



Financial Statements
June 30, 2021 and 2020

**Love County Health Center dba
Mercy Health Love County**
A Component Unit of Love County, Oklahoma

Love County Health Center dba Mercy Health Love County

Table of Contents
June 30, 2021 and 2020

Independent Auditor’s Report	1
Financial Statements	
Statements of Net Position	3
Statements of Revenues, Expenses and Changes in Net Position.....	4
Statements of Cash Flows	5
Notes to Financial Statements	7
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>	20
Schedule of Findings and Responses	22



Independent Auditor's Report

The Board of Control
Love County Health Center dba
Mercy Health Love County
A Component Unit of Love County, Oklahoma
Marietta, Oklahoma

Report on the Financial Statements

We have audited the accompanying statement of net position of Love County Health Center dba Mercy Health Love County (Hospital), a Component Unit of Love County, Oklahoma, as of June 30, 2021, and the related statement of revenues, expenses, and changes in net position and statement of cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements

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 audit. We conducted our audit 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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Year Financial Statements

The financial statements of the Hospital as of June 30, 2020, were audited by other auditors, whose report dated February 5, 2021, expressed an unmodified opinion on those statements. As discussed in Note 11 to the financial statements, certain errors resulting in overstatement of amounts previously reported for expenses as of June 30, 2020, were discovered by management of the Hospital during the current year. Accordingly, the 2020 financial statements have been restated to correct this error. The other auditors reported on the 2020 financial statements before the restatement.

As part of our audit of the 2021 financial statements, we also audited the adjustments described in Note 11 that were applied to restate the 2020 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2020 financial statements of the Hospital other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2020 financial statements as a whole.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 4, 2022 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The signature is written in a cursive, handwritten style. It reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
March 4, 2022

Love County Health Center dba
Mercy Health Love County
Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,454,032	\$ 5,637,352
Restricted cash for Provider Relief Funds	149,462	3,994,535
Receivables		
Patient, net of estimated uncollectibles of approximately \$1,584,000 in 2021 and \$1,232,000 in 2020	1,733,048	1,619,476
Sales tax	292,846	78,800
Other	19,950	172,734
Supplies	318,127	228,838
Prepaid expenses	68,135	102,106
Total current assets	8,035,600	11,833,841
Capital assets		
Capital assets not being depreciated	1,142,366	1,135,151
Capital assets being depreciated, net	3,791,125	4,141,718
Total capital assets	4,933,491	5,276,869
Total assets	\$ 12,969,091	\$ 17,110,710
Liabilities and Net Position		
Current Liabilities		
Current maturities of CMS advanced payments	\$ -	\$ 391,348
Accounts payable		
Trade	34,507	83,010
Mercy contract personnel	3,220,345	3,041,880
Due to Mercy	2,665,906	2,270,341
Other	120,826	59,396
Estimated third-party payor settlements	643,206	231,245
Refundable advance - Provider Relief Funds	149,462	3,994,535
Total current liabilities	6,834,252	10,071,755
CMS advanced payments, less current maturities	-	4,148,284
Total liabilities	6,834,252	14,220,039
Net Position		
Net investment in capital assets	4,933,491	5,276,869
Unrestricted	1,201,348	(2,386,198)
Total net position	6,134,839	2,890,671
Total liabilities and net position	\$ 12,969,091	\$ 17,110,710

Love County Health Center dba
Mercy Health Love County
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020

	2021	2020 Restated
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$2,104,017 in 2021 and \$2,065,293 in 2020	\$ 12,169,302	\$ 12,464,022
First Aid and EMS contract revenue	2,000,428	2,054,815
Other revenue	20,715	32,237
Total operating revenues	14,190,445	14,551,074
Operating Expenses		
Nursing services	3,105,231	3,179,792
Other professional services	7,921,322	7,278,473
General services	919,114	869,246
Administrative services	4,562,839	4,937,651
Depreciation	606,526	672,364
Total operating expenses	17,115,032	16,937,526
Operating Loss	(2,924,587)	(2,386,452)
Nonoperating Revenues (Expenses)		
Interest Income	1,051	3,655
Sales tax income	1,711,423	1,873,001
Provider Relief Funds	3,945,073	-
Grants and contributions	90,689	-
Transfer from EMS District	420,519	224,644
Net nonoperating revenues (expenses)	6,168,755	2,101,300
Revenues in Excess of (Less Than) Expenses and Change in Net Position	3,244,168	(285,152)
Net Position, Beginning of Year	2,890,671	3,175,823
Net Position, End of Year	\$ 6,134,839	\$ 2,890,671

Love County Health Center dba
Mercy Health Love County
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020 Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 12,467,691	\$ 13,280,795
Payments to suppliers and contractors	(4,210,018)	(5,194,588)
Payments to contract personnel	(11,766,849)	(12,453,910)
Other receipts and payments, net	2,173,927	1,934,268
Net Cash used for Operating Activities	(1,335,249)	(2,433,435)
Noncapital Financing Activities		
Sales taxes received	1,497,377	1,794,211
Payments on CMS advance payments	(4,539,632)	-
Proceeds from CMS advance payments	-	4,539,632
Proceeds from refundable advance - Provider Relief Funds	100,000	3,994,535
Noncapital grants and contributions	90,689	-
Transfers from EMS District	420,519	224,644
Net Cash used for Noncapital Financing Activities	(2,431,047)	10,553,022
Net Cash used for Capital and Capital Related Financing Activities		
Purchase of capital assets	(263,148)	(69,152)
Net Cash from Investing Activities		
Investment income	1,051	3,653
Net Change in Cash and Cash Equivalents	(4,028,393)	8,054,088
Cash and Cash Equivalents, Beginning of Year	9,631,887	1,577,799
Cash and Cash Equivalents, End of Year	\$ 5,603,494	\$ 9,631,887
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 5,454,032	\$ 5,637,352
Restricted cash for Provider Relief Funds	149,462	3,994,535
Total cash and cash equivalents	\$ 5,603,494	\$ 9,631,887

Love County Health Center dba
 Mercy Health Love County
 Statements of Cash Flows
 Years Ended June 30, 2021 and 2020

	2021	2020 Restated
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (2,924,587)	\$ (2,386,452)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	606,526	672,364
Provision for bad debts	2,104,017	2,065,293
Changes in assets and liabilities		
Patient receivables	(2,217,589)	(2,232,154)
Other receivables	152,784	(152,796)
Supplies	(89,289)	8,161
Prepaid expenses	33,971	54,577
Trade payables	(48,503)	30,369
Mercy contract personnel	178,465	(464,624)
Due to Mercy	395,565	(1,000,434)
Other payables	61,430	(11,373)
Estimated third-party payor settlements	411,961	983,634
	<u>\$ (1,335,249)</u>	<u>\$ (2,433,435)</u>
Net Cash used for Operating Activities		

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Love County Health Center dba Mercy Health Love County (the Hospital) 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 Hospital are described below.

Reporting Entity

The Hospital is a twenty-five bed, short-term, acute care, critical access hospital located in Marietta, Oklahoma. Management of the Hospital is composed of a five-member board of control appointed by the Love County Commissioners. The Hospital has entered into a Management Services Agreement with Mercy Hospital Ardmore, Inc. (Mercy) for a one-year term that is renewable annually. The Hospital is a component unit of Love County, Oklahoma. The Hospital is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital 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 Hospital are such that the exclusion would cause the Hospital'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 Hospital 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 Hospital.

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 Hospital'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:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. The Hospital had no restricted, expendable net position at June 30, 2021 and 2020.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. The Hospital had no restricted, nonexpendable net position at June 30, 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 Hospital'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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding restricted cash. For purposes of the statement of cash flows, the Hospital considers all cash with a 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 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 Hospital's collections procedures. The Hospital 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.

Sales Tax

On October 8, 2013, the citizens of Love County, Oklahoma approved a 1% sales tax for a duration of 10 years. The funds are to be used for the equipping, maintaining and operating the Hospital. The Hospital received approximately 9% and 11% of its financial support from county appropriations related to sales taxes during the years ended June 30, 2021 and 2020.

Supplies

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

Investment Income

Investment income on cash and cash equivalents consists primarily of interest from deposits which 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. The estimated useful lives of capital assets are as follows:

Land improvements	5-25 years
Buildings & Improvements	5-50 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 revenues in excess of (less than) expenses. 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.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital'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 Hospital has agreements with third-party payors that provide for payments to the Hospital 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 Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Hospital's charity care policy were \$336,018 and \$244,821 for the years ended June 30, 2021 and 2020. Total direct and indirect cost related to those forgone charges were approximately \$235,000 and \$192,000 for the years ended June 30, 2021 and 2020, based on average ratios of cost to gross charges. The amount of charity care given depends on the number of patients that apply for charity care during the year and the cost of services provided.

Grants and Contributions

The Hospital 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 nonoperating revenues.

Supplemental Hospital Offset Payment Program Act

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 Hospital 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.

The Hospital received SHOPP funds totaling approximately \$883,000 and \$792,000 for the years ended June 30, 2021 and 2020, which are included in net patient service revenue.

Reclassifications

Reclassifications have been made to the June 30, 2020 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

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. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2019. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: The Hospital 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 Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital 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 Hospital's patient service revenues for the years ended June 30, 2021 and 2020:

	2021	2020
Medicare	46%	47%
Medicaid	10%	9%
Commercial insurance and other	30%	31%
Self pay	14%	13%
	100%	100%

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 June 30, 2021 and 2020 decreased approximately \$357,000 and \$-0- for the difference in amounts collected compared to amounts originally estimated.

CMS Advanced Payments

The CMS Advanced Payments balance consists of advanced 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 the COVID-19 pandemic. The Hospital received \$4,539,632 in advanced payments during April 2020. During 2021, the Hospital repaid CMS \$4,539,632 of the outstanding advanced payments.

Note 3 - Deposits

The carrying amounts of deposits as of June 30, 2021 and 2020 are included in the Hospital's statement of net position as follows:

	2021	2020
Carrying Amount		
Cash and deposits	\$ 5,603,494	\$ 9,631,887

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

	2021	2020
Cash and cash equivalents	\$ 5,454,032	\$ 5,637,352
Restricted cash for Provider Relief Funds	149,462	3,994,535
	\$ 5,603,494	\$ 9,631,887

Deposits - Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital'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 Hospital. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Hospital's deposit policy does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at June 30, 2021 and 2020 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

Note 4 - Provider Relief Funds and Other Funding

The Hospital received \$-0- and \$3,945,074 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) for the years ended June 30, 2021 and 2020. 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 a deadline to incur eligible expenses and lost revenues varying based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

The Hospital also received \$100,000 and \$49,461 through the Paycheck Protection Program and Health Care Enhancement Act (PPHCEA) for its rural health clinics to conduct COVID-19 testing and mitigation for the years ended June 30, 2021 and 2020. This funding may only be used for conducting COVID-19 testing and related expenses, including building or construction of temporary structures, leasing of properties, and retrofitting facilities as necessary to support COVID-19 testing.

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 available to be 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.

As of June 30, 2021 and 2020, the Hospital had a liability of \$149,462 and \$3,994,535, which was included in refundable advance - Provider Relief Funds on the accompanying statements of net position, as well as restricted cash totaling \$149,462 and \$3,994,535, which is subject to the restrictions imposed by HHS. During the years ended June 30, 2021 and 2020, the Hospital recognized \$3,945,073 and \$0- as revenue included as nonoperating revenues on the statements of revenues, expenses and changes in net position.

Note 5 - Capital Assets

Capital assets additions, retirements, transfers and balances for the years ended June 30, 2021 are as follows:

	Balance June 30, 2020	Additions	Transfers and Retirements	Balance June 30, 2021
Capital assets not being depreciated				
Land	\$ 1,135,151	\$ 7,215	\$ -	\$ 1,142,366
Construction in progress	-	6,952	(6,952)	-
Total capital assets not being depreciated	<u>\$ 1,135,151</u>	<u>\$ 14,167</u>	<u>\$ (6,952)</u>	<u>\$ 1,142,366</u>
Capital assets being depreciated				
Land improvements	\$ 729,463	\$ 6,510	\$ -	\$ 735,973
Building and improvements	5,081,283	89,499	-	5,170,782
Equipment	7,464,076	152,972	6,952	7,624,000
Total capital assets being depreciated	<u>13,274,822</u>	<u>\$ 248,981</u>	<u>\$ 6,952</u>	<u>13,530,755</u>
Less accumulated depreciation for				
Land improvements	(319,198)	\$ (46,270)	\$ -	(365,468)
Building and improvements	(2,430,396)	(256,790)	-	(2,687,186)
Equipment	(6,383,510)	(303,466)	-	(6,686,976)
Total accumulated depreciation	<u>(9,133,104)</u>	<u>\$ (606,526)</u>	<u>\$ -</u>	<u>(9,739,630)</u>
Net capital assets being depreciated	<u>\$ 4,141,718</u>			<u>\$ 3,791,125</u>
Capital assets, net	<u>\$ 5,276,869</u>			<u>\$ 4,933,491</u>

Love County Health Center dba
 Mercy Health Love County
 Notes to Financial Statements
 June 30, 2021 and 2020

Capital assets additions, retirements, transfers and balances for the years ended June 30, 2020 are as follows:

	Balance June 30, 2019	Additions	Transfers and Retirements	Balance June 30, 2020
Capital assets not being depreciated				
Land	\$ 1,135,151	\$ -	\$ -	\$ 1,135,151
Capital assets being depreciated				
Land improvements	\$ 729,463	\$ -	\$ -	\$ 729,463
Building and improvements	5,081,283	-	-	5,081,283
Equipment	7,394,925	69,151	-	7,464,076
Total capital assets being depreciated	13,205,671	\$ 69,151	\$ -	13,274,822
Less accumulated depreciation for				
Land improvements	(270,373)	\$ (48,825)	\$ -	(319,198)
Building and improvements	(2,174,772)	(255,624)	-	(2,430,396)
Equipment	(6,015,595)	(367,915)	-	(6,383,510)
Total accumulated depreciation	(8,460,740)	\$ (672,364)	\$ -	(9,133,104)
Net capital assets being depreciated	\$ 4,744,931			\$ 4,141,718
Capital assets, net	\$ 5,880,082			\$ 5,276,869

Note 6 - Emergency Medical Services Contract

The Hospital has a one-year contract with Love County Emergency Medical Services (EMS) Board of Trustees to operate ambulance services to the County's residence. The EMS Board of Trustees transfers property tax revenues received to the Hospital as compensation for the services provided under the EMS contract. The contract may be renewed annually upon mutual consent of both parties. Included in nonoperating revenue for the years June 30, 2021 and 2020, is \$420,519 and \$224,644 for services rendered under the contract.

Note 7 - Chickasaw Nation Contracts

The Hospital currently has contracts with the Chickasaw Nation to provide onsite Brigade Services (First Aid) and Emergency Medical Services (Ambulance) at the Winstar Casino located in Thackerville, Oklahoma and Riverwind Casino located in Norman, Oklahoma. For the years ended June 30, 2021 and 2020, the Hospital received \$867,352, and \$1,001,527, under the Emergency Medical Service contract. For the years ended June 30, 2021 and 2020, the Hospital received \$1,133,076, and \$1,053,288, under the Brigade Services contract.

Note 8 - Management Agreement

The Hospital is currently managed by Mercy. The management agreement is renewed annually on July 1 for the succeeding 12-month period. The management agreement was renewed on July 1, 2021 through June 30, 2022. The Hospital is to pay an annual payment of \$290,000 during the first fiscal quarter and a payment of \$30,000 per month. The Hospital contracts with Mercy for all its personnel. The Hospital incurred expenses totaling \$14,210,863 and \$16,683,823 for contracted salary and benefits, management fees and other professional services in the years ended June 30, 2021 and 2020. As of June 30, 2021 and 2020, the Hospital owes Mercy \$5,886,251 and \$5,312,221 for contracted salary and benefits, management fees and other professional services.

Note 9 - Concentrations of Credit Risk

The Hospital 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 June 30, 2021 and 2020 was as follows:

	2021	2020
Medicare	27%	26%
Medicaid	3%	2%
Commercial insurance and other	38%	32%
Self pay	32%	40%
	100%	100%

Note 10 - Contingencies

Risk Management

The Hospital 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 Hospital 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 Hospital 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 Hospital.

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 2021 and 2020, the world-wide coronavirus pandemic impacted national and global economies. The Hospital 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 Hospital is not known.

Note 11 - Correction of Error

The Hospital's financial statements as of June 30, 2020 were restated to correct an error for the overstatement of administrative service expense. The result was an overstatement of operating expense and an understatement of expenses in excess of revenue and change in net position. The effect of the adjustment on the June 30, 2020 financial statements is as follows:

Statement of Revenues, Expenses and Changes to Net Position:

	As Previously Reported June 30, 2020	Correction of Error	As Restated June 30, 2020
Operating Revenues	\$ 14,551,074	\$ -	\$ 14,551,074
Operating Expenses			
Administrative services	6,097,651	(1,160,000)	4,937,651
Other operating expenses	11,999,875	-	11,999,875
Total operating expenses	18,097,526	(1,160,000)	16,937,526
Operating Loss	(3,546,452)	1,160,000	(2,386,452)
Nonoperating Revenues (Expenses)	2,101,300	-	2,101,300
Expenses in Excess of Revenues and Change in Net Position	(1,445,152)	1,160,000	(285,152)
Net Position, Beginning of Year	4,335,823	(1,160,000)	3,175,823
Net Position, End of Year	\$ 2,890,671	\$ -	\$ 2,890,671

Love County Health Center dba
 Mercy Health Love County
 Notes to Financial Statements
 June 30, 2021 and 2020

Statement of Cash Flows:

	As Previously Reported <u>June 30, 2020</u>	Correction of Error	As Restated <u>June 30, 2020</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities			
Operating loss	\$ (3,546,452)	\$ 1,160,000	\$ (2,386,452)
Adjustments to reconcile operating loss to net cash from operating activities			
Depreciation and amortization	672,364	-	672,364
Provision for bad debts	2,065,293	-	2,065,293
Changes in assets and liabilities			
Patient receivables	(2,232,154)	-	(2,232,154)
Other receivables	(152,796)	-	(152,796)
Supplies	8,161	-	8,161
Prepaid expenses	54,577	-	54,577
Trade payables	30,369	-	30,369
Mercy contract personnel	(464,624)	-	(464,624)
Due to Mercy	159,566	(1,160,000)	(1,000,434)
Other payables	(11,373)	-	(11,373)
Estimated third-party payor settlements	983,634	-	983,634
Net Cash used for Operating Activities	<u>\$ (2,433,435)</u>	<u>\$ -</u>	<u>\$ (2,433,435)</u>

Note 12 - Subsequent Events

The Hospital has evaluated subsequent events through March 4, 2022, the date which the financial statements were available to be issued.

During November and December 2021, the Hospital received two payments totaling \$808,746 from the Phase 4 and American Rescue Plan (ARP) Rural distributions, which are components of the HHS Provider Relief Fund program. This funding is subject to similar terms and conditions as other Provider Relief Fund distributions (Note 4). These funds have a period of availability for incurring eligible expenses and/or lost revenues of January 1, 2020 through December 31, 2022. Unspent funds will be expected to be repaid.



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*

The Board of Control
Love County Health Center dba
Mercy Health Love County
Marietta, 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 Love County Health Center dba Mercy Health Love County (Hospital) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 4, 2022.

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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2021-001 through 2021-003.

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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency: 2021-004.

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*.

Hospital's Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
March 4, 2022

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

Material Weaknesses

2021-001 Preparation of Financial Statements and Restatement

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, material misstatements to the financial statements, including a restatement of the prior year financial statements due to a correction of error, were identified.

Cause: This weakness is due to the limited resources in the financial reporting process due to budgetary constraints and not all material service agreements were in writing.

Effect: The effect of this condition is that yearend financial reporting is prepared by a party outside of the Hospital. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to interim financial statements. Additionally, the financial statements required material adjustments.

Auditor's Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally and correct errors. Also, the Hospital should include written agreements between parties to ensure proper accounting is followed.

Views of Responsible Officials: Given the staffing levels of the Hospital, we do not think it would be cost-effective to fully cure this deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

2021-002 Cost Report Estimate

Criteria: A properly designed system of internal control over financial reporting allows entities to initiate, record, process and report financial report data reliably in accordance with generally accepted accounting principles.

Condition: The allowance calculation for the Medicare cost report settlement was not properly estimated during the year.

Cause: A misstatement to the internal financial statements was not prevented or detected on a timely basis in the normal course of business. Therefore, there was an adjusting journal entry at year end to properly state estimated third party payor settlements.

Effect: Interim financial statements may not be properly stated. A material audit adjustment was made to estimated third party payor settlements.

Auditor's Recommendation: We recommend that a process is put in place to ensure the estimate for the Medicare cost report settlement is being made at year end and periodically throughout the year as determined necessary by management.

Views of Responsible Officials: Management will work to analyze these accounts and determine the proper course of action on the accounts.

2021-003 Sales Tax Receivable

Criteria: Under the accrual basis of accounting, most transactions are recognized when they occur, regardless of when cash is received or disbursed.

Condition: The Hospital does not have a proper methodology to reconcile and record sales tax revenue.

Cause: A misstatement to the internal financial statements was not prevented or detected on a timely basis in the normal course of business. Therefore, there was an adjusting journal entry at year end to properly state sales tax receivables.

Effect: Interim financial statements may not be properly stated. A material audit adjustment was made to estimated third party payor settlements.

Auditor's Recommendation: We recommend the Hospital develop a methodology to estimate the sales tax revenue.

Views of Responsible Officials: Management will review current trends to estimate sales tax revenues.

Significant Deficiency

2021-004 Bank Reconciliation

Criteria: Reviewing and reconciling accounts to the general ledger is a necessary step in the Hospital's internal control process.

Condition: The Hospital had a change in accounting personnel during the year end resulting in a delay in reconciliations completed timely.

Cause: The bank reconciliation for the operating account was not completed until several months after year-end.

Effect: Misstatements may not be identified and corrected in a timely manner.

Auditor's Recommendation: We recommend management prepare bank reconciliations on a timely basis as well as a review of these reconciliations, in order to identify potential misstatements and reconciling items. Any variances should also be reconciled on a periodic basis to ensure that these balances are fairly stated.

Views of Responsible Officials: Management will develop a process to reconcile cash account on a regular basis and investigate any variances.