



Harper County Community Hospital

A Component Unit of Harper County, Oklahoma

**Independent Auditor's Reports and
Financial Statements**

September 30, 2023



Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
September 30, 2023

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Independent Auditor's Report

Board of Control
Harper County Community Hospital
Buffalo, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Harper County Community Hospital (the Hospital), a component unit of Harper County, Oklahoma, as of and for the year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents.

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

Basis for Opinion

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

Emphasis of Matter

As discussed in *Note 1* to the financial statements, on October 1, 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Management has omitted management's discussion and analysis that GAAP 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 GASB, 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 28, 2024 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

FORVIS, LLP

Tulsa, Oklahoma
March 28, 2024

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Balance Sheet
September 30, 2023

Assets

Current Assets

Cash and cash equivalents	\$ 336,674
Short-term certificates of deposit	159,901
Patient accounts receivable, net of allowance – \$396,000	422,080
Estimated amounts due from third-party payors	213,000
Supplies and prepaid expenses	262,624
Other receivables	<u>77,473</u>

Total current assets 1,471,752

Capital Assets, Net 1,215,316

Lease Assets, Net 7,348

Subscription Assets, Net 235,845

Note Receivable – Related Party 95,808

Total assets \$ 3,026,069

Liabilities and Net Position

Current Liabilities

Current maturities of long-term debt	\$ 35,710
Current portion of lease liabilities	7,733
Current portion of subscription liabilities	99,048
Accounts payable	181,440
Accrued expenses	<u>280,678</u>

Total current liabilities 604,609

Subscription Liabilities 143,709

Long-Term Debt 129,420

Total liabilities 877,738

Net Position

Net investment in capital assets	1,042,889
Unrestricted	<u>1,105,442</u>

Total net position 2,148,331

Total liabilities and net position \$ 3,026,069

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2023

Operating Revenues

Net patient service revenue, net of provision for uncollectible accounts – \$92,999	\$ 4,556,854
Other	<u>470,057</u>
Total operating revenues	<u>5,026,911</u>

Operating Expenses

Salaries and wages	2,678,018
Employee benefits	552,156
Purchased services and professional fees	984,189
Medical supplies and drugs	352,305
Supplies and other	992,824
Depreciation and amortization	<u>394,888</u>
Total operating expenses	<u>5,954,380</u>

Operating Loss (927,469)

Nonoperating Revenues (Expenses)

County appropriations – unrestricted	337,057
Government grants	152,826
Investment income	8,638
Interest expense	(22,777)
Noncapital gifts	<u>17,770</u>
Total nonoperating revenues (expenses)	<u>493,514</u>

Decrease in Net Position (433,955)

Net Position, Beginning of Year 2,582,286

Net Position, End of Year \$ 2,148,331

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Statement of Cash Flows
September 30, 2023

Cash Flows from Operating Activities	
Receipts from and on behalf of patients	\$ 4,410,585
Payments to suppliers and contractors	(2,293,351)
Payments to and on behalf of employees	(3,186,165)
Other receipts and payments, net	<u>470,057</u>
Net cash used in operating activities	<u>(598,874)</u>
Cash Flows from Noncapital Financing Activities	
Noncapital appropriations – Harper County	331,237
Noncapital gifts	<u>17,770</u>
Net cash provided by noncapital financing activities	<u>349,007</u>
Cash Flows from Capital and Related Financing Activities	
Principal paid on long-term debt	(18,067)
Proceeds from capital debt issuance	164,101
Interest paid on long-term debt and leases payable	(22,777)
Principal paid on leases payable	(9,913)
Principal paid on subscription payable	(94,165)
Purchase of capital assets	<u>(179,597)</u>
Net cash used in capital and related financing activities	<u>(160,418)</u>
Cash Flows from Investing Activities	
Interest on investments	8,638
Net purchases of certificates of deposit	<u>7,269</u>
Net cash provided by investing activities	<u>15,907</u>
Decrease in Cash and Cash Equivalents	(394,378)
Cash and Cash Equivalents, Beginning of Year	<u>731,052</u>
Cash and Cash Equivalents, End of Year	<u>\$ 336,674</u>

**Reconciliation of Operating Loss to Net Cash Used in
Operating Activities**

Operating loss	\$ (927,469)
Depreciation and amortization	394,888
Provision for uncollectible accounts	92,999
Changes in operating assets and liabilities	
Patient accounts receivable, net	(91,268)
Estimated amounts due from or to third-party payors	(148,000)
Accounts payable and accrued expenses	96,600
Supplies, prepaid expenses, and other	<u>(16,624)</u>
Net cash used in operating activities	<u>\$ (598,874)</u>

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Notes to Financial Statements
September 30, 2023

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 (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, 2023, 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 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.

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Notes to Financial Statements
September 30, 2023

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. The following estimated useful lives are being used by the Hospital:

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

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at, and certain prepayments made before, the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Harper County Community Hospital
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Notes to Financial Statements
September 30, 2023

Capital, Lease, and Subscription Asset Impairment

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

No asset impairment was recognized during the year ended September 30, 2023.

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, lease, and subscription assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of borrowings and lease or subscription liabilities 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 healthcare facilities. The County appropriates these amounts monthly to the Hospital. The Hospital received approximately 7% of its financial support in 2023 from county appropriations related to the sales tax. Revenue from county appropriations is recognized in the year in which the sales taxes are earned.

Harper County Community Hospital
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Notes to Financial Statements
September 30, 2023

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.

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 (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). 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 2023, the Hospital received approximately \$114,000 in SHOPP funds. SHOPP revenue is recorded as part of net patient service revenue in the accompanying statement 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.

Change in Accounting Principle

On October 1, 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, using a retrospective method of adoption to all applicable SBITAs in place at the beginning of the earliest period presented. GASB 96 requires entities to recognize a subscription liability, measured at the present value of payments expected to be made during the contract term, and an intangible right-to-use subscription IT asset. The Hospital's adoption of GASB 96 did not impact previously reported net position of the Hospital.

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Notes to Financial Statements
September 30, 2023

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, 2021.
- **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 66% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended September 30, 2023. 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, 2023, none of the Hospital's bank balances of approximately \$642,000 were exposed to custodial credit risk. These bank balances were insured with collateral held by the pledging financial institution.

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Notes to Financial Statements
September 30, 2023

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, 2023 consisted of:

Medicare	\$ 243,393
Medicaid	25,480
Other third-party payors	145,097
Patients	404,110
	<u>818,080</u>
Less allowance for uncollectible accounts	<u>396,000</u>
	<u><u>\$ 422,080</u></u>

Note 5: Capital, Lease, and Subscription Assets

Capital assets activity for the year ended September 30, 2023 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 8,875	\$ -	\$ -	\$ -	\$ 8,875
Land improvements	38,373	-	-	-	38,373
Buildings	616,234	-	-	-	616,234
Equipment	3,396,025	79,097	-	-	3,475,122
Construction in progress	-	100,500	-	-	100,500
	<u>4,059,507</u>	<u>179,597</u>	<u>-</u>	<u>-</u>	<u>4,239,104</u>
Less accumulated depreciation					
Land improvements	38,373	-	-	-	38,373
Buildings	519,796	15,183	-	-	534,979
Equipment	2,181,721	268,715	-	-	2,450,436
	<u>2,739,890</u>	<u>283,898</u>	<u>-</u>	<u>-</u>	<u>3,023,788</u>
Capital assets, net	<u><u>\$ 1,319,617</u></u>	<u><u>\$ (104,301)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,215,316</u></u>

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Notes to Financial Statements
September 30, 2023

Lease assets activity for the year ended September 30, 2023 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings	\$ 27,124	\$ -	\$ -	\$ -	\$ 27,124
Less accumulated amortization	9,863	9,913	-	-	19,776
Lease assets, net	<u>\$ 17,261</u>	<u>\$ (9,913)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,348</u>

Subscription assets activity for the year ended September 30, 2023 was:

	Beginning Balance (As Restated)	Additions	Disposals	Transfers	Ending Balance
Subscription IT asset	\$ 336,922	\$ -	\$ -	\$ -	\$ 336,922
Less accumulated amortization	-	101,077	-	-	101,077
Subscription assets, net	<u>\$ 336,922</u>	<u>\$ (101,077)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235,845</u>

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, 2023, \$95,808 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 healthcare 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.

Harper County Community Hospital
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Notes to Financial Statements
September 30, 2023

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the year ended September 30, 2023:

	Beginning Balance (As Restated)	Additions	Deductions	Ending Balance	Current Portion
Notes from direct borrowings and direct placements					
Note payable, bank (A)	\$ 19,096	\$ -	\$ (14,215)	\$ 4,881	\$ 4,881
Note payable, bank (B)	-	140,900	(1,936)	138,964	26,805
Note payable, bank (C)	-	23,201	(1,916)	21,285	4,024
Total long-term debt	19,096	164,101	(18,067)	165,130	35,710
Other long-term liabilities					
Lease liabilities	17,646	-	(9,913)	7,733	7,733
Subscription liabilities	336,922	-	(94,165)	242,757	99,048
Total other long-term liabilities	354,568	-	(104,078)	250,490	106,781
Total long-term obligations	\$ 373,664	\$ 164,101	\$ (122,145)	\$ 415,620	\$ 142,491

Note Payable to Bank (A)

Note payable to bank dated February 5, 2016, in the original amount of \$69,900, including interest at 4.50%, 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.

Note Payable to Bank (B)

Note payable to bank dated August 24, 2023, which allows draws on the note up to \$150,000. At September 30, 2023, \$140,900 had been drawn against this note, the proceeds of which were used to purchase equipment. Payments of principal and interest at 7.25% are due monthly in the amount of \$3,000 maturing May 2028. The note is secured by certain equipment. The note contains a provision that, in an event of default, outstanding amounts may become immediately due and payable.

Note Payable to Bank (C)

Note payable to bank dated March 8, 2023, in the original amount of \$23,201, including interest at 8.54%, and maturing in March 2028. The note is secured by certain equipment. The note contains a provision that, in an event of default, outstanding amounts may become immediately due and payable.

Harper County Community Hospital
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Notes to Financial Statements
September 30, 2023

The debt service requirements on long-term debt other than lease and subscription liabilities as of September 30, 2023 are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2024	\$ 46,602	\$ 35,710	\$ 10,892
2025	41,674	33,196	8,478
2026	41,675	35,745	5,930
2027	41,675	38,491	3,184
2028	22,493	21,988	505
	<u>\$ 194,119</u>	<u>\$ 165,130</u>	<u>\$ 28,989</u>

Note 9: Lease and Subscription Liabilities

Lease Liabilities

The Hospital leases clinic space, the term of which expires in 2024. During the year ended September 30, 2023, the Hospital recognized \$25,561 of rental expense for short-term and variable payments not included in the measurement of the lease liability.

The following is a schedule by year of payments under the lease as of September 30, 2023:

Year Ending September 30,	Total to be Paid	Principal	Interest
2024	<u>\$ 7,879</u>	<u>\$ 7,733</u>	<u>\$ 146</u>

Subscription Liabilities

The Hospital has one SBITA, the term of which expires in 2026. Variable payments based upon the use of the underlying asset are not included in the subscription liability because they are not fixed in substance. There were no outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability.

Harper County Community Hospital
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Notes to Financial Statements
September 30, 2023

The following is a schedule by year of payments under the SBITA as of September 30, 2023:

Year Ending September 30,	Total to be Paid	Principal	Interest
2024	\$ 113,400	\$ 99,048	\$ 14,352
2025	113,400	106,473	6,927
2026	<u>37,800</u>	<u>37,236</u>	<u>564</u>
	<u>\$ 264,600</u>	<u>\$ 242,757</u>	<u>\$ 21,843</u>

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 in 2023 for plan members and the Hospital expressed as a percentage of covered payroll were 5% and 1%, respectively. Contributions made by plan members and the Hospital during 2023 aggregated approximately \$98,000 and \$23,000, respectively.

Employees are immediately vested in their own contribution and earnings on those contributions and become vested in the Hospital's contributions after completion of three years of credible 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 \$40,000 for the year ended September 30, 2023.

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.

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Notes to Financial Statements
September 30, 2023

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, 2023 and will expire June 30, 2024 if not renewed. Buffalo EMS tax revenue was \$26,317 for the year ended September 30, 2023. This EMS tax revenue is recorded in other revenue in the accompanying statement of revenues, expenses, and changes in net position.

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. The Manager and the Hospital renewed this agreement for an additional two-year term through April 30, 2025. 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 \$390,000 were paid for CEO compensation and monthly management fees during the year ended September 30, 2023 and are included in purchased services and professional fees in the accompanying statement of revenues, expenses, and changes in net position. At September 30, 2023, the Hospital owed the Manager approximately \$39,000 in management fees and other costs, which is included in accounts payable in the accompanying balance sheet.

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Notes to Financial Statements
September 30, 2023

The Hospital has a subscription contract for use of the Manager's IT asset as disclosed in *Note 9*. Subscription payments totaling approximately \$113,000 were paid during the year ended September 30, 2023.

Note 15: COVID-19 Pandemic and Government Grant 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.

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.

Provider Relief Fund

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). 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.

During 2022, the Hospital received additional distributions from the Provider Relief Fund of approximately \$230,000, of which approximately \$43,000 was unearned as of September 30, 2022. 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 the remaining unearned funds during the year ended September 30, 2023 related to the Provider Relief Fund. These payments are recorded as nonoperating revenues (expenses) – government grants in the accompanying statement of revenues, expenses, and changes in net position.

The Hospital has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of September 30, 2023. 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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COVID-19 Small Rural Hospital Improvement Grant Program (SHIP) Fund

Distributions from the *American Rescue Plan Act* 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 (HRSA). 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.

During the year ended September 30, 2022, the Hospital received \$254,626 of SHIP distributions that was passed through from the Federal Office of Rural Health Policy (FORHP) of which approximately \$100,000 was unearned as of September 30, 2022. The Hospital has recognized the remaining unearned funds during the year ended September 30, 2023, and these amounts are recorded as nonoperating revenues (expenses) – government grants in the accompanying statement of revenues, expenses, and changes in net position.

Note 16: Subsequent Events

Management's Consideration of Change in Hospital Designation

The Hospital has incurred recurring losses, negative cash flows from operations, and overall declines in patient volumes. In September 2023, the Hospital applied for a change in provider type with CMS to change the Hospital's provider type from a CAH to a Rural Emergency Hospital (REH). Subsequent to year-end, the Hospital received approval of its REH status effective October 1, 2023.

Under the REH provider designation, the Hospital may offer emergency, observation, and certain outpatient services but is prohibited from providing inpatient services. The REH designation changes reimbursement rates for Medicare patients and includes a monthly facility payment estimated at approximately \$270,000 per month for 2024.

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Harper County Community Hospital (the Hospital), which comprise the Hospital's balance sheet as of September 30, 2023 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 28, 2024. Our report contained an *Emphasis of Matter* paragraph regarding a change in accounting principle.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an

Board of Control
Harper County Community Hospital

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.

FORVIS, LLP

Tulsa, Oklahoma
March 28, 2024

Harper County Community Hospital
A Component Unit of Harper County, Oklahoma
Schedule of Findings and Responses
Year Ended September 30, 2023

Reference Number	Finding
	No matters are reportable.