

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Independent Auditor's Reports and Financial Statements
September 30, 2021 and 2020

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
September 30, 2021 and 2020

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Independent Auditor's Report

Board of Control
Harper County Community Hospital
Buffalo, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Harper County Community Hospital (the Hospital), a component unit of Harper County, Oklahoma, as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harper County Community Hospital as of September 30, 2021 and 2020, 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 the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the 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 March 31, 2022, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
March 31, 2022

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Balance Sheets
September 30, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 1,619,458	\$ 3,457,132
Short-term certificates of deposit	166,023	137,624
Patient accounts receivable, net of allowance; 2021 – \$506,000, 2020 – \$450,000	510,134	555,819
Estimated amounts due from third-party payors	714,000	215,080
Supplies and prepaid expenses	180,475	232,934
Other receivables	164,889	68,540
	<hr/>	<hr/>
Total current assets	3,354,979	4,667,129
Capital Assets, Net	1,389,490	197,409
Note Receivable – Related Party	95,808	96,733
	<hr/>	<hr/>
Total assets	<u><u>\$ 4,840,277</u></u>	<u><u>\$ 4,961,271</u></u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 13,591	\$ 358,914
Accounts payable	211,724	191,240
Accrued expenses	224,742	337,314
Deferred grant revenue	1,497,356	2,307,069
Estimated amounts due to third-party payors	650,142	210,938
	<hr/>	<hr/>
Total current liabilities	2,597,555	3,405,475
Estimated amounts due to third-party payors	-	650,142
Long-Term Debt	19,096	207,957
	<hr/>	<hr/>
Total liabilities	2,616,651	4,263,574
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	1,356,803	142,212
Unrestricted	866,823	555,485
	<hr/>	<hr/>
Total net position	2,223,626	697,697
	<hr/>	<hr/>
Total liabilities and net position	<u><u>\$ 4,840,277</u></u>	<u><u>\$ 4,961,271</u></u>

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$242,804, 2020 – \$169,779	\$ 4,395,237	\$ 3,993,152
Other	652,511	160,998
Total operating revenues	<u>5,047,748</u>	<u>4,154,150</u>
Operating Expenses		
Salaries and wages	2,592,229	2,373,918
Employee benefits	482,418	492,850
Purchased services and professional fees	722,339	641,211
Medical supplies and drugs	270,872	188,623
Supplies and other	1,272,074	838,293
Depreciation	108,688	44,071
Total operating expenses	<u>5,448,620</u>	<u>4,578,966</u>
Operating Loss	<u>(400,872)</u>	<u>(424,816)</u>
Nonoperating Revenues (Expenses)		
County appropriations – unrestricted	266,127	274,677
Government grants	1,115,677	21,664
Investment income	5,429	5,630
Interest expense	(1,789)	(4,594)
Noncapital gifts	20,167	35,953
Gain from extinguishment of PPP loan	521,190	-
Total nonoperating revenues (expenses)	<u>1,926,801</u>	<u>333,330</u>
Increase (Decrease) in Net Position	1,525,929	(91,486)
Net Position, Beginning of Year	<u>697,697</u>	<u>789,183</u>
Net Position, End of Year	<u><u>\$ 2,223,626</u></u>	<u><u>\$ 697,697</u></u>

Harper County Community Hospital
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Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Operating Activities		
Receipts from and on behalf of patients	\$ 3,743,311	\$ 4,539,245
Payments to suppliers and contractors	(2,195,073)	(1,752,692)
Payments to and on behalf of employees	(3,187,219)	(2,888,011)
Other receipts and payments, net	654,518	166,398
Net cash provided by (used in) operating activities	<u>(984,463)</u>	<u>64,940</u>
Noncapital Financing Activities		
Noncapital appropriations – Harper County	169,778	250,764
Noncapital gifts	20,167	35,953
Government grants	305,964	2,328,733
Proceeds from note payable to bank for noncapital purchase	-	521,190
Net cash provided by noncapital financing activities	<u>495,909</u>	<u>3,136,640</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(12,994)	(12,417)
Interest paid on long-term debt	(1,789)	(2,366)
Purchase of capital assets	(1,310,792)	(6,926)
Net cash used in capital and related financing activities	<u>(1,325,575)</u>	<u>(21,709)</u>
Investing Activities		
Interest on investments	5,429	5,630
Net purchases of certificates of deposit	(28,399)	(2,789)
Advances on note receivable to related party	(575)	(1,320)
Net cash provided by (used in) investing activities	<u>(23,545)</u>	<u>1,521</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(1,837,674)</u>	<u>3,181,392</u>
Cash and Cash Equivalents, Beginning of Year	<u>3,457,132</u>	<u>275,740</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,619,458</u></u>	<u><u>\$ 3,457,132</u></u>

See Notes to Financial Statements

	2021	2020
Reconciliation of Operating Loss to Net Cash Provided by (Used in)		
Operating Activities		
Operating loss	\$ (400,872)	\$ (424,816)
Depreciation	108,688	44,071
Gain on disposal of capital assets	507	-
Provision for uncollectible accounts	242,804	169,779
Changes in operating assets and liabilities		
Patient accounts receivable, net	(184,872)	(229,686)
Estimated amounts due from or to third-party payors	(709,858)	606,000
Accounts payable and accrued expenses	(94,819)	(51,582)
Supplies, prepaid expenses, and other	53,959	(48,826)
	<u>\$ (984,463)</u>	<u>\$ 64,940</u>
Net cash provided by (used in) operating activities		
	<u>\$ (984,463)</u>	<u>\$ 64,940</u>
Noncash Investment, Capital, and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ -	\$ 9,516
Gain from extinguishment of PPP loan	\$ 521,190	\$ -

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Notes to Financial Statements
September 30, 2021 and 2020

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

Nature of Operations and Reporting Entity

Harper County Community Hospital (the Hospital) is a critical access hospital located in Buffalo, Oklahoma. The Hospital is a component unit of Harper County, Oklahoma (the County). The Board of County Commissioners appoints members to the Board of Control of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in northwestern Oklahoma and also operates physician clinics in the same geographic area.

Basis of Accounting and Presentation

The accompanying financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, unrestricted 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 unrestricted county appropriations), investment income, and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2021 and 2020, cash equivalents consisted of certificates of deposit.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural

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disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Investments consist of certificates of deposit, which are carried at amortized cost. Investment income consists of interest income.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	10–20 years
Buildings	5–50 years
Equipment	3–20 years

Capital Asset Impairment

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

No asset impairment was recognized during the years ended September 30, 2021 and 2020.

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Compensated Absences

Hospital policies permit many employees to accumulate vacation 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 vacation 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.

Net Position

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

County Appropriations

Effective May 1, 2018, the citizens of the County approved the renewal of a 1% sales tax for the operations and capital improvements of county health care facilities expiring April 30, 2023. The County appropriates these amounts monthly to the Hospital. The Hospital received approximately 4% and 7% of its financial support in 2021 and 2020, respectively, from county appropriations related to the sales tax. Revenue from county appropriations is recognized in the year in which the sales taxes are earned.

Charity Care

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

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Income Taxes

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

Supplemental Hospital Offset Payment Program

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

Critical access hospitals (CAH) are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. During 2021 and 2020, the Hospital received approximately \$26,000 and \$32,000, respectively, in SHOPP funds. SHOPP revenue is recorded as part of net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

The annual amounts to be received by the Hospital over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Hospital over the term of the SHOPP is not expected to be materially different from the amounts received in 2021.

Revision

Certain immaterial revisions have been made to the 2020 financial statements for the long-term portion of estimated amounts due to third-party payors. This revision had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

- **Medicare** – The Hospital is reimbursed based on a cost reimbursement methodology for inpatient and outpatient services provided to Medicare program beneficiaries as a CAH. The Hospital is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through the year ended September 30, 2018.

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- **Medicaid** – The Hospital is reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Approximately 73% and 62% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2021 and 2020, 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 Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider 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.

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 Hospital does not have a formal policy to address custodial credit risk.

At September 30, 2021 and 2020, approximately \$462,000 and \$2,148,000, respectively, of the bank balances of approximately \$1,878,000 and \$3,649,000, respectively, were exposed to custodial credit risk. These bank balances were uninsured with collateral held by the pledging financial institution.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at September 30 consisted of:

	2021	2020
Medicare	\$ 220,379	\$ 213,232
Medicaid	55,671	32,279
Other third-party payors	209,716	171,699
Patients	530,368	588,609
	<u>1,016,134</u>	<u>1,005,819</u>
Less allowance for uncollectible accounts	<u>506,000</u>	<u>450,000</u>
	<u><u>\$ 510,134</u></u>	<u><u>\$ 555,819</u></u>

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Notes to Financial Statements
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Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 8,875	\$ -	\$ -	\$ -	\$ 8,875
Land improvements	38,373	-	-	-	38,373
Buildings	575,932	43,350	(3,048)	-	616,234
Equipment	2,116,176	870,088	(156,494)	-	2,829,770
Construction in progress	-	387,838	-	-	387,838
	<u>2,739,356</u>	<u>1,301,276</u>	<u>(159,542)</u>	<u>-</u>	<u>3,881,090</u>
Less accumulated depreciation					
Land improvements	38,373	-	-	-	38,373
Buildings	485,249	19,324	(1,668)	-	502,905
Equipment	2,018,325	89,364	(157,367)	-	1,950,322
	<u>2,541,947</u>	<u>108,688</u>	<u>(159,035)</u>	<u>-</u>	<u>2,491,600</u>
Capital assets, net	<u>\$ 197,409</u>	<u>\$ 1,192,588</u>	<u>\$ (507)</u>	<u>\$ -</u>	<u>\$ 1,389,490</u>

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 8,875	\$ -	\$ -	\$ -	\$ 8,875
Land improvements	38,373	-	-	-	38,373
Buildings	575,932	-	-	-	575,932
Equipment	2,121,120	16,442	(21,386)	-	2,116,176
	<u>2,744,300</u>	<u>16,442</u>	<u>(21,386)</u>	<u>-</u>	<u>2,739,356</u>
Less accumulated depreciation					
Land improvements	38,373	-	-	-	38,373
Buildings	467,697	17,552	-	-	485,249
Equipment	2,013,192	26,519	(21,386)	-	2,018,325
	<u>2,519,262</u>	<u>44,071</u>	<u>(21,386)</u>	<u>-</u>	<u>2,541,947</u>
Capital assets, net	<u>\$ 225,038</u>	<u>\$ (27,629)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 197,409</u>

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Note 6: Related-Party Note Receivable

The Harper County Community Hospital Authority (the Authority) is a component unit of the County, and its board of trustees is appointed by the county commissioners. The Authority borrowed funds from the Hospital for the purchase and renovation of a house in Buffalo, Oklahoma, for use in physician recruitment and for the purchase of a physician clinic building. The note is noninterest-bearing and is to be repaid to the Hospital as lease/rent revenue is paid to the Authority or upon sale of the house. The current note term is 10 years, maturing September 30, 2030.

As of September 30, 2021 and 2020, \$95,808 and \$96,733, respectively, was outstanding under this note receivable.

Note 7: Medical Malpractice Claims

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

Note 8: Long-Term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2021					
Note payable to bank (A)	\$ 45,681	\$ -	\$ (12,994)	\$ 32,687	\$ 13,591
Note payable to bank (B)	521,190	-	(521,190)	-	-
	<u>\$ 566,871</u>	<u>\$ -</u>	<u>\$ (534,184)</u>	<u>\$ 32,687</u>	<u>\$ 13,591</u>
2020					
Note payable to bank (A)	\$ 58,098	\$ -	\$ (12,417)	\$ 45,681	\$ 12,994
Note payable to bank (B)	-	521,190	-	521,190	345,920
	<u>\$ 58,098</u>	<u>\$ 521,190</u>	<u>\$ (12,417)</u>	<u>\$ 566,871</u>	<u>\$ 358,914</u>

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Notes Payable to Bank

- (A) Note payable to bank dated February 5, 2016, in the original amount of \$69,900, including interest at 4.5%, and originally maturing in 2020. This note was refinanced at the same interest rate in 2019 along with an additional approximately \$46,000 to repair existing hospital equipment, now maturing in January 2024. The note is secured by certain equipment.
- (B) In April 2020, the Hospital received a loan of \$521,190, including interest at 1% through the Paycheck Protection Program (PPP) under the *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act) and is guaranteed by the U.S. Small Business Administration. In November 2020, the Hospital received notification that the entire loan balance was forgiven. See *Note 15* for further discussion on this note payable.

The debt service requirements as of September 30, 2021, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2022	\$ 14,783	\$ 13,591	\$ 1,192
2023	14,783	14,215	568
2024	4,927	4,881	46
	<u>\$ 34,493</u>	<u>\$ 32,687</u>	<u>\$ 1,806</u>

Note 9: Operating Leases

Rental expense under month-to-month and other operating lease agreements totaled approximately \$40,000 and \$39,000 for the years ended September 30, 2021 and 2020, respectively.

Note 10: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's contributions determined in accordance with the terms of the plan. The plan is administered by a third-party administrator. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 5% and 0% for 2021 and 5% and 1% for 2020, respectively. Contributions made by plan members and the Hospital aggregated approximately \$84,000 and \$0 during 2021 and \$82,000 and \$23,000 during 2020, respectively.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in the Hospital's contributions after completion of three years of credible

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service with the Hospital. Nonvested Hospital contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses.

Note 11: Charity Care

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. Uncompensated costs related to charity care were approximately \$63,000 and \$20,200 for the years ended September 30, 2021 and 2020, respectively.

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

Note 12: Contingencies

Litigation

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

Note 13: EMS Management Services Agreement

In October 2017, the Hospital entered into a management services agreement with Buffalo Emergency Medical Services (Buffalo EMS). The Hospital receives all sales tax and ad valorem tax revenues received by Buffalo EMS from the County. This agreement was revised effective July 1, 2021, and will expire June 30, 2022, if not renewed. Buffalo EMS tax revenue was \$21,473 and \$21,363 for the years ended September 30, 2021 and 2020, respectively. This EMS tax revenue is recorded in other revenue in the accompanying statements of revenues, expenses, and changes in net position.

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September 30, 2021 and 2020

Note 14: Hospital Management Services Agreement

The Hospital has a working relationship with SSM Health Care of Oklahoma, Inc., an Oklahoma nonprofit corporation that owns and operates St. Anthony Hospital (the Manager). On October 1, 2019, the Hospital entered into a contract with the Manager to provide management services to the Hospital beginning October 1, 2019, over a two-year term, expiring September 30, 2021. The Manager and the Hospital renewed this agreement for an additional two-year term effective October 1, 2021, and expiring September 30, 2023. The Manager provides the Hospital with a chief executive officer (CEO) on a full-time basis. The Hospital reimburses the Manager for compensation, including salaries and employee benefits, for the CEO plus a 3% markup. The Hospital also pays the Manager a management fee calculated as 2.75% of net patient service revenue as reflected on the most recent annual cost report. The annual management fee is payable in 12 monthly installments on the first of each month. The agreement includes an option to defer management fees based on cash flow sufficiency if needed, at which point the deferred management fees would bear interest based on the prime interest rate until paid.

Fees totaling approximately \$258,000 and \$223,000 were paid for CEO compensation and monthly management fees during the years ended September 30, 2021 and 2020, respectively, and are included in purchased services and professional fees in the accompanying statements of revenues, expenses, and changes in net position. At September 30, 2021 and 2020, the Hospital owed the Manager approximately \$28,000 and \$23,000, respectively, in management fees and other costs, which is included in accounts payable in the accompanying balance sheets.

Note 15: COVID-19 Pandemic and CARES Act Funding

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

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

The extent of the COVID-19 pandemic's adverse impact on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an impact on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Notes to Financial Statements
September 30, 2021 and 2020

Provider Relief Fund

During the year ended September 30, 2020, the Hospital received \$2,250,234 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19 as defined by the U.S. Department of Health and Human Services (HHS).

Subsequent to year-end, the Hospital received an additional distribution from the Provider Relief Fund of approximately \$24,000 as well as a distribution under a similar provision from the *American Rescue Plan Act* (ARPA) of approximately \$461,000.

The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses through year-end, the Hospital recognized approximately \$1,037,000 and \$22,000 for the years ended September 30, 2021 and 2020, respectively, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenues (expenses) – government grants in the accompanying statements of revenues, expenses, and changes in net position. The unrecognized amount of Provider Relief Fund distributions is recorded as deferred grant revenue in the accompanying balance sheets.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to September 30, 2021, in accordance with Governmental Accounting Standards Board (GASB) Codification Section 2250 and have concluded the October 1, 2021 FAQs are recognized subsequent events.

The Hospital has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of September 30, 2021, and any clarifications issued by HHS subsequent to year-end, including the October 1, 2021 FAQs. For guidance issued subsequent to September 30, 2021, considered non-recognized subsequent events, the Hospital has reviewed this guidance and cannot currently estimate the impact on the amount of Provider Relief Fund payments the Hospital has recognized through September 30, 2021, but the impact could be material. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, the Hospital's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

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Notes to Financial Statements
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COVID-19 Small Rural Hospital Improvement Grant Program (SHIP) Fund

During the year ended September 30, 2020, the Hospital received \$78,499 of SHIP distributions from the CARES Act that was passed through from the Federal Office of Rural Health Policy (FORHP). These distributions are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for allowable costs attributable to COVID-19 as defined by the Health Resources and Services Administration.

Subsequent to year-end, the Hospital received an additional distribution from the SHIP fund of approximately \$255,000.

The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as contribution revenue once the applicable conditions required to retain the funds have been met. The Hospital has recognized \$78,499 in revenue related to the SHIP fund as of September 30, 2021, and these amounts are recorded as nonoperating revenues (expenses) – government grants in the accompanying statements of revenues, expenses, and changes in net position.

Rural Health Clinic COVID-19 Testing (RHC Testing) and Mitigation Programs

During the year ended September 30, 2021, the Hospital received \$298,922 of RHC Testing distributions from the CARES Act. These distributions are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for allowable testing and other costs attributable to COVID-19 as defined by Health Resources and Services Administration.

The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as contribution revenue once the applicable conditions required to retain the funds have been met. The Hospital has not recognized the distributions received related to the RHC Testing distributions as of September 30, 2021, and these amounts are recorded as deferred grant revenue in the accompanying balance sheets.

Medicare Accelerated and Advance Payment Program

During the year ended September 30, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised, and the payback period was extended to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4%.

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Notes to Financial Statements
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During the year ended September 30, 2020, the Hospital received approximately \$861,000 from these accelerated Medicare payment requests. During the year ended September 30, 2021, Medicare has applied approximately \$211,000 from these accelerated Medicare payment requests against filed claims. As of September 30, 2021, approximately \$650,000 of unapplied accelerated Medicare payment requests are recorded as current liabilities under the caption estimated amounts due to third-party payors in the accompanying balance sheets. As of September 30, 2020, approximately \$210,938 of unapplied accelerated Medicare payment requests are recorded as current liabilities and approximately \$650,000 recorded as long-term liabilities under the caption estimated amounts due to third-party payors in the accompanying balance sheets.

Paycheck Protection Program Loan

The CARES Act and other subsequent legislation also provides a Small Business Administration loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The PPP loans will be forgiven if all employee retention criteria are met, and the funds are used for eligible expenses. The Hospital received a PPP loan of \$521,190 in April 2020. The loan had an interest rate of 1%, with monthly payments of \$29,312 starting six months after the receipt of the loan.

The Hospital accounted for the PPP loan in accordance with GASB Statement No. 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. For the year ended September 30, 2020, the PPP loan was included on the accompanying balance sheets as long-term debt in accordance with the terms of the PPP loan agreement. See *Note 8* for additional information.

In November 2020, the Hospital received legal notice that the PPP loan and accrued interest was forgiven in its entirety and recognized the gain from extinguishment as nonoperating revenue on the accompanying statements of revenues, expenses, and changes in net position.

Note 16: Future Change in Accounting Principles

Accounting for Leases

With the issuance of GASB Statement No. 87, *Leases*, GASB amended its standard related to the accounting for leases. Under the new standard, lessees will not be required to recognize substantially all leases on the balance sheet as both an intangible asset and a liability. GASB 87 removes the classification of leases between two categories, and all leases will be recorded the same on the statement of revenues, expense, and changes in net position. GASB 87 also contains amended guidance regarding the identification of lease and non-lease components in an arrangement. GASB 87 is effective for the Hospital's fiscal year ending September 30, 2022. The Hospital is evaluating the impact GASB 87 will have on the financial statements; however, GASB 87 is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

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

Independent Auditor's Report

Board of Control
Harper County Community Hospital
Buffalo, 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 Harper County Community Hospital (the Hospital), a component unit of Harper County, Oklahoma, which comprise the balance sheet as of September 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 31, 2022. Our report contained an *Other Matter* paragraph regarding omission of management's discussion and analysis, which is required supplementary information.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing 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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Control
Harper County Community Hospital

Compliance and Other Matters

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

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
March 31, 2022

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Schedule of Findings and Responses
Year Ended September 30, 2021

Reference Number	Finding
No matters are reportable.	