

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, 2020 and 2019



**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
June 30, 2020 and 2019**

Contents

Independent Auditor's Report	1
 Financial Statements	
Balance Sheets	3
Statements of Revenues, Expenses, and Changes in Net Position	4
Statements of Cash Flows	5
Notes to Financial Statements	6
 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	
23	
 Schedule of Findings and Responses	 25

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, 2020 and 2019, 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, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in *Note 14*, 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 14*. 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 the 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 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 March 2, 2021, 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.

BKD, LLP

Tulsa, Oklahoma
March 2, 2021

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

**Balance Sheets
June 30, 2020 and 2019**

Assets

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash	\$ 7,399,092	\$ 510,872
Short-term investments	501,248	365,746
Patient accounts receivable, net of allowance; 2020 – \$1,417,000, 2019 – \$1,278,000	1,293,355	1,598,102
Estimated amounts due from third-party payors	145,000	125,000
Supplies	270,287	280,605
Prepaid expenses and other	<u>98,636</u>	<u>80,969</u>
Total current assets	9,707,618	2,961,294
Capital Assets, Net	<u>3,559,929</u>	<u>4,030,050</u>
Total assets	<u><u>\$ 13,267,547</u></u>	<u><u>\$ 6,991,344</u></u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 508,368	\$ 19,470
Accounts payable	396,161	383,212
Accrued expenses	587,082	566,629
Deferred revenues	3,676,430	-
Estimated amounts due to third-party payors	<u>1,843,990</u>	<u>-</u>
Total current liabilities	7,012,031	969,311
Long-Term Debt	<u>651,323</u>	<u>9,732</u>
Total liabilities	<u>7,663,354</u>	<u>979,043</u>
Net Position		
Net investment in capital assets	3,447,438	4,000,848
Unrestricted	<u>2,156,755</u>	<u>2,011,453</u>
Total net position	<u>5,604,193</u>	<u>6,012,301</u>
Total liabilities and net position	<u><u>\$ 13,267,547</u></u>	<u><u>\$ 6,991,344</u></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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$2,410,110, 2019 – \$2,346,300	\$ 11,096,732	\$ 11,457,527
Other	<u>46,089</u>	<u>72,677</u>
Total operating revenues	<u>11,142,821</u>	<u>11,530,204</u>
Operating Expenses		
Salaries and wages	5,444,724	5,568,343
Employee benefits	703,956	754,528
Purchased services and professional fees	1,266,587	1,296,841
Medical supplies and drugs	344,488	372,889
Supplies and other	3,190,838	3,185,487
Depreciation	<u>611,173</u>	<u>656,805</u>
Total operating expenses	<u>11,561,766</u>	<u>11,834,893</u>
Operating Loss	<u>(418,945)</u>	<u>(304,689)</u>
Nonoperating Revenues (Expenses)		
Investment return	(4,047)	17,351
Noncapital gifts	16,430	-
Interest expense	<u>(1,546)</u>	<u>(6,325)</u>
Total nonoperating revenues (expenses)	<u>10,837</u>	<u>11,026</u>
Deficiency of Revenues over Expenses and Decrease in Net Position	(408,108)	(293,663)
Net Position, Beginning of Year	<u>6,012,301</u>	<u>6,305,964</u>
Net Position, End of Year	<u><u>\$ 5,604,193</u></u>	<u><u>\$ 6,012,301</u></u>

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, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 13,225,469	\$ 11,106,349
Payments to suppliers and contractors	(4,802,373)	(4,825,654)
Payments to and on behalf of employees	(6,128,227)	(6,337,281)
Other receipts, net	46,089	72,677
	<u>2,340,958</u>	<u>16,091</u>
Net cash provided by operating activities		
Noncapital and Related Financing Activities		
Proceeds from issuance of noncapital debt	1,197,200	175,000
Government grants	3,676,430	-
Principal paid on noncapital debt	(150,000)	(525,000)
Non-capital grants and gifts	16,430	-
	<u>4,740,060</u>	<u>(350,000)</u>
Net cash provided by (used in) noncapital and related financing activities		
Capital and Related Financing Activities		
Proceeds from issuance of notes payable to banks	94,625	-
Principal paid on long-term debt	(20,497)	(18,974)
Interest paid on long-term debt	(1,546)	(6,325)
Purchase of capital assets	(141,405)	(147,207)
Proceeds from sale of capital assets	15,574	-
	<u>(53,249)</u>	<u>(172,506)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Purchases of investments	(481,000)	(320,000)
Proceeds from disposition of investments	325,776	852,373
Interest on investments	15,675	17,657
	<u>(139,549)</u>	<u>550,030</u>
Net cash provided by (used in) investing activities		
Increase in Cash	6,888,220	43,615
Cash, Beginning of Year	<u>510,872</u>	<u>467,257</u>
Cash , End of Year	<u><u>\$ 7,399,092</u></u>	<u><u>\$ 510,872</u></u>

See Notes to Financial Statements

	2020	2019
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (418,945)	\$ (304,689)
Depreciation	611,173	656,805
Gain on disposal of capital assets	(6,060)	-
Provision for uncollectible accounts	2,410,110	2,346,300
Changes in operating assets and liabilities		
Patient accounts receivable	(2,105,363)	(2,434,664)
Supplies and prepaid expenses	(7,349)	18,890
Estimated amounts due to/from third-party payors	1,823,990	(262,814)
Accounts payable and accrued expenses	<u>33,402</u>	<u>(3,737)</u>
Net cash provided by operating activities	<u><u>\$ 2,340,958</u></u>	<u><u>\$ 16,091</u></u>
Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	\$ 9,161	\$ -

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

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, 2020 and 2019, there were no cash equivalents.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

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, 2020 and 2019.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

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

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

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:

	2020	2019
SHOPP funds received	\$ 498,000	\$ 623,000
SHOPP assessment fees paid	<u>238,000</u>	<u>287,000</u>
Net SHOPP benefit	<u><u>\$ 260,000</u></u>	<u><u>\$ 336,000</u></u>

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 not expected to be materially different from the net amounts received in 2020. 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, 2020 and 2019**

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, 2017.
- **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% and 53% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2020 and 2019, respectively, 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, 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 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, 2020 and 2019, approximately \$55,000 and \$0 of the Hospital's bank balances of \$7,866,131 and \$888,367, respectively, were exposed to custodial credit risk. In 2020 and 2019, 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
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

Investments

At June 30, the Hospital had the following investments at fair value:

	2020	2019
Corporate Stocks	\$ 19,528	\$ -
BDC Funds	-	43,221
	<u>\$ 19,528</u>	<u>\$ 43,221</u>

Interest Rate Risk – Interest rate risk is the risk of exposure to fair value losses arising from rising interest rates. The Hospital’s policy does not address interest rate risk.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2020 and 2019, the Hospital had no investments that were rated by ratings agencies.

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

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2020, the Hospital’s investment in FS KKR Capital Corporation II constituted 100% of its investments. At June 30, 2019, the Hospital’s investment in FS Investment Corporation III funds (BDC Funds) constituted 100% of its investments.

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Hospital had no investments denominated in foreign currency at June 30, 2020 and 2019.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

Summary of Carrying Values

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

	2020	2019
Carrying value		
Deposits	\$ 7,880,812	\$ 833,397
Investments	<u>19,528</u>	<u>43,221</u>
	<u><u>\$ 7,900,340</u></u>	<u><u>\$ 876,618</u></u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 7,399,092	\$ 510,872
Short-term investments	<u>501,248</u>	<u>365,746</u>
	<u><u>\$ 7,900,340</u></u>	<u><u>\$ 876,618</u></u>

Investment Return

Investment return for the years ended June 30 consisted of:

	2020	2019
Interest and dividend income	\$ 15,675	\$ 17,657
Net decrease in fair value of investments	<u>(19,722)</u>	<u>(306)</u>
	<u><u>\$ (4,047)</u></u>	<u><u>\$ 17,351</u></u>

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

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:

	2020	2019
Medicare	\$ 867,639	\$ 882,054
Medicaid	56,512	61,951
Other third-party payors	222,085	478,334
Patients	<u>1,564,119</u>	<u>1,453,763</u>
	2,710,355	2,876,102
Less allowance for uncollectible accounts	<u>1,417,000</u>	<u>1,278,000</u>
	<u><u>\$ 1,293,355</u></u>	<u><u>\$ 1,598,102</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2020			
	Beginning Balance	Additions	Disposals	Transfers
Land	\$ 40,901	\$ -	\$ -	\$ -
Land improvements	94,313	-	-	-
Buildings and improvements	6,322,275	-	(25,350)	-
Equipment	<u>9,536,816</u>	<u>150,566</u>	<u>-</u>	<u>-</u>
	15,994,305	150,566	(25,350)	-
Less accumulated depreciation				
Land improvements	86,959	1,229	-	-
Buildings and improvements	3,943,814	226,164	(15,836)	-
Equipment	<u>7,933,482</u>	<u>383,780</u>	<u>-</u>	<u>-</u>
	11,964,255	611,173	(15,836)	-
Capital assets, net	<u><u>\$ 4,030,050</u></u>	<u><u>\$ (460,607)</u></u>	<u><u>\$ (9,514)</u></u>	<u><u>\$ -</u></u>

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

**Notes to Financial Statements
June 30, 2020 and 2019**

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 40,901	\$ -	\$ -	\$ -	\$ 40,901
Land improvements	87,313	7,000	-	-	94,313
Buildings and improvements	6,322,275	-	-	-	6,322,275
Equipment	9,377,301	129,152	-	30,363	9,536,816
Construction in progress	19,308	11,055	-	(30,363)	-
	<u>15,847,098</u>	<u>147,207</u>	<u>-</u>	<u>-</u>	<u>15,994,305</u>
Less accumulated depreciation					
Land improvements	86,095	864	-	-	86,959
Buildings and improvements	3,708,278	235,536	-	-	3,943,814
Equipment	<u>7,513,077</u>	<u>420,405</u>	<u>-</u>	<u>-</u>	<u>7,933,482</u>
	<u>11,307,450</u>	<u>656,805</u>	<u>-</u>	<u>-</u>	<u>11,964,255</u>
Capital assets, net	<u>\$ 4,539,648</u>	<u>\$ (509,598)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,030,050</u>

Note 6: Line of Credit

The Hospital periodically borrows funds from a bank to finance operations on an interim basis. The Hospital has a \$300,000 revolving bank line of credit. This line of credit carried interest at 4.2% and 3.5% at June 30, 2020 and 2019, respectively, and is secured by a certificate of deposit, and matures less than one year from issuance. This line of credit was repaid in full during 2020 using the certificate of deposit held as collateral and was not renewed. The following is a summary of line of credit transactions for the years ended June 30:

	2020	2019
Beginning balance	\$ -	\$ 350,000
Additions	150,000	175,000
Deductions	<u>(150,000)</u>	<u>(525,000)</u>
Ending balance	<u>\$ -</u>	<u>\$ -</u>

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

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

**Notes to Financial Statements
June 30, 2020 and 2019**

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
2020					
Long-term debt					
PPP loan	\$ -	\$ 1,047,200	\$ -	\$ 1,047,200	\$ 402,160
Capital lease obligations	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>
2019					
Long-term debt					
Capital lease obligation	\$ 48,176	\$ -	\$ (18,974)	\$ 29,202	\$ 19,470
	<u>48,176</u>	<u>-</u>	<u>(18,974)</u>	<u>29,202</u>	<u>19,470</u>
Total long-term debt	<u>\$ 48,176</u>	<u>\$ -</u>	<u>\$ (18,974)</u>	<u>\$ 29,202</u>	<u>\$ 19,470</u>

Paycheck Protection Program Loan

In May 2020, the Hospital received a loan of \$1,047,200 under the Paycheck Protection Program (PPP). The loan matures 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 13* for additional information.

Note Payable to Bank

The note payable to bank is due June 15, 2023, with principal and interest payments monthly of approximately \$2,700 and interest at 3.49%. The loan is classified as a current liability as the lender specifies that the loan is due in full immediately upon the lender's demand. The agreement also contains provisions that, in an event of default, allow the lender to accelerate payments of the entire principal amount to be immediately due and payable.

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

Debt Service Requirements

Debt service requirements on long-term debt other than the capital lease obligation as of June 30, 2020, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2021	\$ 509,875	\$ 496,785	\$ 13,090
2022	648,227	645,040	3,187
	<u>\$ 1,158,102</u>	<u>\$ 1,141,825</u>	<u>\$ 16,277</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, 2020 and 2019, totaled \$103,165 and \$94,004, respectively, net of accumulated depreciation of \$80,972 and \$61,102, respectively. 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,	
2021	\$ 11,894
2022	2,000
2023	2,000
2024	2,000
2025	667
Total minimum lease payments	<u>18,561</u>
Less amount representing interest	<u>695</u>
Present value of future minimum lease payments	<u>\$ 17,866</u>

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 \$25,000 and \$27,000 for 2020 and 2019, 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.

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

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(a) 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 2020 and 2019.

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 3.7% for 2020 and 2019. Contributions actually made by plan participants aggregated approximately \$168,000 and \$180,000 for the years ended June 30, 2020 and 2019, respectively.

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

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

Recurring Measurements

The fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis consisted of the corporate stocks, classified as Level 1, of \$19,528 at June 30, 2020, and BDC Funds of \$43,221 at June 30, 2019.

Investments

Where quoted market prices are available in an active market, securities 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 securities 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 securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Certain investments, such as the BDC funds disclosed previously, are measured using the net value per share (or its equivalent) practical expedient and have not been classified in the fair value hierarchy.

Note 12: 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.

The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

Note 13: COVID-19 Pandemic and CARES Act Funding

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

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

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

- Beginning in mid-March, the Hospital deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year
- Implementation of targeted cost reduction initiatives
- Reduction of certain planned projects and capital expenditures

In addition, the Hospital received approximately \$3,676,000 in general and targeted Provider Relief Fund distributions, as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act).

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. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the impact 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.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

Provider Relief Fund

During the year ended June 30, 2020, the Hospital received approximately \$3,676,000 of distributions from the CARES Act Provider Relief Fund. 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 conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the uncertainty associated with recording these amounts as revenue, the Hospital did not report any of these amounts as revenue for the year ended June 30, 2020. The unrecognized amount of Provider Relief Fund distributions is recorded as part of deferred revenues in the accompanying balance sheets.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund. The Hospital considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at June 30, 2020. As a result, the amounts recorded in the accompanying financial statements compared to the Hospital's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

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

Medicare Accelerated and Advanced Payment Program

During the year ended June 30, 2020, the 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.

Subsequent to year-end, 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%.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

During the year ended June 30, 2020, the Hospital received approximately \$1,844,000 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests is recorded in 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 Hospital is accounting for the PPP loan in accordance with Governmental Accounting Standards Board 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 sheet as long-term debt in accordance with the term of the PPP loan agreement. See *Note 8* for additional information.

Note 14: 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 significant uncertainty related to whether it will be able to retain the CARES Act Provider Relief Fund distributions. The accompanying financial statements 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 applying for forgiveness of the outstanding PPP loan and 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.

**The Kiowa County Hospital Authority
d/b/a Elkview General Hospital
A Component Unit of Kiowa County, Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019**

Note 15: Future Changes in Accounting Principles

Fiduciary Activities

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

Accounting for Leases

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

**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, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 2, 2021, 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.

BKD, LLP

Tulsa, Oklahoma
March 2, 2021

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

Reference Number	Finding
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No Matters are reportable.