



Management's Discussion and Analysis  
and Financial Statements  
December 31, 2021 and 2020

**The Cleveland Area Hospital Authority  
d/b/a Cleveland Area Hospital Trust  
Authority**

Independent Auditor’s Report .....	1
Management’s Discussion and Analysis .....	4
Financial Statements	
Statements of Net Position .....	13
Statements of Revenues, Expenses and Changes in Net Position.....	15
Statements of Cash Flows .....	16
Notes to Financial Statements .....	18
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	37



## Independent Auditor's Report

Board of Trustees  
The Cleveland Area Hospital Authority  
d/b/a Cleveland Area Hospital Trust Authority  
Cleveland, Oklahoma

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the accompanying statements of net position of the The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority), as of and for the years ended December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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

### Responsibilities of Management for the Financial Statements

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

What inspires you, inspires us. | [eidebailly.com](http://eidebailly.com)

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2022 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
April 22, 2022

## Introduction

The discussion and analysis of the financial performance for The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority) provides an overview of the Authority's financial activities and balances as of and for the fiscal years ended December 31, 2021, 2020 and 2019. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

## Financial Highlights

- Total Operating Revenue increased in 2021 by \$3.1M or 22% and decreased in 2020 by \$0.4M or 3%.
  - In 2021, although experiencing a recovery in ancillary volume, the Authority continued to experience effects from the COVID-19 Pandemic. Much like the nation as a whole, the Authority experienced a limiting factor in reaching our potential operating results due to the limitation in patient volume imposed by staffing challenges in the market. These staffing challenges resulted in an 8% decrease in Swingbed volume that was offset by 30% increase in volume in ancillary services such as Radiology and Physical Therapy.
- Total assets increased in 2021 by \$2.4M or 14% and increased in 2020 by \$8.6M or 97%.
  - In 2021, the increase in assets was primarily driven by the recognition of \$2.8M of Provider Relief funds that are supported by qualified purchases, including capital equipment, in Q1 & Q2 2021.
  - In 2020, cash, restricted cash, and internally designated cash increased \$8.8M due to funding provided by governmental programs in response to the COVID-19 pandemic. In 2020, patient accounts receivable decreased \$0.9M or 44%.
- Total liabilities decreased in 2021 by \$3M or 18% and increased in 2020 by \$7.7M or 83%.
  - In 2021, the decrease in total liabilities is primarily driven by the recognition of \$2.8M of Provider Relief funds that were recognized and \$1.6M of matured CMS Advance Payments. Offset by an increase of \$0.5M in third-party CMS Settlements related to fiscal year 2018 and 2019.
  - In 2020, \$9M of the increase is due to fully reserved CMS Advance Payments received, and fully-reserved Provider Relief Funds received in response to the COVID 19 pandemic. In addition, the Authority paid the extended repayment plans early which reduced liabilities by \$1.3M.
- The Authority reported Revenues in Excess of Expenses of \$5.4M in 2021 and \$0.9M in 2020.
- The Authority's net position increased \$5.4M in 2021 and \$0.9M in 2020. From 2015 to 2021, the Authority's net position has increased \$7.1M, to \$5.8M.

## Using This Annual Report

The Authority's financial statements consist of three statements – Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

**The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position**

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off because of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position reports information about the Authority resources and its activities in a way that helps answer this question. These Statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors, such as changes in the Authority's patient base and measures of the quality of services it provides the community, as well as local economic factors to assess the overall health of the Authority.

**The Statement of Cash Flows**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

**The Authority's Net Position**

The Authority's net position is the difference between its assets and liabilities reported in the statement of net position. The Authority's net position increased by \$5.4M in 2021 and \$0.9M in 2020 as shown below in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	2021	2020	2019
Assets			
Current assets	\$ 10,492,605	\$ 9,921,006	\$ 3,055,196
Noncurrent cash equivalents	3,150,244	1,924,550	-
Capital assets, net	6,226,429	5,635,796	5,827,392
Total assets	<u>\$ 19,869,278</u>	<u>\$ 17,481,352</u>	<u>\$ 8,882,588</u>
Liabilities			
Current liabilities	\$ 10,493,492	\$ 8,997,209	\$ 4,182,001
Noncurrent liabilities	3,558,327	8,067,448	5,144,144
Total liabilities	<u>14,051,819</u>	<u>17,064,657</u>	<u>9,326,145</u>
Net Position (Deficit)			
Net investment in capital assets	2,691,974	1,983,230	1,935,094
Unrestricted	3,125,485	(1,566,535)	(2,378,651)
Total net position (deficit)	<u>5,817,459</u>	<u>416,695</u>	<u>(443,557)</u>
Total liabilities and net position (deficit)	<u>\$ 19,869,278</u>	<u>\$ 17,481,352</u>	<u>\$ 8,882,588</u>

A significant component of the change in the Authority's assets is the increase in internally restricted cash set aside for construction and capital improvements. The Authority internally designated \$1.2M in 2021. Bringing the total designated amount to \$3.2M for year-end. Another contributor is the \$1.0M in capital equipment purchased in 2021 using the Provider Relief funds to respond to patients suffering from COVID-19 and related symptoms in our community. The decrease in total liabilities was driven by the recognition of \$2.8M of Provider Relief funds that were recognized and released and \$1.6M of matured CMS Advance Payments.



**Table 2: Operating Results and Changes in Net Position**

	2021	2020	2019
Operating Revenues			
Net patient service revenue	\$ 17,143,143	\$ 14,046,129	\$ 14,467,065
Other operating revenue	217,041	220,777	189,445
Total operating revenue	<u>17,360,184</u>	<u>14,266,906</u>	<u>14,656,510</u>
Operating Expenses			
Salaries, wages, and employee benefits	11,581,168	10,860,934	10,641,394
Other	4,869,730	4,203,551	4,363,420
Depreciation and amortization	683,195	638,296	618,016
Total operating expenses	<u>17,134,093</u>	<u>15,702,781</u>	<u>15,622,830</u>
Operating Income (Loss)	<u>226,091</u>	<u>(1,435,875)</u>	<u>(966,320)</u>
Nonoperating Revenues (Expenses)			
City appropriations	662,332	597,580	543,578
Grants and contributions	31,263	139,073	11,635
Investment income	1,840	6,044	3,210
Interest expense	(270,864)	(406,671)	(381,829)
Provider Relief Funds	2,842,477	49,461	-
Forgiveness Paycheck Protection Program loan	1,907,625	1,910,640	-
Nonoperating revenues, net	<u>5,174,673</u>	<u>2,296,127</u>	<u>176,594</u>
Revenues in Excess of (Less Than) Expenses and Change in Net Position	5,400,764	860,252	(789,726)
Net Position (Deficit), Beginning of Year	<u>416,695</u>	<u>(443,557)</u>	<u>346,169</u>
Net Position (Deficit), End of Year	<u>\$ 5,817,459</u>	<u>\$ 416,695</u>	<u>\$ (443,557)</u>

### Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Authority had operating income of \$226K in 2021.

- The Paycheck Protection Program (PPP) provided full offset to the operating loss of \$1.4M in 2020. The Authority received a second PPP Loan for \$1.9M in early 2021 that was successfully forgiven prior to the end of the year. The PPP loans received by the Authority include a requirement to maintain compensation levels to employees which has been imperative to the organization to be competitive during the current labor shortage in the nation.

- Net patient service revenue increased \$3.1M or 22% in 2021 due to the 30% increase in ancillary volume driven by radiology and therapies services. This increase in volume represents positive engagement from our community and market area for the services we provide as well as a return to pre-pandemic volume levels with 2021 ancillary volume exceeding 2019 by 13%. Clinic visits alone are 1,628 or 12% greater in 2021 versus 2019. This volume is expected to continue to increase for 2022 with the addition of two (2) more primary care providers in the clinic. Net patient service revenue decreased \$0.4M or 3% in 2020 due to the impacts of the COVID-19 pandemic which caused lower patient volumes. In 2020, the average monthly patient volume for the Clinic in April and May decreased 29% to 726 visits, from the trailing twelve-month average of 1,018 visits.
- Salaries, wages, and employee benefits increased \$720K or 7% in 2021. The primary driver of the increase was driven by a system wide evaluation of pay rates and an increase in head count consistent with the increase in expenses in their entirety of 7% with 186 employees at FYE 2020 and 199 at FYE 2021. While the Authority strives to maintain a competitive and positive culture, due to a nationwide shortage of healthcare workers, management evaluated payrates for the whole system and moved rates to a more competitive position based on relevant experience and credentials of each employee. The secondary driver represents an incremental increase in agency usage to alleviate staff shortages and the increase in those rates year over year. The Authority saw an increase of \$0.2M or 2% in 2020 that was primarily due to the full deployment of 24/7 respiratory therapy, including the addition of 2 FTE to the department.

#### **Non-operating Revenues and Expenses**

Non-operating revenues and expenses consist of city appropriations, grants and contributions, interest expense forgiveness of the PPP Loan, and recognition of Provider Relief funds. Non-operating revenues increased \$2.8M or 125% in 2021 primarily due to the recognition of \$2.8M of Provider Relief funds. Non-operating revenues increased \$2.1M or 1,200% in 2020 primarily due to the \$1.9M of PPP loan forgiveness and \$0.2M of grants and Provider Relief fund income recognized. City appropriations increased \$0.06M or 11% in 2021 and \$0.05M or 10% in 2020, due to higher sales tax volume. The Authority recognized a second PPP Loan for \$1.9M that was forgiven during 2021.

#### **The Authority's Cash Flows**

The Authority's overall liquidity increased during the year with a net increase to cash and cash equivalents of \$2.0M in 2021. Cash flows from operations increased \$4.1M in 2021 driven primarily from the increase in volume in the ancillary departments. Cash flows used for operations increased \$2.3M in 2020 due to the early payoff of the CMS extended repayment plans of \$1.3M and \$1.0M changes to Medicare cost report settlements. Cash from noncapital financing activities decreased by \$9.8M due to the absence of additional Provider Relief funds and CMS Advance Payments that were received in the prior year. In 2020, cash from noncapital financing activities increased by \$11.0M when compared with 2019 due to receipts from COVID-19 relief programs. Cash used for capital and capital related financing activities increased by \$1.2M in 2021 and \$0.1M in 2020.

#### **Capital Assets**

The Authority had capital assets net of accumulated depreciation of \$6.2M and \$5.6M at December 31, 2021 and 2020 as detailed in Note 5 to the financial statements. The Authority purchased new capital assets totaling \$1.3M and \$0.4M for the years ended December 31, 2021 and 2020. There were no significant commitments for capital expenditures at December 31, 2021 and 2020.

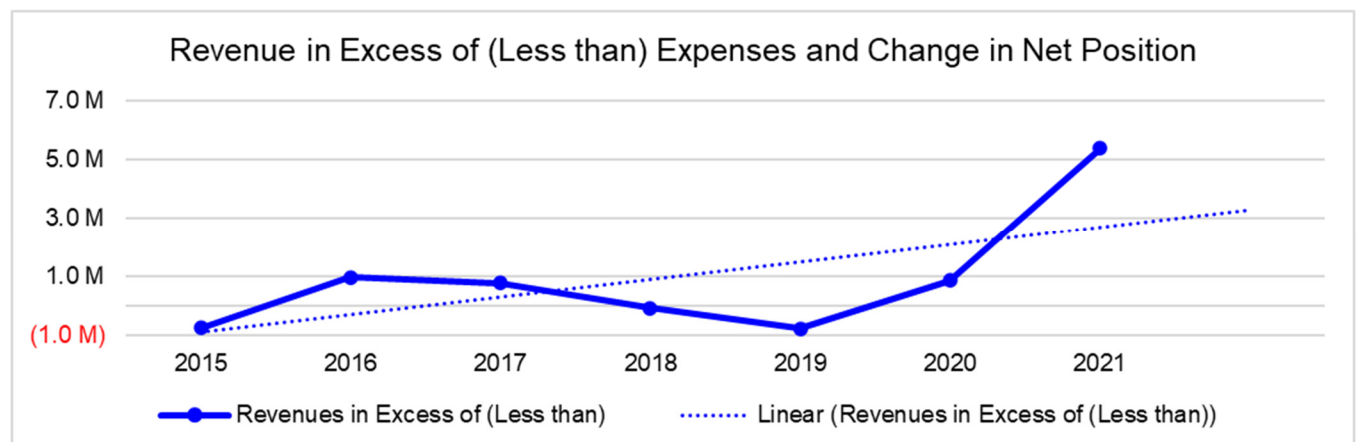
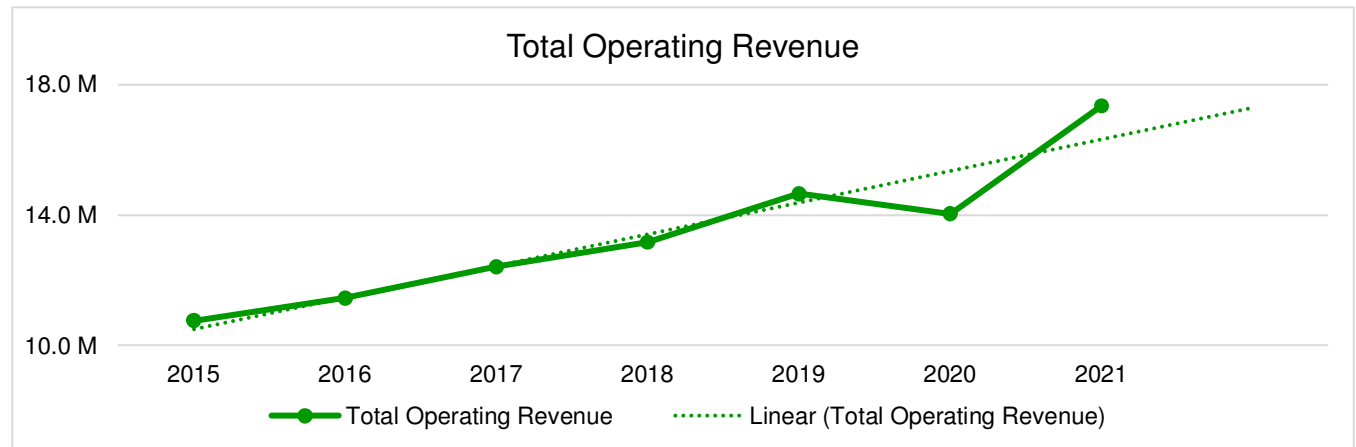
## Debt

The Authority had \$4M and \$4.8M in long term debt at December 31, 2021 and 2020. The Authority incurred new debt totaling \$1.9M and \$2.1M for the years ended December 31, 2021 and 2020. The Authority received a loan under the PPP in the amount of \$1.9M in each of the fiscal years, the SBA forgave the first loan in December 2020 and the second in August of 2021. Note 7 to the financial statements details the changes and terms of the Authority's debt.

## Historical Trends

The tables below are the operating and revenue in excess (less than) expenses and changes in net position.

	Audited												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Operating Revenue	9.5 M	11.1 M	12.8 M	12.4 M	12.0 M	13.3 M	10.8 M	11.5 M	12.4 M	13.2 M	14.7 M	14.0 M	17.4 M
Total Operating Expense	11.3 M	11.9 M	13.6 M	12.1 M	12.7 M	15.2 M	11.8 M	11.1 M	12.0 M	13.5 M	15.6 M	15.8 M	17.1 M
Revenues in Excess of (Less than) Expenses and Change in Net Position	(1.3 M)	(0.4 M)	(0.7 M)	0.3 M	(0.4 M)	(1.4 M)	(0.8 M)	1.0 M	0.8 M	(0.1 M)	(0.8 M)	0.9 M	5.4 M
Net Position, end of year	2.1 M	1.6 M	1.0 M	1.3 M	0.9 M	(0.5 M)	(1.3 M)	(0.3 M)	0.4 M	0.3 M	(0.4 M)	0.4 M	5.8 M
	2009-2015 decrease (3.4 M)						2016-2020 increase 7.1 M						



Notes on Revenue & Expense Trend Table, Operating Revenue Graph, Net Position Graph

- Net Position has improved \$7.1M from 2015 to 2021.
- Average monthly visit volume in the Clinic has increased 96% from 2017 to 2021.
- Average daily census has increased 67% from 2015 to 2021.
- The Authority has acquired \$2.2M in new medical equipment (CT, 3D Mammography, Digital X-Ray, Telemetry) from 2017 to 2020, supporting improvements in quality of care.

**Management's Plans**

The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority includes Cleveland Area Hospital, a critical access hospital located in Cleveland, Oklahoma. The hospital provides 24/7 emergency, laboratory, radiology, respiratory therapy, inpatient dialysis, and inpatient care services. A fully equipped rehabilitation center, including physical, speech and occupational therapies, provides both outpatient and inpatient services. The hospital's clinic includes seven providers offering primary care, pediatric, and behavioral health services.

Cleveland Area Hospital is the sole hospital in Pawnee county, creating both responsibility and an opportunity to positively impact rural healthcare in Oklahoma. Stable management and strong leadership preserve the culture and stability of Cleveland Area Hospital by prioritizing integrity, character, collaboration, and work ethic when considering additions to the team.

The COVID-19 Pandemic tested the strength of the organization, and we succeeded in experiencing an overall growth in volume through positive patient experience as well as improvements in the quality of services we deliver through investments in capital to mitigate the spread and improve delivery of treatment of the virus. The staff and leadership team of Cleveland Area Hospital have been driving a complete financial and cultural turnaround over the past 7 years, with the long-term vision of becoming a known, outstanding rural, regional hospital, with destination services. During the height of the outbreak in Oklahoma, our organization provided constant COVID-19 test administration, daily emergency services, and when the urban hospitals had reached capacity, we offered inpatient acute care services for COVID-19 patients.

In 2021, the Oklahoma Office of Rural Health conducted a community health needs assessment for Cleveland Area Hospital (available at [www.clevelandareahospital.com](http://www.clevelandareahospital.com)). The survey results indicated demand for additional services, which included increasing the number of primary care providers. The survey also identified the desire of the community to have surgical services, dialysis, pain management, and specialty services such as Cardiology, Dermatology, and OB/GYN available locally. Cleveland Area Hospital's primary service areas are Pawnee, Osage, Creek, and Payne counties, as well as small areas of Tulsa and Noble counties. The central service area radius is about 25 miles with the extended service area radius near 45 miles. The community response to the health needs assessment fuels our vision for growth and service expansion with a regional focus, which is also supported by an addressable market analysis completed in 2018.

The following investments and accomplishments over the past 7 years have laid the groundwork for our next stage of growth and expansion of services to our region:

- 15 of the existing 16 total physicians, physician assistants and nurse practitioners have been recruited during this time. These professionals have enhanced the performance of primary care, inpatient, and emergency services.
- Increased consistency, dedication to patient care, and positive engagement with the community have cultivated trust and value.
- Through a combination of eliminating non-productive expense and investing in recruiting, staff development, medical equipment, technology infrastructure, and operational improvement, the Authority's efforts have delivered a \$7.1M increase in Net Position from 2015 to 2021.

The next stage of growth includes the construction of a new, replacement facility. The existing hospital was opened in August of 1963. Due to a lack of compliance with Oklahoma State Health Department guidelines, the surgery and procedure rooms were taken out of service in 2015. Despite the discontinuation of this potentially profitable and relevant service line, the Authority has grown total operating revenue an average of 8% annually from 2015 to 2021, while also delivering an increase of \$7.1M in Net Position.

Due diligence on the construction of a replacement facility began in 2016, and has been a long-term effort of preparation and intelligence gathering, including:

- Facility assessment
- Addressable market analysis
- Debt capacity study
- Feasibility study
- CEO interviews, onsite visits to replacement facilities, researching financials of successful replacement hospitals
- Conferences and meetings with subject matter experts in architecture, market analysis, investment banking, financial advising, bond counsel, regional banking, Certified Public Accounting, feasibility, and the USDA Rural Development programs
- Cultivating relationships with larger health systems, as well as individual physician specialists

We are in discussion with the Oklahoma office of USDA. The next steps in due diligence include submitting the feasibility study and the 2021 audited financial report to the USDA for review. The existing proposed project scope is for 70,000+ square feet at an estimated cost of \$30M.

#### **Initiatives Scheduled for Fiscal Year 2022**

- Strategic review of payer contracts and patient receivables turnover, to increase payer yields and current cash flow.
- Performance of a Post-Pandemic Market Demand Analysis to evaluate and concentrate on market opportunities that will both contribute to growth and serve the community closer to home.
- Submission of a USDA Direct Loan application for the construction of a full replacement hospital.
- Continued focus on becoming a Regional Healthcare Center, allied with larger health systems. Active discussions continue with both larger health systems and established specialty physicians.

### **Conclusion**

Management points to the turnaround of both the financial stability and the culture of the Authority. The Authority continues to improve. From Management's perspective, the plans noted above are necessary for the long-term success of the operation. This confidence is supported by:

- Positive trajectory in Net Position from 2015 to 2021.
- Measurable improvements from 2015 include favorable increases in Revenue, a favorable increase in net position, a favorable decrease in accounts payable, and favorable increases in patient volumes.
- Stability and commitment of management team over the past six years.
- Material, significant investments and improvements implemented in 2016-2021. Full replacement of IT and Phone infrastructure in 2017. Replacement of 100% of computer workstations and laptops in 2017. 64-slice CT, digital X-Ray in 2018. 3D Mammography and EMR in 2019. Portable digital X-Ray in 2020.
- 2018 – successful recruiting of 2 full-time physicians and 1 physician assistant in the Clinic.
- 2019 – successful recruiting of a medical director for the Emergency Department.
- 2020 – successful recruiting of 2 additional physicians who started in 2021 (1 in Emergency Department, 1 in Clinic)
- 13% or 1500+ increase in Clinic visits in 2021 with a projected 40% increase in 2022.
- \$1.9M Paycheck Protection Program funding received, attested, and forgiven in 2020.
- \$1.9M Second Draw Paycheck Protection funding received in February 2021, forgiven in 2022.
- After the completion of the required single audit engagement, release \$1.2M of board designated amounts.
- The existing, preliminary, positive feasibility study on the proposal for a replacement hospital.
- A replacement facility positions the organization for reinstating a surgery program, which will provide needed services in the community and contribute to the organization's financial performance.

### **Contacting the Authority's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority, 1401 W Pawnee St, Cleveland, OK 74020.

The Cleveland Area Hospital Authority

Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,452,696	\$ 3,679,824
Restricted under Provider Relief Fund	1,883,493	3,923,699
Receivables		
Patient, net of estimated uncollectibles of approximately \$2,103,000 in 2021 and \$2,331,000 in 2020	1,278,373	1,142,638
City appropriations	154,090	99,895
Estimated third-party payor settlements	-	498,970
Other	362,662	332,198
Supplies	217,092	186,164
Prepaid expenses	<u>144,199</u>	<u>57,618</u>
Total current assets	<u>10,492,605</u>	<u>9,921,006</u>
Noncurrent Cash Equivalents		
Internally designated for capital improvements	<u>3,150,244</u>	<u>1,924,550</u>
Capital Assets		
Capital assets not being depreciated	596,779	79,717
Capital assets being depreciated, net	<u>5,629,650</u>	<u>5,556,079</u>
Total capital assets	<u>6,226,429</u>	<u>5,635,796</u>
Total assets	<u><u>\$ 19,869,278</u></u>	<u><u>\$ 17,481,352</u></u>

The Cleveland Area Hospital Authority

Statements of Net Position  
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 525,503	\$ 684,312
Current maturities of CMS advance payments	3,377,460	1,012,074
Accounts payable		
Trade	2,365,452	1,572,229
Estimated third-party payor settlements	556,355	-
Accrued expenses		
Salaries, wages and benefits	1,748,011	1,720,716
Interest	4,516	5,680
Deferred revenue	32,702	78,499
Refundable advance - Provider Relief Fund	<u>1,883,493</u>	<u>3,923,699</u>
Total current liabilities	<u>10,493,492</u>	<u>8,997,209</u>
Noncurrent liabilities		
CMS Advance Payments, less current maturities	-	3,969,644
Long-term debt, less current maturities	<u>3,558,327</u>	<u>4,097,804</u>
Total noncurrent liabilities	<u>3,558,327</u>	<u>8,067,448</u>
Total liabilities	<u>14,051,819</u>	<u>17,064,657</u>
Net Position		
Net investment in capital assets	2,691,974	1,983,230
Unrestricted	<u>3,125,485</u>	<u>(1,566,535)</u>
Total net position	<u>5,817,459</u>	<u>416,695</u>
Total liabilities and net position	<u>\$ 19,869,278</u>	<u>\$ 17,481,352</u>



The Cleveland Area Hospital Authority  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$3,067,645 in 2021 and \$3,991,097 in 2020)	\$ 17,143,143	\$ 14,046,129
Other revenue	<u>217,041</u>	<u>220,777</u>
Total operating revenues	<u>17,360,184</u>	<u>14,266,906</u>
Operating Expenses		
Salaries, wages and employee benefits	11,581,168	10,860,934
Other	4,869,730	4,203,551
Depreciation and amortization	<u>683,195</u>	<u>638,296</u>
Total operating expenses	<u>17,134,093</u>	<u>15,702,781</u>
Operating Income (Loss)	<u>226,091</u>	<u>(1,435,875)</u>
Nonoperating Revenues (Expenses)		
City appropriations	662,332	597,580
Grants and contributions	31,263	139,073
Investment income	1,840	6,044
Interest expense	(270,864)	(406,671)
Provider Relief Funds	2,842,477	49,461
Forgiveness of Paycheck Protection Program Loan	<u>1,907,625</u>	<u>1,910,640</u>
Net nonoperating revenues	<u>5,174,673</u>	<u>2,296,127</u>
Revenues in Excess of Expenses and Change in Net Position	5,400,764	860,252
Net Position, Beginning of Year	<u>416,695</u>	<u>(443,557)</u>
Net Position, End of Year	<u><u>\$ 5,817,459</u></u>	<u><u>\$ 416,695</u></u>

# The Cleveland Area Hospital Authority

## Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 18,062,733	\$ 12,703,106
Payments to suppliers and contractors	(4,194,016)	(3,709,591)
Payments to and on behalf employees	(11,553,873)	(10,505,962)
Other receipts and payments, net	<u>186,577</u>	<u>(110,579)</u>
Net Cash (used for) from Operating Activities	<u>2,501,421</u>	<u>(1,623,026)</u>
Noncapital Financing Activities		
City appropriations received	608,137	593,771
Net proceeds from Paycheck Protection Program Loan	1,893,107	1,887,050
Net proceeds from CMS advance payments	-	4,981,718
Repayments to CMS advance payments	(1,604,258)	-
Principal paid on noncapital long-term debt	(88,342)	(124,452)
Interest paid on noncapital long-term debt	(60,436)	(169,478)
Grants and contributions Provider Relief Fund	802,271	4,051,659
Other noncapital grants and contributions	<u>(14,534)</u>	<u>139,073</u>
Net Cash from Noncapital Financing Activities	<u>1,535,945</u>	<u>11,359,341</u>
Capital and Related Financing Activities		
Interest paid on long-term debt	(197,074)	(221,327)
Principal paid on long-term debt	(609,944)	(464,020)
Purchases of capital assets	<u>(1,273,828)</u>	<u>(242,924)</u>
Net Cash used for Capital and Related Financing Activities	<u>(2,080,846)</u>	<u>(928,271)</u>
Investing Activities		
Investment income received	<u>1,840</u>	<u>6,044</u>
Net Change in Cash and Cash Equivalents	1,958,360	8,814,088
Cash and Cash Equivalents, Beginning of Year	<u>9,528,073</u>	<u>713,985</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,486,433</u>	<u>\$ 9,528,073</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 6,452,696	\$ 3,679,824
Restricted under Provider Relief Fund	1,883,493	3,923,699
Internally designated for capital improvements	<u>3,150,244</u>	<u>1,924,550</u>
	<u>\$ 11,486,433</u>	<u>\$ 9,528,073</u>

The Cleveland Area Hospital Authority

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Income (Loss) to Net Cash		
from (used for) Operating Activities		
Operating income (loss)	\$ 226,091	\$ (1,435,875)
Adjustments to reconcile operating income (loss) to net cash		
from (used for) operating activities		
Depreciation and amortization	683,195	638,296
Provision for bad debts	3,067,645	3,991,097
Changes in assets and liabilities		
Patient receivables	(3,203,380)	(3,079,079)
Estimated third-party payor settlements	1,055,325	(981,940)
Other receivables	(30,464)	(331,356)
Supplies	(30,928)	(14,144)
Prepaid expenses	(86,581)	(40,011)
Extended repayment schedule	-	(1,273,101)
Accounts payable	793,223	548,115
Accrued expenses	27,295	354,972
Net cash from (used for) operating activities	<u>\$ 2,501,421</u>	<u>\$ (1,623,026)</u>
Supplemental Disclosure of Noncash Activities		
Capital assets financed through capital lease arrangement	<u>\$ -</u>	<u>\$ 203,776</u>
Forgiveness of Paycheck Protection Program loan and related interest	<u>\$ (1,907,625)</u>	<u>\$ (1,910,640)</u>

**Note 1 - Organization and Significant Accounting Policies**

The financial statements of The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

**Reporting Entity**

The Authority was created under a trust indenture dated November 22, 1976, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of the citizens of Cleveland, Oklahoma. The Authority is organized as a political subdivision of the state of Oklahoma and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The Authority is a component unit of the City of Cleveland, Oklahoma (the City), and the Cleveland City Council appoints the board members of the Authority.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority.

**Blended Component Unit**

Cleveland Area Hospital Holdings, Inc. (Hospital) is a 14-bed critical access hospital (CAH) located in Cleveland, Oklahoma and is an Oklahoma non-profit corporation, recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is included as a blended component unit of the Authority. The financial statements include the financial activity of the Authority and the Hospital, collectively referred to as the Authority. The Authority's board appoints the board members of the Hospital.

In addition, the board of the Hospital is the same as the board of the Authority. Accordingly the Authority has control over the use of all Hospital funds, assets and operations to fulfill its mission as specified in the bylaws. The Hospital primarily earns revenue by providing inpatient, outpatient, and emergency care services to patients in Cleveland, Oklahoma, and the surrounding area.

**Measurement Focus and Basis of Accounting**

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the Authority's assets and liabilities with the difference reported as net position. Net position is reported in the following components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

*Restricted net position:*

Expendable – Expendable net position results when constraints placed on net position are either externally imposed or imposed through enabling legislation. The Authority does not have expendable restricted net position as of December 31, 2021 and 2020.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority does not have nonexpendable restricted net position as of December 31, 2021 and 2020.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended December 31, 2021 and 2020 increased approximately \$143,000 and decreased approximately \$432,000 as a result of decreased payments compared to originally estimated amounts.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated and externally restricted cash equivalents. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

### **Restricted Cash**

Cash that has restrictions which change the nature or normal understanding of the availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets.

### **Patient Receivables**

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### **City Appropriations**

Effective January 27, 1978, the citizens of the City approved a 1% sales tax with no expiration date to provide unrestricted appropriations to the Authority. The Authority received approximately 3% and 4% of its financial support from city appropriations related to sales taxes during the years ended December 31, 2021 and 2020. These funds were used to support operations and make payments on long-term debt.

### **Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

### **Investment Income**

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

**Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	8-40 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from expenses in excess of revenues. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

**Compensated Absences**

The Authority's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued expenses in the accompanying financial statements.

**Operating Revenues and Expenses**

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

**Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**Charity Care**

The Authority provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$13,000 and \$17,000 for the years ended December 31, 2021 and 2020, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

**Grants and Contributions**

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after expenses in excess of revenues.

**Note 2 - Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended December 31, 2018. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the state Medicaid program on a prospective per discharge or fee schedule method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.



Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended December 31, 2021 and 2020:

	2021	2020
Medicare	30%	39%
Medicaid	25%	18%
Blue Cross and other commercial payors	39%	34%
Self pay and other	6%	9%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended December 31, 2021 and 2020 increased approximately \$145,000 and \$-0- due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

### **CMS Advance Payments**

The CMS advance payments balance consist of payments received from the Centers for Medicare & Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by COVID-19 pandemic. The Authority received \$4,981,718 in advance payments during April 2020, which will be recouped through Medicare claims processed beginning 365 days after payments are received and will continue until the balance of the advanced payments have been recouped, or for 29 months from the date that each advance payment was issued, at which point any remaining unpaid balance is due. The advance payments balance is non-interest bearing through the 29-month repayment period. The portion expected to be recouped in the next 12 months is included in current liabilities and the portion expected to be recouped in greater than 12 months is presented in long-term liabilities in the accompanying statement of Net Position.

### **Note 3 - Deposits**

The carrying amounts of deposits consisted of cash deposits in banks as of December 31, 2021 and 2020 were \$9,528,073 and \$713,985.

Deposits are reported in the following statement of net position captions:

	2021	2020
Cash and cash equivalents	\$ 6,452,696	\$ 3,601,325
Restricted under Provider Relief Fund	1,883,493	4,002,198
Internally designated for capital improvements (noncurrent)	3,150,244	1,924,550
	<u>\$ 11,486,433</u>	<u>\$ 9,528,073</u>

**Deposits – Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

As of December 31, 2021 and 2020, the Authority's bank balances were subject to custodial credit risk as follows:

	2021	2020
Uninsured and uncollateralized	\$ -	\$ 6,637,050
Insured or collateralized by securities held by the pledging banks trust department in the Authority's name	11,434,726	2,870,590
	<u>\$ 11,434,726</u>	<u>\$ 9,507,640</u>

**Note 4 - Provider Relief Fund**

The Authority received \$756,474 and \$3,923,699 for the years ended December 31, 2021 and 2020 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

# The Cleveland Area Hospital Authority

## Notes to Financial Statements

December 31, 2021 and 2020

As of December 31, 2021 and 2020, the Authority had liability balances of \$1,883,493 and \$3,923,699, which were included in current liabilities on the accompanying statements of financial position, as well as restricted cash totaling \$1,883,493 and \$3,923,699, which are subject to the restrictions imposed by HHS. During the years ended December 31, 2021 and 2020, the Hospital recognized \$2,842,477 and \$-0- as revenue, included as nonoperating activities on the statements of revenues, expenses, and changes in net position.

As part of the CARES Act, the Paycheck Protection Program and Health Care Enhancement Act (PPHCEA), and Families First Coronavirus Response Act (FFCRA), HHS provides claims reimbursement to health care providers generally at Medicare rates for testing uninsured individuals for COVID-19 and treating uninsured individuals with a COVID-19 diagnosis. The Authority considers amounts received under this program to be patient service revenues and has recorded \$-0- and \$49,461 as revenue included as nonoperating activities on the statements of revenues, expenses, and changes in net position for the years ended December 31, 2021 and 2020.

### Note 5 - Capital Assets

Capital asset additions, retirements, transfers and balances for the year ended December 31, 2021 are as follows:

	Balance December 31, 2020	Additions	Transfers and Retirements	Balance December 31, 2021
Capital assets not being depreciated				
Land	\$ 79,717	\$ -	\$ -	\$ 79,717
Construction in progress	-	61,759	-	61,759
Equipment not placed in service	-	-	455,303	455,303
	<u>\$ 79,717</u>	<u>\$ 61,759</u>	<u>\$ 455,303</u>	<u>\$ 596,779</u>
Capital assets being depreciated				
Land improvements	\$ 159,155	\$ -	\$ -	\$ 159,155
Building and improvements	6,037,564	16,469	(163,536)	5,890,497
Equipment	4,572,086	1,195,600	(1,114,950)	4,652,736
	<u>10,768,805</u>	<u>\$ 1,212,069</u>	<u>\$ (1,278,486)</u>	<u>10,702,388</u>
Total capital assets being depreciated				
Less accumulated depreciation for				
Land improvements	(151,244)	\$ (26,181)	\$ 10,553	(166,872)
Building and improvements	(2,793,465)	(121,771)	152,983	(2,762,253)
Equipment	(2,268,017)	(535,243)	659,647	(2,143,613)
	<u>(5,212,726)</u>	<u>\$ (683,195)</u>	<u>\$ 823,183</u>	<u>(5,072,738)</u>
Total accumulated depreciation				
Net capital assets being depreciated	<u>\$ 5,556,079</u>			<u>\$ 5,629,650</u>
Capital assets, net	<u>\$ 5,635,796</u>			<u>\$ 6,226,429</u>

# The Cleveland Area Hospital Authority

## Notes to Financial Statements

December 31, 2021 and 2020

The Authority is in the initial phases of replacing the Hospital and clinic, cost to date consist of preliminary design work. The Authority has not entered into a construction or financing commitment as of the date of the issued audit.

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2020 are as follows:

	Balance December 31, 2019	Additions	Transfers and Retirements	Balance December 31, 2020
Capital assets not being depreciated				
Land	\$ 79,717	\$ -	\$ -	\$ 79,717
Capital assets being depreciated				
Land improvements	\$ 159,155	\$ -	\$ -	\$ 159,155
Building and improvements	5,996,539	41,025	-	6,037,564
Equipment	4,187,764	405,675	(21,353)	4,572,086
Total capital assets being depreciated	10,343,458	\$ 446,700	\$ (21,353)	10,768,805
Less accumulated depreciation for				
Land improvements	(145,634)	\$ (5,610)	\$ -	(151,244)
Building and improvements	(2,646,523)	(146,942)	-	(2,793,465)
Equipment	(1,803,626)	(485,744)	21,353	(2,268,017)
Total accumulated depreciation	(4,595,783)	\$ (638,296)	\$ 21,353	(5,212,726)
Net capital assets being depreciated	\$ 5,747,675			\$ 5,556,079
Capital assets, net	\$ 5,827,392			\$ 5,635,796

## Note 6 - Lease Obligations

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended December 31, 2021 and 2020, for all operating leases is approximately \$668,000 and \$498,000. The capitalized leased assets consist of:

	2021	2020
Major movable equipment	\$ 3,091,911	\$ 3,091,911
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(1,663,348)	(1,228,781)
	\$ 1,428,563	\$ 1,863,130

# The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2021 and 2020

Minimum future lease payments for capital and operating leases are as follows:

<u>Years Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2022	\$ 420,194	\$ 325,546
2023	415,490	315,852
2024	342,097	315,852
2025	190,361	315,852
2026	172,236	315,852
2027-2028	<u>258,373</u>	<u>473,778</u>
Total minimum lease payments	1,798,751	<u>\$ 2,062,732</u>
Less interest	<u>(229,053)</u>	
Present value of minimum lease payments - Note 7	<u>\$ 1,569,698</u>	

## Note 7 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the year ended December 31, 2021 is as follows:

	<u>Balance December 31, 2020</u>	<u>Additions</u>	<u>Forgiveness/ Payments</u>	<u>Balance December 31, 2021</u>	<u>Due Within One Year</u>
Direct Borrowing					
Note payable to bank (A)	\$ 1,506,708	\$ -	\$ (92,540)	\$ 1,414,168	\$ 84,495
Note payable to bank (B)	1,107,675	-	(66,468)	1,041,207	70,884
Note payable to bank (C)	82,660	-	(23,903)	58,757	25,233
Note payable to vendor (D)	11,333	-	(11,333)	-	-
Note payable to vendor (E)	134,819	-	(134,819)	-	-
Note payable to Central Oklahoma Economic Development District, Inc.	10,541	-	(10,541)	-	-
Paycheck Protection Program	-	1,893,107	(1,893,107)	-	-
Total Direct borrowing	<u>2,853,736</u>	<u>1,893,107</u>	<u>(2,232,711)</u>	<u>2,514,132</u>	<u>180,612</u>
Capital leases	<u>1,928,380</u>	<u>-</u>	<u>(358,682)</u>	<u>1,569,698</u>	<u>344,891</u>
Total	<u>\$ 4,782,116</u>	<u>\$ 1,893,107</u>	<u>\$ (2,591,393)</u>	<u>\$ 4,083,830</u>	<u>\$ 525,503</u>

The Cleveland Area Hospital Authority  
Notes to Financial Statements  
December 31, 2021 and 2020

A schedule of changes in the Authority's long-term debt for the year ended December 31, 2020 is as follows:

	Balance December 31, 2019	Additions	Payments	Balance December 31, 2020	Due Within One Year
Direct Borrowing					
Note payable to bank (A)	\$ 1,578,205	\$ -	\$ (71,497)	\$ 1,506,708	\$ 78,297
Note payable to bank (B)	1,159,914	-	(52,239)	1,107,675	66,741
Note payable to bank (C)	105,303	-	(22,643)	82,660	23,901
Note payable to vendor (D)	22,110	-	(10,777)	11,333	11,331
Note payable to vendor (E)	150,224	-	(15,405)	134,819	134,819
Note payable to Central Oklahoma Economic Development District, Inc.	71,977	-	(61,436)	10,541	10,541
Paycheck Protection Program	-	1,887,050	(1,887,050)	-	-
Total Direct borrowing	3,087,733	1,887,050	(2,121,047)	2,853,736	325,630
Capital leases	2,079,079	203,776	(354,475)	1,928,380	358,682
Extended repayment schedule	1,273,101	-	(1,273,101)	-	-
Total	<u>\$ 6,439,913</u>	<u>\$ 2,090,826</u>	<u>\$ (3,748,623)</u>	<u>\$ 4,782,116</u>	<u>\$ 684,312</u>

**Note Payable to Bank (A)**

The first note payable to the bank is due December 2028, with monthly payments of \$14,494, including interest at 6.5%. The note is secured by a mortgage on the medical office building owned by the Authority and an assignment of all rents related to the medical office building. The note was used for capital acquisition. This note payable includes a balloon payment of \$742,375 due in December 2028.

**Note Payable to Bank (B)**

The second note payable to the bank was entered into in April 2012 in the amount of \$1,500,000 and is due April 2032, with monthly payments of \$9,943, including interest at the Farmer Mac 3-Month Cost of Funds Index Net Yield plus 3.5% (6.8% at December 31, 2021). The note was used for operations. The note is secured by certain real property and an assignment of one quarter of the Authority's city appropriation revenue.

The second note agreement requires the Authority to maintain compliance with certain loan covenant ratios, which were not met as of December 31, 2021. The Authority obtained a letter from the lender waiving the noncompliance with loan covenants for the year ended December 31, 2021.

**Note Payable to Bank (C)**

The third note payable to the bank is due March 2024, with monthly payments of \$2,317, including interest at 5.43%. The note was used for capital acquisition. The note is secured by certain capital assets.

**Note Payable to Vendor (D)**

The first note payable to vendor was entered into in November 2016 in the amount of \$51,400 and is due December 2021, with monthly payments of \$970, including interest at 5%. The note was used for operations. The note was unsecured. The obligation was paid in full during the year ended December 2021.

**Note Payable to Vendor (E)**

The second note payable to vendor was entered into in May 2013 and required monthly payments of \$1,199, including interest at 6%. The note payable included a balloon payment due November 2014. The note was used for capital acquisition. The note was secured by certain real property. The obligation was paid in full during the year ended December 2021.

**Note Payable to Central Oklahoma Economic Development District, Inc.**

The Authority had a note payable with the Central Oklahoma Economic Development District, Inc. The note was due February 2021, with monthly payments of \$5,303, including interest at 5% payable monthly. The note was used for operations. The note was secured by an assignment of half of the Authority's city appropriation revenue. The obligation was paid in full during the year ended December 2021.

**Paycheck Protection Program (PPP) Loan**

The Authority was granted loans of \$1,893,107 and \$1,887,050 for the years ended December 31, 2021 and 2022 under the PPP administered by a Small Business Administration (SBA) approved partner. The loans were uncollateralized and fully guaranteed by the Federal government. The Authority initially recorded a note payable and subsequently recorded forgiveness when the obligation was legally released by the SBA and lender. The Authority recognized \$1,907,625 and \$1,910,640 of loan and interest forgiveness income for the years ended December 31, 2021 and 2020.

**Capital Leases**

Capital lease obligations, at varying rates of imputed interest from 2.5% to 11.3%, collateralized by leased equipment, with varying maturity dates from January 2022 through June 2028.

Scheduled debt service requirements for the Authority's long-term debt are as follows:

Years Ending December 31,	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2022	\$ 180,612	\$ 140,432	\$ 344,891	\$ 75,303
2023	191,153	128,728	358,150	57,340
2024	181,090	119,042	302,416	39,681
2025	184,473	108,771	163,241	27,120
2026	195,362	97,882	153,716	18,520
2027 - 2031	1,427,947	201,125	247,284	11,089
2032 - 2033	153,495	2,259	-	-
Total	<u>\$ 2,514,132</u>	<u>\$ 798,239</u>	<u>\$ 1,569,698</u>	<u>\$ 229,053</u>

**Note 8 - Rental Income**

The Authority leases office space to other healthcare professionals. Total rental income for each of the years ended December 31, 2021 and 2020, for all rental leases was \$150,040. Future minimum rentals at December 31, 2021, are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	<u>\$ 50,013</u>

**Note 9 - Defined Contribution Plan**

The Authority has a defined contribution plan which covers substantially all employees. Contribution expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Total contribution expense for the years ended December 31, 2021, 2020, and 2019, was approximately \$196,000, \$161,000, and \$118,000.

**Note 10 - Concentrations of Credit Risk**

The Authority grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from third-party payors and patients at December 31, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	17%	17%
Medicaid	14%	5%
Commercial insurance	40%	31%
Patients	<u>29%</u>	<u>47%</u>
	<u>100%</u>	<u>100%</u>



## **Note 11 - Contingencies**

### **Risk Management**

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

### **Malpractice Insurance**

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

### **Litigations, Claims, and Disputes**

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

### **COVID-19 Pandemic**

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Authority is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Authority is not known.

**Note 12 - Supplemental Hospital Offset Payment Program**

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), requires a fee on hospitals to generate matching funds to the State of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as a reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP. During 2021 and 2020, the Authority received approximately \$1,101,000 and \$635,000 in SHOPP funds.

**Note 13 - Condensed Combining Information**

The following summarizes combining information for the Authority and Hospital, which has been presented as a blended component unit, as of and for the year ended December 31, 2021.

Statement of net position as of December 31, 2021:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
<b>Assets</b>				
Current Assets	\$ 2,101,608	\$ 8,390,997	\$ -	\$ 10,492,605
Noncurrent assets	-	3,150,244	-	3,150,244
Capital assets, net	3,132,127	3,094,302	-	6,226,429
<b>Total assets</b>	<b>\$ 5,233,735</b>	<b>\$ 14,635,543</b>	<b>\$ -</b>	<b>\$ 19,869,278</b>
<b>Liabilities and net position</b>				
<b>Liabilities</b>				
Current liabilities	\$ 185,344	\$ 10,308,148	\$ -	\$ 10,493,492
Noncurrent liabilities	2,333,517	1,224,810	-	3,558,327
<b>Total liabilities</b>	<b>2,518,861</b>	<b>11,532,958</b>	<b>-</b>	<b>14,051,819</b>
<b>Net Position</b>				
Net investment in capital assets	1,684,435	1,007,539	-	2,691,974
Unrestricted	1,030,439	2,095,046	-	3,125,485
<b>Total net position</b>	<b>2,714,874</b>	<b>3,102,585</b>	<b>-</b>	<b>5,817,459</b>
<b>Total liabilities and net position</b>	<b>\$ 5,233,735</b>	<b>\$ 14,635,543</b>	<b>\$ -</b>	<b>\$ 19,869,278</b>

# The Cleveland Area Hospital Authority

## Notes to Financial Statements

December 31, 2021 and 2020

### Operating results and changes in net position for the year ended December 31, 2021:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ -	\$ 17,143,143	\$ -	\$ 17,143,143
Other income	233,940	66,968	(83,867)	217,041
Total revenue	233,940	17,210,111	(83,867)	17,360,184
Operating expenses				
Depreciation and amortization	129,882	553,313	-	683,195
Other operating expenses	65,141	16,469,624	(83,867)	16,450,898
Total operating expenses	195,023	17,022,937	(83,867)	17,134,093
Operating income (loss)	38,917	187,174	-	226,091
Nonoperating revenues (expenses)	503,179	4,671,494	-	5,174,673
Change in Net Position	542,096	4,858,668	-	5,400,764
Transfers	544,336	(544,336)	-	-
Net Position (Deficit), Beginning of Year	1,628,442	(1,211,747)	-	416,695
Net Position, End of Year	\$ 2,714,874	\$ 3,102,585	\$ -	\$ 5,817,459

### Cash flows for the year ended December 31, 2021:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Net Cash from Operating Activities	\$ 149,372	\$ 2,352,049	\$ -	\$ 2,501,421
Net Cash from Noncapital Financing Activities	1,014,236	521,709	-	1,535,945
Net Cash used for Capital and Related Financing Activities	(351,366)	(1,729,480)	-	(2,080,846)
Net Cash from Investing Activities	816	1,024	-	1,840
Net Change in Cash and Cash Equivalents	813,058	1,145,302	-	1,958,360
Cash and Cash Equivalents, Beginning of Year	1,085,492	8,442,581	-	9,528,073
Cash and Cash Equivalents, End of Year	\$ 1,898,550	\$ 9,587,883	\$ -	\$ 11,486,433

# The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2021 and 2020

The following summarizes combining information for the Authority and Hospital, which has been presented as a blended component unit, as of and for the year ended December 31, 2020.

Statement of net position as of December 31, 2020:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
<b>Assets</b>				
Current Assets	\$ 1,216,877	\$ 8,704,129	\$ -	\$ 9,921,006
Noncurrent assets	-	1,924,550	-	1,924,550
Capital assets, net	3,262,010	2,373,786	-	5,635,796
<b>Total assets</b>	<b>\$ 4,478,887</b>	<b>\$ 13,002,465</b>	<b>\$ -</b>	<b>\$ 17,481,352</b>
<b>Liabilities and net position</b>				
<b>Liabilities</b>				
Current liabilities	\$ 322,343	\$ 8,674,866	\$ -	\$ 8,997,209
Noncurrent liabilities	2,528,102	5,539,346	-	8,067,448
<b>Total liabilities</b>	<b>2,850,445</b>	<b>14,214,212</b>	<b>-</b>	<b>17,064,657</b>
<b>Net Position (Deficit)</b>				
Net investment in capital assets	1,537,824	445,406	-	1,983,230
Unrestricted	90,618	(1,657,153)	-	(1,566,535)
<b>Total net position (deficit)</b>	<b>1,628,442</b>	<b>(1,211,747)</b>	<b>-</b>	<b>416,695</b>
<b>Total liabilities and net position (deficit)</b>	<b>\$ 4,478,887</b>	<b>\$ 13,002,465</b>	<b>\$ -</b>	<b>\$ 17,481,352</b>

The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2021 and 2020

Operating results and changes in net position for the year ended December 31, 2020:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ -	\$ 14,046,129	\$ -	\$ 14,046,129
Other income	233,880	70,811	(83,914)	220,777
Total revenue	233,880	14,116,940	(83,914)	14,266,906
Operating expenses				
Depreciation and amortization	140,610	497,686	-	638,296
Other operating expenses	56,023	15,092,376	(83,914)	15,064,485
Total operating expenses	196,633	15,590,062	(83,914)	15,702,781
Operating income (loss)	37,247	(1,473,122)	-	(1,435,875)
Nonoperating revenues (expenses)	524,751	1,771,376	-	2,296,127
Change in Net Position	561,998	298,254	-	860,252
Transfers	281,771	(281,771)	-	-
Net Position (Deficit), Beginning of Year	784,673	(1,228,230)	-	(443,557)
Net Position, End of Year	\$ 1,628,442	\$ (1,211,747)	\$ -	\$ 416,695

Cash flows for the year ended December 31, 2020:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Net Cash from (used for) Operating Activities	\$ 164,461	\$ (1,787,487)	\$ -	\$ (1,623,026)
Net Cash from Noncapital Financing Activities	843,463	10,515,878	-	11,359,341
Net Cash used for Capital and Related Financing Activities	(214,060)	(714,211)	-	(928,271)
Net Cash from Investing Activities	630	5,414	-	6,044
Net Change in Cash and Cash Equivalents	794,494	8,019,594	-	8,814,088
Cash and Cash Equivalents, Beginning of Year	290,998	422,987	-	713,985
Cash and Cash Equivalents, End of Year	\$ 1,085,492	\$ 8,442,581	\$ -	\$ 9,528,073

**Note 14 - Subsequent Events**

The Authority has evaluated subsequent events through April 22, 2022, the date which the financial statements were available to be issued.

Effective January 1, 2022, the Authority became self-insured for health benefits for eligible employees and their dependents. The Authority has stop loss insurance to cover catastrophic claims in excess of \$85,000 per claim and an annual aggregate limit of \$1,000,000 for the plan year.



**Independent Auditor's 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***

To the Board of Trustees  
The Cleveland Area Hospital Authority  
d/b/a Cleveland Area Hospital Trust Authority  
Cleveland, 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 Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 22, 2022.

**Report on Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 or significant deficiencies may exist that have not been identified.

## **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
April 22, 2022