

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Independent Auditor's Reports and Financial Statements
December 31, 2019 and 2018



**Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
December 31, 2019 and 2018**

Contents

Independent Auditor’s Report	1	
 Financial Statements		
Balance Sheets	3	
Statements of Revenues, Expenses, and Changes in Net Position	4	
Statements of Cash Flows	5	
Notes to Financial Statements	7	
 Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor’s Report		23
 Schedule of Findings and Responses	 25	

Independent Auditor's Report

Board of Trustees
Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
Blackwell, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Blackwell Hospital Trust Authority d/b/a Blackwell Regional Hospital (the Authority), a component unit of the City of Blackwell, Oklahoma, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2021, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
April 23, 2021

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Balance Sheets
December 31, 2019 and 2018

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 391,541	\$ 1,975,114
Patient accounts receivable, net of allowance; 2019 – \$2,054,000, 2018 – \$916,000	1,142,511	1,590,852
City appropriations receivable	97,730	107,816
Supplies	42,649	123,240
Prepaid expenses and other	<u>183,592</u>	<u>199,868</u>
Total current assets	1,858,023	3,996,890
Noncurrent Cash Held by Trustee for Specific Capital Acquisition	17,517,526	-
Capital Assets, Net	1,949,186	1,806,513
Note Receivable	<u>17,782,500</u>	<u>-</u>
Total assets	39,107,235	5,803,403
Deferred Outflows of Resources	<u>1,000,000</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 40,107,235</u></u>	<u><u>\$ 5,803,403</u></u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 378,346	\$ 228,603
Accounts payable	817,667	402,163
Accrued expenses	588,805	537,956
Estimated amounts due to third-party payors	<u>237,530</u>	<u>266,000</u>
Total current liabilities	2,022,348	1,434,722
Long-Term Debt	<u>41,571,654</u>	<u>255,506</u>
Total liabilities	<u>43,594,002</u>	<u>1,690,228</u>
Net Position		
Net investment in capital assets	837,574	1,806,513
Unrestricted	<u>(4,324,341)</u>	<u>2,306,662</u>
Total net position	<u>(3,486,767)</u>	<u>4,113,175</u>
Total liabilities and net position	<u><u>\$ 40,107,235</u></u>	<u><u>\$ 5,803,403</u></u>

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$4,592,000, 2018 – \$3,205,630	\$ 7,276,320	\$ 8,431,591
Other	50,167	67,117
Total operating revenues	7,326,487	8,498,708
Operating Expenses		
Salaries and wages	3,078,303	3,282,039
Employee benefits	775,293	834,217
Purchased services and professional fees	4,862,853	3,473,320
Supplies and other expenses	1,744,635	1,705,612
Depreciation	311,805	326,209
Total operating expenses	10,772,889	9,621,397
Operating Loss	(3,446,402)	(1,122,689)
Nonoperating Revenues (Expenses)		
Noncapital appropriations – City of Blackwell	634,299	605,848
Investment income	23,823	27,939
Interest expense	(19,953)	(17,034)
Total nonoperating revenues (expenses)	638,169	616,753
Deficiency of Revenues over Expenses Before Contributions	(2,808,233)	(505,936)
Contribution from the City of Blackwell	256,736	-
Contribution to Blackwell Facilities Authority	(5,048,445)	-
Decrease in Net Position	(7,599,942)	(505,936)
Net Position, Beginning of Year	4,113,175	4,619,111
Net Position, End of Year	\$ (3,486,767)	\$ 4,113,175

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,697,493	\$ 7,987,588
Payments to suppliers and contractors	(6,095,117)	(5,111,025)
Payments to and on behalf of employees	(3,808,681)	(3,889,890)
Other receipts (payments), net	<u>(949,833)</u>	<u>67,117</u>
Net cash used in operating activities	<u>(3,156,138)</u>	<u>(946,210)</u>
Noncapital Financing Activities		
Noncapital appropriations – City of Blackwell	644,385	610,025
Principal paid on noncapital debt	-	(221,856)
Interest paid on noncapital debt	(15,321)	(17,034)
Contribution to Blackwell Facilities Authority	<u>(5,048,445)</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>(4,419,381)</u>	<u>371,135</u>
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	46,570,862	-
Principal paid on long-term debt	(4,848,235)	-
Purchase of capital assets	<u>(454,478)</u>	<u>(127,930)</u>
Net cash provided by (used in) capital and related financing activities	<u>41,268,149</u>	<u>(127,930)</u>
Investing Activities		
Interest on investments	23,823	27,939
Issuance of note receivable	<u>(17,782,500)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(17,758,677)</u>	<u>27,939</u>
Decrease in Cash and Cash Equivalents	15,933,953	(675,066)
Cash and Cash Equivalents, Beginning of Year	<u>1,975,114</u>	<u>2,650,180</u>
Cash and Cash Equivalents, End of Year	<u>\$ 17,909,067</u>	<u>\$ 1,975,114</u>
Reconciliation of Cash and Cash Equivalents to Balance Sheets		
Cash in current assets	\$ 391,541	\$ 1,975,114
Cash in noncurrent cash and investments	<u>17,517,526</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 17,909,067</u>	<u>\$ 1,975,114</u>

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Statements of Cash Flows, continued
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (3,446,402)	\$ (1,122,689)
Depreciation	311,805	326,209
Provision for uncollectible accounts	4,592,000	3,205,630
Changes in operating assets and liabilities		
Patient accounts receivable, net	(4,143,659)	(3,885,633)
Estimated amounts due to/from third-party payors	(28,470)	236,000
Accounts payable and accrued expenses	461,721	235,218
Supplies, prepaid expenses, and other receivables	96,867	59,055
Deferred outflows of resources	(1,000,000)	-
	\$ (3,156,138)	\$ (946,210)
Noncash Investing, Capital, and Financing Activities		
Capital asset contributions to BHTA Holdings, Inc.	\$ 1,949,186	\$ -
Contribution from the City of Blackwell	\$ 256,736	\$ -

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

Blackwell Hospital Trust Authority d/b/a Blackwell Regional Hospital (the Authority) is a public trust and an agency of the state of Oklahoma. The Authority is a component unit of the City of Blackwell, Oklahoma (the City), as the Blackwell City Council appoints the majority of the members of the Board of Trustees of the Authority. The Authority operates, as its sole activity, Blackwell Regional Hospital under the terms of a trust indenture originally dated July 1, 1985. Effective September 3, 2016, the Authority began earning revenue primarily by providing inpatient, outpatient, and emergency care services to patients in Blackwell, Oklahoma, and surrounding communities. The Authority also operates a physician clinic in the same geographic area.

The accompanying financial statements include the accounts of the Authority and its blended component unit, BHTA Holdings, Inc. (Holdings). The entity is a blended component unit as it is an entity for which the Authority is considered to be financially accountable. Holdings is a corporation organized in November 2019 to own, hold, and manage real and personal property. Separate financial statements for Holdings can be obtained by contacting the Authority's administrative office.

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income, and interest on capital asset-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted of money market accounts.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Buildings	40 years
Major moveable and fixed equipment	3-13 years

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

Deferred Outflows of Resources

The Authority reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheet.

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Risk Management

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

Effective April 1, 2018, the Authority is self-insured for a portion of its exposure to the risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Net Position

Net position of the Authority is classified in two components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

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

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2025, and is designed to assess Oklahoma hospitals a supplemental hospital offset fee that will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

During the years ended December 31, the Authority had the following activity related to the SHOPP:

	2019	2018
SHOPP funds received	\$ 285,000	\$ 313,000
SHOPP assessment fees paid	196,000	206,000
Net benefit under SHOPP	\$ 89,000	\$ 107,000

The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses, and changes in net position.

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

City Appropriations

Effective October 1, 2016, the citizens of the City approved a 1% sales tax for the operations of the Authority for a five-year term. During 2019, the citizens of the City approved an extension of this sales tax through 2046. The City collects the sales tax and remits it monthly to the Authority. The Authority received approximately 7.5% and 6.6% of its financial support from city appropriations related to the sales tax during 2019 and 2018, respectively. Revenue from city appropriations is recognized in the period in which the sales tax is earned.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Substantially all inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority’s Medicare cost reports have been audited by the Medicare administrative contractor through December 31, 2018.
- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Approximately 75% and 68% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure a government’s deposits may not be returned to it. The Authority’s deposit policy for custodial credit risk requires compliance with

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

the provisions of state law, which requires the collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At December 31, 2019 and 2018, \$17,797,534 and \$0 of the Authority's bank balances of \$18,409,014 and \$434,591, respectively, were exposed to custodial credit risk.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at December 31 consisted of:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 291,245	\$ 357,677
Medicaid	70,344	59,123
Other third-party payors	2,078,264	1,777,433
Patients	<u>756,658</u>	<u>312,619</u>
	3,196,511	2,506,852
Less allowance for uncollectible accounts	<u>2,054,000</u>	<u>916,000</u>
	<u>\$ 1,142,511</u>	<u>\$ 1,590,852</u>

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma

Notes to Financial Statements
December 31, 2019 and 2018

Note 5: Capital Assets

Capital asset activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 69,794	\$ -	\$ -	\$ -	\$ 69,794
Buildings	1,963,385	-	-	-	1,963,385
Major moveable equipment	787,221	-	-	-	787,221
Fixed equipment	20,796	-	-	-	20,796
Construction in progress	-	454,478	-	-	454,478
	<u>2,841,196</u>	<u>454,478</u>	<u>-</u>	<u>-</u>	<u>3,295,674</u>
Less accumulated depreciation					
Buildings	589,015	98,169	-	-	687,184
Major moveable equipment	443,358	212,249	-	-	655,607
Fixed equipment	2,310	1,387	-	-	3,697
	<u>1,034,683</u>	<u>311,805</u>	<u>-</u>	<u>-</u>	<u>1,346,488</u>
Capital assets, net	<u>\$ 1,806,513</u>	<u>\$ 142,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,949,186</u>
	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 69,794	\$ -	\$ -	\$ -	\$ 69,794
Buildings	1,963,385	-	-	-	1,963,385
Major moveable equipment	787,221	-	-	-	787,221
Fixed equipment	20,796	-	-	-	20,796
	<u>2,841,196</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,841,196</u>
Less accumulated depreciation					
Buildings	490,846	98,169	-	-	589,015
Major moveable equipment	216,704	226,654	-	-	443,358
Fixed equipment	924	1,386	-	-	2,310
	<u>708,474</u>	<u>326,209</u>	<u>-</u>	<u>-</u>	<u>1,034,683</u>
Capital assets, net	<u>\$ 2,132,722</u>	<u>\$ (326,209)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,806,513</u>

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, no such accrual has been made as of December 31, 2019 or 2018. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. Effective April 1, 2018, the Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of approximately \$50,000 and any amounts exceeding \$1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of \$50,000 up to \$1,000,000.

A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Authority's estimates will change by a material amount in the near term.

Activity in the Authority's accrued employee health claims liability during 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 160,000	\$ -
Current year claims incurred and changes in estimates for		
claims incurred in prior years	442,088	373,848
Claims and expenses paid	<u>(267,088)</u>	<u>(213,848)</u>
Balance, end of year	<u>\$ 175,000</u>	<u>\$ 160,000</u>

**Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018**

Note 8: Long-Term Obligation

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2019					
Note payable to the City	\$ 484,109	\$ -	\$ (484,109)	\$ -	\$ -
Note payable, bank (a)	-	17,700,000	-	17,700,000	378,346
Note payable, bank (b)	-	4,620,862	(4,620,862)	-	-
Note payable, third party (c)	-	17,782,500	-	17,782,500	-
Note payable, third party (d)	-	6,467,500	-	6,467,500	-
Total long-term obligations	<u>\$ 484,109</u>	<u>\$ 46,570,862</u>	<u>\$ (5,104,971)</u>	<u>\$ 41,950,000</u>	<u>\$ 378,346</u>
2018					
Note payable to the City	<u>\$ 705,965</u>	<u>\$ -</u>	<u>\$ (221,856)</u>	<u>\$ 484,109</u>	<u>\$ 228,603</u>

Note Payable to the City

The note payable to the City consists of \$1,000,000 loaned to the Authority for the purpose of operating Blackwell Regional Hospital for the benefit of the citizens of the City and the surrounding communities. The note agreement, dated October 2016, was to be repaid to the City in monthly installments of \$20,000, including principal and interest imputed at 3%. These monthly installments were to be withheld from the Authority's share of city sales tax appropriations through 2021. In December 2019, as a component of the New Markets Tax Credit (NMTC) transaction, the City terminated the agreement and forgave the remaining outstanding balance of the note. This is recognized as a contribution from the City on the accompanying statements of revenues, expenses, and changes in net position. See *Note 15* for additional information.

Authority Notes Payable to Bank

The Authority entered into two notes payable with BancFirst to finance the acquisition and construction of certain assets through the NMTC transaction. These notes payable included original principal balances of (a) \$17,700,000 and (b) \$4,620,862. The notes are secured by certain accounts and assets.

Note (a) is due December 2044, with principal and interest at 4.75%, payable monthly.

Note (b) is a one-day loan, with principal and interest of 4.75%, due in December 2019. Note (b) was paid in full in December 2019.

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

Holdings Notes Payable to Third Party

Holdings entered into two notes payable with REI Subsidiary CDE20, LLC (the Lender) with principal balances of (c) \$17,782,500 and (d) \$6,467,500. These notes financed the acquisition of certain building improvements, which are to be leased to Stillwater Medical Center Authority (SMCA) upon completion of acquisition and construction. The notes are secured by certain capital assets. Both notes (c) and (d) are due December 2049, with interest at 1.00%. Interest only payments payable quarterly through December 2026. Commencing December 2026, payments will be made in quarterly installments of principal and interest in amounts sufficient to fully amortize the principal balance of the loans as of the maturity date.

Debt service requirements on long-term debt as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 1,453,430	\$ 378,346	\$ 1,075,084
2021	1,453,430	396,714	1,056,716
2022	1,453,429	415,973	1,037,456
2023	1,453,429	436,168	1,017,261
2024	1,453,429	457,343	996,086
2025–2029	10,297,763	5,718,892	4,578,871
2030–2034	11,901,507	8,252,477	3,649,030
2035–2039	11,901,507	9,399,318	2,502,189
2040–2044	11,901,507	10,798,615	1,102,892
2045–2049	<u>5,846,857</u>	<u>5,696,154</u>	<u>150,703</u>
	<u>\$ 59,116,288</u>	<u>\$ 41,950,000</u>	<u>\$ 17,166,288</u>

Note 9: Note Receivable

The following is a summary of note receivable transactions for the Authority for the year ended December 31, 2019:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note receivable from third party	<u>\$ -</u>	<u>\$ 17,782,500</u>	<u>\$ -</u>	<u>\$ 17,782,500</u>	<u>\$ -</u>

As a component of the NMTC financing transaction, the Authority loaned \$17,782,500 to BF Blackwell Investment Fund, (the Investment Fund). This balance is included as note receivable on

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

the accompanying balance sheets. The note receivable is effective December 2019, matures December 2044, and bears interest at 1.36%. The note receivable is payable in quarterly interest installments through December 2026. Commencing December 2026, payments will be made in quarterly installments of principal and interest in amounts sufficient to fully amortize the principal balance of the loans as of the maturity date.

Payments to be received on the note receivable as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Received	Principal	Interest
2020	\$ 246,505	\$ -	\$ 246,505
2021	245,832	-	245,832
2022	245,832	-	245,832
2023	245,832	-	245,832
2024	246,505	-	246,505
2025-2029	3,843,269	2,672,165	1,171,104
2030-2034	5,586,009	4,693,365	892,644
2035-2039	5,586,009	5,028,800	557,209
2040-2044	5,586,010	5,388,170	197,840
	<u>\$ 21,831,803</u>	<u>\$ 17,782,500</u>	<u>\$ 4,049,303</u>

Note 10: Charity Care and Uncompensated Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts that are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated costs relating to charity allowances were approximately \$65,000 and \$58,000 for the years ended December 31, 2019 and 2018, respectively.

The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. In addition to uncompensated costs, the Authority also commits significant time and resources to endeavors and critical services that meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

Note 11: Pension Plan

During 2017, the Authority established a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. During 2019, there were no employer or employee contributions to the plan.

Note 12: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Management Services Agreement

In September 2016, the Authority entered into a management services agreement with SMCA for a period of one year with the option to renew for successive one-year terms. The management services agreement included terms that monthly management fees of \$50,000 plus compensation for executive personnel be reimbursed to SMCA at actual cost for hours dedicated to the Authority. Effective January 1, 2018, the management services agreement was amended to reduce the monthly management fee to \$25,000 plus compensation for executive personnel at the actual salary and benefits cost for hours dedicated to the Authority plus 10% for overhead. During the years ended December 31, 2019 and 2018, the Authority incurred expenses of \$516,733 and \$512,595, respectively, related to this management services agreement.

Effective January 1, 2020, the Authority entered into an agreement with SMCA to lease all the operations for Blackwell Regional Hospital. The initial term of the lease is seven years.

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

Note 14: Future Change in Accounting Principle

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 87, *Leases*. GASB 87 provides a new framework for accounting for leases. The Authority expects to first apply GASB 87 during the year ending December 31, 2022, using a prospective recognition method. The impact of applying GASB 87 has not been determined.

Note 15: New Markets Tax Credit Transaction

On December 27, 2019, the Authority entered into a NMTC financing transaction to fund construction of a new hospital building. The NMTC program is designed to spur new or increased investments into operating businesses and real estate projects located in low-income communities by offering investors a federal tax credit in exchange for the investments. To earn the tax credit, the NMTC investor must remain invested for a seven-year period, which will end in 2026 for the Authority's project. As part of this financing arrangement, the Authority took out notes payable from the NMTC investor, BancFirst, in the amount of \$22,320,862. The Authority then issued a \$17,782,500 note receivable to the Investment Fund. See *Note 9* for additional information. The Investment Fund in turn made an investment in the Lender and holds a 99.99% investor member interest in the Lender. The Lender made loans totaling \$24,250,000 to the Authority's project. See *Note 8* for additional information. As part of this financing arrangement, the Authority entered into a put/call agreement to take place at the end of the seven-year tax credit period. At the end of the seven-year term, a put/call agreement may be exercised whereby BancFirst's interest in the Investment Fund is sold to the Authority under terms defined in the put/call agreement.

As a component of the NMTC financing transaction, the Authority contributed \$5,048,445 to the Blackwell Facilities Authority.

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

Note 16: Combining Component Unit Information

The following table includes combining balance sheet information for the Authority and its component unit as of December 31, 2019:

	Authority	Holdings	Eliminations	Combined Balance
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 391,541	\$ -	\$ -	\$ 391,541
Patient accounts receivable, net	1,142,511	-	-	1,142,511
City appropriations receivable	97,730	-	-	97,730
Supplies	42,649	-	-	42,649
Prepaid expenses and other	183,592	-	-	183,592
Total current assets	1,858,023	-	-	1,858,023
Noncurrent Cash				
Held by trustee for specific capital acquisition	-	17,517,526	-	17,517,526
Capital Assets, Net				
	-	1,949,186	-	1,949,186
Note Receivable, Noncurrent				
	17,782,500	-	-	17,782,500
Total assets	19,640,523	19,466,712	-	39,107,235
Deferred Outflows of Resources				
	-	1,000,000	-	1,000,000
Total assets and deferred outflows of resources	<u>\$ 19,640,523</u>	<u>\$ 20,466,712</u>	<u>\$ -</u>	<u>\$ 40,107,235</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ 378,346	\$ -	\$ -	\$ 378,346
Accounts payable	817,667	-	-	817,667
Accrued expenses	588,805	-	-	588,805
Estimated amounts due to third-party payors	237,530	-	-	237,530
Total current liabilities	2,022,348	-	-	2,022,348
Long-Term Debt				
	17,321,654	24,250,000	-	41,571,654
Total liabilities	19,344,002	24,250,000	-	43,594,002
Net Position				
Net investment in capital assets	-	837,574	-	837,574
Unrestricted	296,521	(4,620,862)	-	(4,324,341)
Total net position	296,521	(3,783,288)	-	(3,486,767)
Total liabilities and net position	<u>\$ 19,640,523</u>	<u>\$ 20,466,712</u>	<u>\$ -</u>	<u>\$ 40,107,235</u>

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

The following table includes combining statement of revenues, expenses, and changes in net position information for the Authority and its component unit for the year ended December 31, 2019:

	Authority	Holdings	Eliminations	Combined Balance
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ 7,276,320	\$ -	\$ -	\$ 7,276,320
Other	50,167	-	-	50,167
Total operating revenues	<u>7,326,487</u>	<u>-</u>	<u>-</u>	<u>7,326,487</u>
Operating Expenses				
Salaries and wages	3,078,303	-	-	3,078,303
Employee benefits	775,293	-	-	775,293
Purchased services and professional fees	3,754,025	1,108,828	-	4,862,853
Supplies and other expenses	1,744,545	90	-	1,744,635
Depreciation	311,805	-	-	311,805
Total operating expenses	<u>9,663,971</u>	<u>1,108,918</u>	<u>-</u>	<u>10,772,889</u>
Operating Loss	<u>(2,337,484)</u>	<u>(1,108,918)</u>	<u>-</u>	<u>(3,446,402)</u>
Nonoperating Revenues (Expenses)				
Noncapital appropriations – City of Blackwell	634,299	-	-	634,299
Investment income	23,823	-	-	23,823
Interest expense	(17,259)	(2,694)	-	(19,953)
Total nonoperating revenues (expenses)	<u>640,863</u>	<u>(2,694)</u>	<u>-</u>	<u>638,169</u>
Deficiency of Revenues over Expenses Before Transfers and Contributions	(1,696,621)	(1,111,612)	-	(2,808,233)
Net Transfers from Holdings	2,671,676	(2,671,676)	-	-
Contribution from the City of Blackwell	256,736	-	-	256,736
Contribution to Blackwell Facilities Authority	<u>(5,048,445)</u>	<u>-</u>	<u>-</u>	<u>(5,048,445)</u>
Decrease in Net Position	(3,816,654)	(3,783,288)	-	(7,599,942)
Net Position, Beginning of Year	<u>4,113,175</u>	<u>-</u>	<u>-</u>	<u>4,113,175</u>
Net Position, End of Year	<u>\$ 296,521</u>	<u>\$ (3,783,288)</u>	<u>\$ -</u>	<u>\$ (3,486,767)</u>

Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Notes to Financial Statements
December 31, 2019 and 2018

The following table includes condensed combining statement of cash flows information for the Authority and its component unit for the year ended December 31, 2019:

	<u>Authority</u>	<u>Holdings</u>	<u>Eliminations</u>	<u>Combined Balance</u>
Net Cash Used in Operating Activities	\$ (1,042,589)	\$ (2,113,549)	\$ -	\$ (3,156,138)
Net Cash Provided by (Used in) Noncapital Financing Activities	198,078	(4,617,459)	-	(4,419,381)
Net Cash Provided by Capital and Related Financing Activities	17,019,615	24,248,534	-	41,268,149
Net Cash Used in Investing Activities	<u>(17,758,677)</u>	<u>-</u>	<u>-</u>	<u>(17,758,677)</u>
Change in Cash and Cash Equivalents	(1,583,573)	17,517,526	-	15,933,953
Cash and Cash Equivalents, Beginning of Year	<u>1,975,114</u>	<u>-</u>	<u>-</u>	<u>1,975,114</u>
Cash and Cash Equivalents, End of Year	<u>\$ 391,541</u>	<u>\$ 17,517,526</u>	<u>\$ -</u>	<u>\$ 17,909,067</u>

Note 17: Subsequent Event

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen that may negatively affect the financial position, results of operations, and cash flows of the Authority. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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

Independent Auditor's Report

Board of Trustees
Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
Blackwell, 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 Blackwell Hospital Trust Authority d/b/a Blackwell Regional Hospital (the Authority), a component unit of the City of Blackwell, Oklahoma, which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 23, 2021, which contained an *Other Matter* paragraph regarding omission of required supplementary information.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in

Board of Trustees
Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital

the accompanying schedule of findings and responses as items 2019-01 and 2019-02, that we consider to be material weaknesses.

Compliance and Other Matters

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

Management's Responses to the Findings

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
April 23, 2021

**Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Schedule of Findings and Responses
Year Ended December 31, 2019**

Reference Number	Finding
2019-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting and significant estimates in the financial statements.</p> <p>Condition – Errors were identified in several balance sheet account estimates, which required adjusting journal entries to correct misstatements related to differences in account reconciliations, control accounts not reconciling to the supporting documentation, and significant estimates in the accompanying financial statements.</p> <p>Effect – Potentially material misstatements in the accompanying financial statements or material misappropriations of assets could occur and not be prevented or detected in a timely manner.</p> <p>Cause – The reconciliation processes in place were not sufficient to properly record balances. In addition, the process of preparing estimates of allowances for contractual adjustments and bad debts was inadequate.</p> <p>Recommendation – Management should revise the monthly procedures of evaluation and reconciliation of the general ledger accounts to underlying supporting documents and computing key significant estimates. Additionally, management should implement additional review procedures for reconciliations and significant estimates.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to periodically review the material balance sheet account reconciliations and periodically evaluate the methodologies used in accurately estimating allowances and estimates.</p>

**Blackwell Hospital Trust Authority
d/b/a Blackwell Regional Hospital
A Component Unit of the City of Blackwell, Oklahoma
Schedule of Findings and Responses
Year Ended December 31, 2019**

Reference Number	Finding
2019-02	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting and significant estimates in the financial statements.</p> <p>Condition – Material errors were identified in the recording of various aspects of the New Markets Tax Credit (NMTC) transaction, including the failure to record a note receivable, a note payable, the contribution received from the City of Blackwell, the contribution made to the Blackwell Facilities Authority, and the creation of a new bank account through which much of the material activity of the transaction took place.</p> <p>Effect – Material journal entries were made to the general ledger to correct misstatements identified.</p> <p>Cause – Management did not apply consistent or accurate accounting policies and procedures to the financial statement preparation process with respect to the NMTC transaction. Additionally, management did not have a process in place to ensure that bank accounts created through the NMTC transaction process were reconciled in a timely manner.</p> <p>Recommendation – Management should revise the procedures of evaluation and reconciliation of the general ledger accounts. Additionally, management should ensure there are policies and procedures in place related to the identification and timely reconciliation of new bank accounts.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation and will implement the recommended changes.</p>