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 paid leave benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized.

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 Hospital 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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Net Position

Net position of the Hospital is classified in two 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.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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

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Notes to Financial Statements
June 30, 2021 and 2020**

period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital 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 County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

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.

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

	2021	2020
SHOPP funds received	\$ 609,000	\$ 498,000
SHOPP assessment fees paid	212,000	238,000
Net SHOPP benefit	\$ 397,000	\$ 260,000

The annual amounts to be received and paid by the Hospital 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 benefit to the Hospital over the term of the SHOPP is estimated to increase by 20% to 25% in fiscal year 2022 and beyond. SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses in the accompanying statements of revenues, expenses, and changes in net position.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2021 and 2020**

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2018.
- **Medicaid** – Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid using prospectively determined rates or established fees. These payment rates vary based on clinical, diagnostic, and other factors.
- **Other** – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Approximately 59% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2021 and 2020, excluding revenue related to the Hospital's participation in the SHOPP. 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.

Note 3: Deposits

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 Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires that all deposits of public trusts be insured with federal depository insurance or collateralized.

At June 30, 2021 and 2020, \$0 and \$55,000 of the Hospital's bank balances of approximately \$2,882,000 and \$7,866,000, respectively, were exposed to custodial credit risk. In 2020, all of the Hospital's bank balances in excess of FDIC limits were collateralized by irrevocable letters of credit from the Federal Home Loan Bank.

**The Kiowa County Hospital Authority
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A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2021 and 2020**

Summary of Carrying Values

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

	<u>2021</u>	<u>2020</u>
Carrying value		
Deposits	\$ 2,685,498	\$ 7,880,812
Investments	30,948	19,528
	<u>\$ 2,716,446</u>	<u>\$ 7,900,340</u>
Included in the following balance sheet captions		
Cash	\$ 2,198,383	\$ 7,399,092
Short-term investments	333,944	501,248
Noncurrent investments	184,119	-
	<u>\$ 2,716,446</u>	<u>\$ 7,900,340</u>

Note 4: Patient Accounts Receivable

The Hospital 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:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 1,202,165	\$ 867,639
Medicaid	141,642	56,512
Other third-party payors	234,694	222,085
Patients	1,955,558	1,564,119
	<u>3,534,059</u>	<u>2,710,355</u>
Less allowance for uncollectible accounts	<u>1,781,000</u>	<u>1,417,000</u>
	<u>\$ 1,753,059</u>	<u>\$ 1,293,355</u>

**The Kiowa County Hospital Authority
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Notes to Financial Statements
June 30, 2021 and 2020**

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 40,901	\$ -	\$ -	\$ -	\$ 40,901
Land improvements	94,313	-	-	-	94,313
Buildings and improvements	6,296,925	-	(489,855)	-	5,807,070
Equipment	9,687,382	688,634	-	-	10,376,016
Construction in progress	-	1,627,500	-	-	1,627,500
	<u>16,119,521</u>	<u>2,316,134</u>	<u>(489,855)</u>	<u>-</u>	<u>17,945,800</u>
Less accumulated depreciation					
Land improvements	88,188	1,228	-	-	89,416
Buildings and improvements	4,154,142	197,464	(468,620)	-	3,882,986
Equipment	8,317,262	325,466	-	-	8,642,728
	<u>12,559,592</u>	<u>524,158</u>	<u>(468,620)</u>	<u>-</u>	<u>12,615,130</u>
Capital assets, net	<u>\$ 3,559,929</u>	<u>\$ 1,791,976</u>	<u>\$ (21,235)</u>	<u>\$ -</u>	<u>\$ 5,330,670</u>
	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 40,901	\$ -	\$ -	\$ -	\$ 40,901
Land improvements	94,313	-	-	-	94,313
Buildings and improvements	6,322,275	-	(25,350)	-	6,296,925
Equipment	9,536,816	150,566	-	-	9,687,382
	<u>15,994,305</u>	<u>150,566</u>	<u>(25,350)</u>	<u>-</u>	<u>16,119,521</u>
Less accumulated depreciation					
Land improvements	86,959	1,229	-	-	88,188
Buildings and improvements	3,943,814	226,164	(15,836)	-	4,154,142
Equipment	7,933,482	383,780	-	-	8,317,262
	<u>11,964,255</u>	<u>611,173</u>	<u>(15,836)</u>	<u>-</u>	<u>12,559,592</u>
Capital assets, net	<u>\$ 4,030,050</u>	<u>\$ (460,607)</u>	<u>\$ (9,514)</u>	<u>\$ -</u>	<u>\$ 3,559,929</u>

The Kiowa County Hospital Authority
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Notes to Financial Statements
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Note 6: Line of Credit

The Hospital periodically borrows funds from a bank to finance operations on an interim basis. During 2020, the Hospital had a \$300,000 revolving bank line of credit. This line of credit carried interest at 4.2% at June 30, 2020 and was secured by a certificate of deposit. During 2020, the Hospital drew and repaid \$150,000 on the balance of the line of credit, which was not subsequently renewed.

Note 7: Medical Malpractice Claims

The Hospital 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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Debt

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

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2021					
Long-term debt					
PPP loan	\$ 1,047,200	\$ -	\$ (1,047,200)	\$ -	\$ -
Capital lease obligations	17,866	-	(11,582)	6,284	1,809
Note payable to bank	94,625	138,777	(45,450)	187,952	187,952
	<u>94,625</u>	<u>138,777</u>	<u>(45,450)</u>	<u>187,952</u>	<u>187,952</u>
Total long-term debt	<u>\$ 1,159,691</u>	<u>\$ 138,777</u>	<u>\$ (1,104,232)</u>	<u>\$ 194,236</u>	<u>\$ 189,761</u>
2020					
Long-term debt					
PPP loan	\$ -	\$ 1,047,200	\$ -	\$ 1,047,200	\$ 402,160
Capital lease obligation	29,202	9,161	(20,497)	17,866	11,583
Note payable to bank	-	94,625	-	94,625	94,625
	<u>-</u>	<u>94,625</u>	<u>-</u>	<u>94,625</u>	<u>94,625</u>
Total long-term debt	<u>\$ 29,202</u>	<u>\$ 1,150,986</u>	<u>\$ (20,497)</u>	<u>\$ 1,159,691</u>	<u>\$ 508,368</u>

**The Kiowa County Hospital Authority
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A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2021 and 2020**

Paycheck Protection Program Loan

In May 2020, the Hospital received a loan of \$1,047,200 under the Paycheck Protection Program (PPP). The loan matured in May 2022 with payments beginning in December 2020, including principal and interest at 1% per annum. The Hospital received formal forgiveness of this loan during November 2020. The note is unsecured. See *Note 12* for additional information.

Notes Payable to Bank

The Hospital has two notes payable to bank. One is due June 15, 2023, with principal and interest payments of approximately \$2,770 monthly, at an interest rate of 3.49%. The other note payable to bank is due November 15, 2025, with principal and interest payments of approximately \$2,550 monthly, at an interest rate of 3.95%. Both loans are classified as a current liability as the lender specifies that the loan is due in full immediately upon the lender’s demand. Both agreements also 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.

Debt Service Requirements

Debt service requirements based on originally scheduled maturity dates for long-term debt, other than the capital lease obligation as of June 30, 2021, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2022	<u>\$ 194,134</u>	<u>\$ 187,952</u>	<u>\$ 6,182</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2021 and 2020 totaled \$103,165, net of accumulated depreciation of \$96,905 and \$80,972, respectively.

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The following is a schedule by year of future minimum lease payments under capital leases, including interest at rates between 2.0% and 3.5%, together with the present value of the future minimum lease payments:

	Year Ending June 30,
2022	\$ 2,000
2023	2,000
2024	2,000
2025	667
Total minimum lease payments	6,667
Less amount representing interest	383
Present value of future minimum lease payments	\$ 6,284

Note 9: Charity Care

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. The costs of charity care provided under the Hospital’s charity care policy were approximately \$52,000 and \$25,000 for 2021 and 2020, respectively. The costs of charity care are estimated by applying the ratio of cost to gross charges to the gross uncompensated charges from the most recent Medicare cost report.

In addition to uncompensated costs, the Hospital 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, home health programs, community educational services, and various support groups.

Note 10: Pension Plans

The Hospital sponsors an IRC Section 401(k) retirement plan for the exclusive benefit of eligible employees and their beneficiaries. To be eligible for the plan, an employee must be 21 years of age and have completed at least 1,000 hours of service during the last year. Employees become vested in this plan over a seven-year period. Pension expense is recorded for the amount of the Hospital’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the board of trustees of the Hospital. 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 Hospital’s governing body. The Hospital made no contributions to the plan in 2021 and 2020.

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The Hospital also sponsors a defined contribution plan under the rules of IRC Section 457(b) for the exclusive benefit of eligible employees and their beneficiaries. To be eligible for the plan, an employee must be 20 years of age and have completed at least 1,000 hours of service during the last year. This plan is maintained for employee contributions only. The plan is administered by the chief executive officer of the Hospital. 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 Hospital's governing body. Contribution rates for plan members expressed as a percentage of covered payroll were 3.0% and 3.7% for 2021 and 2020, respectively. Contributions actually made by plan participants aggregated approximately \$165,000 and \$168,000 for the years ended June 30, 2021 and 2020, respectively.

Note 11: Contingencies

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 7*.

Litigation

In the normal course of business, the Hospital 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 Hospital's commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Hospital 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.

Note 12: 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 Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast.

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

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Provider Relief Fund

During the years ended June 30, 2020 and 2021, the Hospital received approximately \$0 and \$3,676,000 of distributions from the *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act) Provider Relief Fund. Subsequent to year-end, the Authority received additional funding of approximately \$838,000 in distributions from the Provider Relief Fund and American Rescue Plan rural distributions. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19 as defined by the Department of Health and Human Services (HHS).

The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as eligibility requirements 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 Hospital's operating revenues and expenses through year-end, the Hospital recognized approximately \$3,676,000 and \$0, respectively, during the years ended June 30, 2021 and 2020, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – government grants in the accompanying statements of revenues, expenses, and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned grant revenue in the accompanying balance sheets as of June 30, 2020.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to June 30, 2021, in accordance with GASB Codification Section 2250 and has concluded that any impact of the July 1, 2021, FAQs would be recognized. The Authority has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2021, and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. For guidance issued subsequent to June 30, 2021, considered nonrecognized subsequent events, the Authority has reviewed this guidance and cannot currently estimate the impact on the amount of Provider Relief Fund the Authority has recognized through June 30, 2021, but the impact could be material. The Authority will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Authority's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Authority is unable to attest to or comply with current or future terms and conditions, the Authority's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Authority's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

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Medicare Accelerated and Advance Payment Program

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

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

During the year ended June 30, 2020, the Hospital received approximately \$1,844,000 from these accelerated Medicare payment requests. During the years ended June 30, 2021 and 2020, Medicare has applied approximately \$178,000 and \$0, respectively, from these accelerated Medicare payment requests against filed claims. As of June 30, 2021 and 2020, accelerated Medicare payment requests are recorded as both current and long-term liabilities under the caption estimated amounts due to third-party payors in the accompanying balance sheets.

Paycheck Protection Program Loan

The CARES Act and other subsequent legislation also provides a Small Business Administration (SBA) loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The PPP loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The Hospital received a PPP loan of \$1,047,200 in May 2020. The loan has an interest rate of 1%, with monthly payments of \$59,000 starting seven months after the receipt of the loan. The loan, if not forgiven, matures in May 2022. The loan was forgiven in November 2020.

The Hospital is accounting for the PPP loan in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. The PPP loan is included on the accompanying balance sheets as long-term debt in accordance with the term of the PPP loan agreement. See *Note 8* for additional information.

Note 13: Management's Consideration of Going Concern Matters

The Hospital has incurred significant losses for several years and currently has reduced working capital due to recurring negative cash flows and has uncertainty related to whether it will be able to retain the CARES Act Provider Relief Fund distributions. The accompanying financial statements

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June 30, 2021 and 2020**

have been prepared assuming the Hospital will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management has taken steps to implement certain plans, such as working to identify, claim, and maintain Provider Relief Fund distributions, and is considering several additional alternatives for mitigating these conditions during the next year. These include evaluating the financial viability of current service lines and implementation of cost containment strategies. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern; however, the above conditions raise substantial doubt about the Hospital's ability to do so. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Hospital be unable to continue as a going concern.

Note 14: Future Change in Accounting Principles

Accounting for Leases

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

Note 15: Subsequent Event

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

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

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Trustees
The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
Hobart, 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 The Kiowa County Hospital Authority d/b/a Elkview General Hospital (the Hospital), which comprise the balance sheet as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 9, 2022, which contained an *Emphasis of Matter* paragraph regarding substantial doubt about the Hospital's ability to continue as a going concern and 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 Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 entity'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
The Kiowa County Hospital Authority
d/b/a Elkview General Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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
September 9, 2022

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2021**

Reference Number	Finding
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No matters are reportable.