



Financial Statements
June 30, 2023 and 2022

**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, 2023 and 2022

Independent Auditor’s Report	1
Financial Statements	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position.....	5
Statements of Cash Flows	6
Notes to Financial Statements	8
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>	22
Schedule of Findings and Responses.....	24



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

Opinion

We have audited the financial statements of Love County Health Center dba Mercy Hospital Love County (Hospital), a Component Unit of Love County, Oklahoma, as of and for the years then ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of June 30, 2023 and 2022, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Correction of Error

As discussed in Note 12 to the financial statements, certain errors resulting in an understatement of amounts previously reported for capital assets, net position, and management services and an overstatement of amounts previously reported for transfers from EMS District as of June 30, 2022, were discovered by management of the Hospital during the current year. Accordingly, a restatement has been made to the net position as of June 30, 2022, to correct the error. Our opinion is not modified with respect to that matter.

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.

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 Hospital'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 opinion. 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 Hospital'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 Hospital'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

Management has omitted the management's discussion and analysis that 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 our report dated January 25, 2024 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 image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Oklahoma City, Oklahoma
January 26, 2024

Love County Health Center dba
Mercy Health Love County
Statements of Net Position
June 30, 2023 and 2022

	2023	2022 Restated
Assets		
Current Assets		
Cash and cash equivalents	\$ 7,474,946	\$ 5,068,916
Restricted cash for Provider Relief Funds	215,887	797,272
Receivables		
Patient, net of estimated uncollectibles of approximately \$748,000 in 2023 and \$721,000 in 2022	1,081,004	1,476,221
Sales tax	380,723	375,474
Estimated third-party payor settlements	562,221	873,422
Other	20,756	19,203
Supplies	264,164	291,110
Prepaid expenses	151,151	120,695
Total current assets	10,150,852	9,022,313
Capital assets		
Capital assets not being depreciated	1,161,566	1,161,566
Capital assets being depreciated, net	3,142,112	3,668,389
Total capital assets	4,303,678	4,829,955
Total assets	\$ 14,454,530	\$ 13,852,268
Liabilities and Net Position		
Current Liabilities		
Accounts payable		
Trade	\$ 152,529	\$ 89,228
Mercy contract personnel	3,298,974	3,266,303
Due to Mercy	2,730,278	2,590,236
Other	225,533	211,852
Refundable advance - Provider Relief Funds	215,887	797,272
Total liabilities	6,623,201	6,954,891
Net Position		
Net investment in capital assets	4,303,678	4,829,955
Unrestricted	3,527,651	2,067,422
Total net position	7,831,329	6,897,377
Total liabilities and net position	\$ 14,454,530	\$ 13,852,268

Love County Health Center dba
Mercy Health Love County
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022 Restated
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$2,018,168 in 2023 and \$1,836,637 in 2022	\$ 12,950,695	\$ 12,412,343
First Aid and EMS contract revenue	2,290,122	2,184,388
Management service	404,968	364,267
Other revenue	91,351	108,938
Total operating revenues	15,737,136	15,069,936
Operating Expenses		
Nursing services	3,572,518	3,254,218
Other professional services	7,893,729	7,653,571
General services	917,705	903,648
Administrative services	4,575,496	4,314,329
Depreciation	577,895	575,554
Total operating expenses	17,537,343	16,701,320
Operating Loss	(1,800,207)	(1,631,384)
Nonoperating Revenues		
Interest Income	29,922	3,287
Sales tax income	2,075,629	2,111,649
Provider Relief Funds	375,659	167,475
Grants and contributions	252,949	10,911
Transfer from EMS District	-	40,600
Net nonoperating revenues	2,734,159	2,333,922
Revenues in Excess of Expenses and Change in Net Position	933,952	702,538
Net Position, Beginning of Year	6,897,377	6,194,839
Net Position, End of Year	\$ 7,831,329	\$ 6,897,377

Love County Health Center dba
Mercy Health Love County
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022 Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 13,657,113	\$ 11,152,542
Payments to suppliers and contractors	(4,409,707)	(4,261,748)
Payments to contract personnel	(12,303,556)	(11,773,526)
Other receipts and payments, net	2,784,888	2,658,340
Net Cash used for Operating Activities	(271,262)	(2,224,392)
Noncapital Financing Activities		
Sales taxes received	2,070,380	2,029,021
Proceeds from refundable advance - Provider Relief Funds	-	815,285
Payment of Provider Relief Funds	(205,726)	-
Noncapital grants and contributions	252,949	10,911
Net Cash from Noncapital Financing Activities	2,117,603	2,855,217
Capital and Capital Related Financing Activities		
Purchase of capital assets	(51,618)	(412,018)
Transfer from EMS District	-	40,600
Net Cash used for Capital and Capital Related Financing Activities	(51,618)	(371,418)
Net Cash from Investing Activities		
Investment income	29,922	3,287
Net Change in Cash and Cash Equivalents	1,824,645	262,694
Cash and Cash Equivalents, Beginning of Year	5,866,188	5,603,494
Cash and Cash Equivalents, End of Year	\$ 7,690,833	\$ 5,866,188
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 7,474,946	\$ 5,068,916
Restricted cash for Provider Relief Funds	215,887	797,272
Total cash and cash equivalents	\$ 7,690,833	\$ 5,866,188

Love County Health Center dba
 Mercy Health Love County
 Statements of Cash Flows
 Years Ended June 30, 2023 and 2022

	2023	2022
		Restated
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (1,800,207)	\$ (1,631,384)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	577,895	575,554
Provision for bad debts	2,018,168	1,836,637
Changes in assets and liabilities		
Patient receivables	(1,622,951)	(1,579,810)
Other receivables	(1,553)	747
Supplies	26,946	27,017
Prepaid expenses	(30,456)	(52,560)
Trade payables	63,301	54,721
Mercy contract personnel	32,671	45,958
Due to Mercy	140,042	(75,670)
Other payables	13,681	91,026
Estimated third-party payor settlements	311,201	(1,516,628)
Net Cash used for Operating Activities	\$ (271,262)	\$ (2,224,392)

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, 2023 and 2022.

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, 2023 and 2022.

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. Restricted cash available for obligations classified as current liabilities are reported as current assets which includes amounts associated with Provider Relief Funds.

Patient Receivables

Patient receivables are uncollateralized patient 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 sales tax was renewed for another 10 years on February 14, 2023. The funds are to be used for the equipping, maintaining, and operating the Hospital. The Hospital received approximately 11% and 12% of its financial support from county appropriations related to sales taxes during the years ended June 30, 2023 and 2022.

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

Property and equipment 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 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.

Impairment of Long-Lived Assets

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended June 30, 2023 and 2022.

Operating Revenues and Expenses

The Hospital's statements 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 \$216,283 and \$167,079 for the years ended June 30, 2023 and 2022. Total direct and indirect cost related to those forgone charges were approximately \$138,000 and \$106,000 for the years ended June 30, 2023 and 2022, 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.

Implementation of GASB Statement No. 96

As of July 1, 2022, the Hospital adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The implementation of this standard establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. As of June 30, 2023, and 2022, the Hospital did not have any SBITAs which were required to be recognized under GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA).

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, 2021. 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, 2023 and 2022:

	2023	2022
Medicare	36%	40%
Medicaid	19%	14%
Commercial insurance and other	36%	34%
Self pay	9%	12%
	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, 2023 and 2022 decreased approximately \$41,000 and \$609,000 for the difference in amounts collected compared to amounts originally estimated and removal of allowances previously estimated that are no longer necessary as a result of final settlements and adjustments to amounts previously estimated.

Note 3 - Deposits

The carrying amounts of deposits as of June 30, 2023 and 2022 are included in the Hospital's statement of net position as follows:

	2023	2022
Carrying amount		
Cash and deposits	\$ 7,690,833	\$ 5,866,188

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

	2023	2022
Cash and cash equivalents	\$ 7,474,946	\$ 5,068,916
Restricted cash for Provider Relief Funds	215,887	797,272
	\$ 7,690,833	\$ 5,866,188

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, 2023 and 2022 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 \$815,285 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, 2023 and 2022. 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 varying deadlines to incur eligible expenses and lost revenues 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 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, 2023 and 2022, the Hospital had a liability of \$215,887 and \$797,272, which was included in refundable advance - Provider Relief Funds on the accompanying statements of net position, as well as restricted cash totaling \$215,887 and \$797,272, which is subject to the restrictions imposed by HHS. During the years ended June 30, 2023 and 2022, the Hospital recognized \$375,659 and \$167,475 as revenue included as nonoperating revenues on the statements of revenues, expenses and changes in net position. The Hospital returned \$205,726 of unused Provider Relief Funds during 2023.

Note 5 - Capital Assets

Capital assets additions, retirements, transfers and balances for the years ended June 30, 2023 are as follows:

	Balance June 30, 2022 <u>Restated</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance June 30, 2023</u>
Capital assets not being depreciated				
Land	\$ 1,161,566	\$ -	\$ -	\$ 1,161,566
Capital assets being depreciated				
Land improvements	\$ 735,973	\$ -	\$ -	\$ 735,973
Building and improvements	5,170,782	11,934	-	5,182,716
Equipment	8,076,818	39,684	-	8,116,502
Total capital assets being depreciated	<u>13,983,573</u>	<u>\$ 51,618</u>	<u>\$ -</u>	<u>14,035,191</u>
Less accumulated depreciation for				
Land improvements	(409,111)	\$ (42,824)	\$ -	(451,935)
Building and improvements	(2,938,115)	(233,860)	-	(3,171,975)
Equipment	(6,967,958)	(301,211)	-	(7,269,169)
Total accumulated depreciation	<u>(10,315,184)</u>	<u>\$ (577,895)</u>	<u>\$ -</u>	<u>(10,893,079)</u>
Net capital assets being depreciated	<u>\$ 3,668,389</u>			<u>\$ 3,142,112</u>
Capital assets, net	<u>\$ 4,829,955</u>			<u>\$ 4,303,678</u>

Love County Health Center dba
 Mercy Health Love County
 Notes to Financial Statements
 June 30, 2023 and 2022

Capital assets additions, retirements, transfers and balances for the years ended June 30, 2022 are as follows:

	Balance June 30, 2021 <u>Restated</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	Balance June 30, 2022 <u>Restated</u>
Capital assets not being depreciated				
Land	\$ 1,142,366	\$ 19,200	\$ -	\$ 1,161,566
Capital assets being depreciated				
Land improvements	\$ 735,973	\$ -	\$ -	\$ 735,973
Building and improvements	5,170,782	-	-	5,170,782
Equipment	<u>7,684,000</u>	<u>392,818</u>	<u>-</u>	<u>8,076,818</u>
Total capital assets being depreciated	<u>13,590,755</u>	<u>\$ 392,818</u>	<u>\$ -</u>	<u>13,983,573</u>
Less accumulated depreciation for				
Land improvements	(365,468)	\$ (43,643)	\$ -	(409,111)
Building and improvements	(2,687,186)	(250,929)	-	(2,938,115)
Equipment	<u>(6,686,976)</u>	<u>(280,982)</u>	<u>-</u>	<u>(6,967,958)</u>
Total accumulated depreciation	<u>(9,739,630)</u>	<u>\$ (575,554)</u>	<u>\$ -</u>	<u>(10,315,184)</u>
Net capital assets being depreciated	<u>\$ 3,851,125</u>			<u>\$ 3,668,389</u>
Capital assets, net	<u>\$ 4,993,491</u>			<u>\$ 4,829,955</u>

Note 6 - 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, 2022 through June 30, 2023. 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 \$15,423,553 and \$15,229,463 for contracted salary and benefits, management fees and other professional services for the years ended June 30, 2023 and 2022. As of June 30, 2023 and 2022, the Hospital owes Mercy \$6,029,252 and \$5,856,539 for contracted salary and benefits, management fees and other professional services.

Note 7 - 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 residents. 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 operating revenue for the years June 30, 2023 and 2022, is \$404,968 and \$364,267 for services rendered under the contract.

Note 8 - 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, 2023 and 2022, the Hospital received \$1,185,554, and \$1,058,662, under the Emergency Medical Service contract. For the years ended June 30, 2023 and 2022, the Hospital received \$1,104,568, and \$1,125,726, under the Brigade Services contract.

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, 2023 and 2022 was as follows:

	2023	2022
Medicare	20%	23%
Medicaid	5%	5%
Commercial insurance and other	54%	54%
Self pay	21%	18%
	100%	100%

Note 10 - Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds for the state of Oklahoma from federal sources. The SHOPP is currently set to sunset on December 31, 2025. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. As a critical access hospital, the Hospital is exempt from the assessment 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.

The Hospital received SHOPP funds totaling approximately \$1,163,000 and \$1,154,000 for the years ended June 30, 2022 and 2021, which are included in net patient service revenue. In August 2023, the Hospital received \$74,403 as a result of a funding provision in Oklahoma Senate Bill 32x for Hospitals participating in the SHOPP program.

SHOPP is expected to be significantly reduced in fiscal year 2024 due to the State of Oklahoma's shift to managed care Medicaid. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP.

Note 11 - 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.

Note 12 - Correction of Error

The Hospital's financial statements as of June 30, 2022 were restated to correct an error in the understatement of capital assets, net position and management services revenues. In addition, there was an overstatement of amounts previously reported for transfers from EMS District. The effect of the adjustments on the June 30, 2022 financial statements is as follows:

Statement of Net Position:

	<u>As Previously Reported June 30, 2022</u>	<u>Correction of Error</u>	<u>As Restated June 30, 2022</u>
Capital assets			
Capital assets being depreciated, net	<u>\$ 3,574,077</u>	<u>\$ 94,312</u>	<u>\$ 3,668,389</u>
Total capital assets	<u>4,735,643</u>	<u>94,312</u>	<u>4,829,955</u>
Total assets	<u>\$ 13,757,956</u>	<u>\$ 94,312</u>	<u>\$ 13,852,268</u>
Net Position			
Net investment in capital assets	<u>\$ 4,735,643</u>	<u>\$ 94,312</u>	<u>\$ 4,829,955</u>
Total net position	<u>6,803,065</u>	<u>94,312</u>	<u>6,897,377</u>
Total liabilities and net position	<u>\$ 13,757,956</u>	<u>\$ 94,312</u>	<u>\$ 13,852,268</u>

Love County Health Center dba
 Mercy Health Love County
 Notes to Financial Statements
 June 30, 2023 and 2022

Statement of Revenues, Expenses and Changes to Net Position:

	<u>As Previously Reported June 30, 2022</u>	<u>Correction of Error</u>	<u>As Restated June 30, 2022</u>
Operating Revenues			
Management service	\$ -	\$ 364,267	\$ 364,267
Total operating revenues	<u>14,705,669</u>	<u>364,267</u>	<u>15,069,936</u>
Operating Expenses			
Depreciation	<u>569,266</u>	<u>6,288</u>	<u>575,554</u>
Total operating expenses	<u>16,695,032</u>	<u>6,288</u>	<u>16,701,320</u>
Operating Loss	<u>(1,989,363)</u>	<u>357,979</u>	<u>(1,631,384)</u>
Nonoperating Revenues			
Transfer from EMS District	<u>364,267</u>	<u>(323,667)</u>	<u>40,600</u>
Net nonoperating revenues	<u>2,657,589</u>	<u>(323,667)</u>	<u>2,333,922</u>
Revenues in Excess of Expenses and Change in Net Position	668,226	34,312	702,538
Net Position, Beginning of Year	<u>6,134,839</u>	<u>60,000</u>	<u>6,194,839</u>
Net Position, End of Year	<u>\$ 6,803,065</u>	<u>\$ 94,312</u>	<u>\$ 6,897,377</u>

Love County Health Center dba
 Mercy Health Love County
 Notes to Financial Statements
 June 30, 2023 and 2022

Statement of Cash Flows:

	As Previously Reported June 30, 2022	Correction of Error	As Restated June 30, 2022
Operating Activities			
Other receipts and payments, net	\$ 2,294,073	\$ 364,267	\$ 2,658,340
Net Cash used for Operating Activities	(2,588,659)	364,267	(2,224,392)
Noncapital Financing Activities			
Transfers from EMS District	364,267	(364,267)	-
Net Cash from Noncapital Financing Activities	3,219,484	(364,267)	2,855,217
Capital and Capital Related Financing Activities			
Purchase of capital assets	(371,418)	(40,600)	(412,018)
Transfers from EMS District	-	40,600	40,600
Reconciliation of Operating Loss to Net Cash used for Operating Activities			
Operating loss	\$ (1,989,363)	\$ 357,979	\$ (1,631,384)
Adjustments to reconcile operating loss to net cash used for operating activities			
Depreciation	569,266	6,288	575,554



**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 (*Government Auditing Standards*), the financial statements of Love County Health Center dba Mercy Health Love County (Hospital), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements, and have issued our report thereon dated January 26, 2024.

Report on 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: 2023-001 through 2023-003.

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: 2023-004.

Report on 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2023-005.

Hospital's Response to Findings

Government Audit Standards requires the auditor to perform limited procedures on the Hospital's responses to the findings identified in our audit and 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.



Oklahoma City, Oklahoma
January 26, 2024

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

Material Weaknesses

2023-001 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 material adjustment to net position and restatement to prior year amounts 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 year-end 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.

2023-002 Cost Report Estimate

Criteria: A properly designed system of internal control over financial reporting allows entities to initiate, record, process and report financial 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.

2023-003 Patient Receivable Valuation

Criteria: Accounting standards require an entity to estimate an allowance on the collectability of receivables. The allowance should be based on historical data as well as a review of the specific financial situation and payment factors related to individual accounts.

Condition: The allowance calculations for patient receivable valuations were not properly estimated during the year.

Cause: The deficiency was caused by the need to update the patient receivable valuation.

Effect: Interim financial statements may not be properly stated. Material audit adjustments were made to patient allowance accounts.

Auditor's Recommendation: We recommend the Authority regularly review the amounts used to calculate allowances against current payment trends throughout the year and at year end.

Views of Responsible Officials: Management will develop and implement a model to evaluate allowances, which will be monitored and adjusted as needed on an ongoing basis.

Significant Deficiency

2023-004 Cash Account Not Reconciled Timely

Criteria: Having processes in place to timely reconcile accounts are necessary steps in the Hospital's internal control process.

Condition: During the course of our engagement, we identified bank reconciliations were not completed until months after year-end.

Cause: The Hospital did not timely reconcile the bank accounts.

Effect: Audit entries were proposed to properly reconcile accounts.

Auditor's Recommendation: We recommend management review the process for ensuring accounts are reconciled timely.

Views of Responsible Officials: Management will review and revise cash procedures and processes.

Deficiency in Internal Control Over Compliance

2022-005 Maintenance of Insurance

Criteria: The emergency medical service, fire services and first aid agreements require excess insurance or umbrella policy for claims in excess of \$4 million dollars.

Condition: During the course of the audit, it was discovered that the Hospital did not have the required insurance policy.

Cause: The Hospital did not purchase the required amount of excess insurance or umbrella policy for claims in excess of \$4 million dollars.

Effect: The Hospital is not in compliance with provisions of the service contracts.

Auditor's Recommendation: We recommend that the Hospital obtain required insurance coverage.

Views of Responsible Officials: We agree with the auditor's recommendation.