

Jackson County Memorial Hospital Authority

**A Component Unit of
Jackson County, Oklahoma**

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

June 30, 2022



Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
June 30, 2022

Contents

Independent Auditor’s Report	1
Financial Statements	
Balance Sheet	4
Statement of Revenues, Expenses, and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor’s Report	29
Schedule of Findings and Responses	31



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Independent Auditor's Report

Board of Trustees
Jackson County Memorial Hospital Authority
Altus, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Jackson County Memorial Hospital Authority (the Authority), a component unit of Jackson County, Oklahoma, and JCMH Health Care Corporation (JCMH HCC), its discretely presented component unit, as of and for the year ended June 30, 2022 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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 Authority 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 opinions.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, on July 1, 2021, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are 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 accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority'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 opinions. 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 Authority'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 Authority'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 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 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 opinions on the basic financial statements are 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 January 26, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

FORVIS, LLP

Tulsa, Oklahoma
January 26, 2023

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Balance Sheet
June 30, 2022

Assets

	Primary Government	Component Unit – JCMH HCC
Current Assets		
Cash and cash equivalents	\$ 6,441,830	\$ 9,132,928
Short-term investments	1,292,475	3,249,250
Restricted investments – current	126,509	-
Patient accounts receivable, net of allowance – \$8,455,000	10,269,711	-
Trade accounts receivable, net of allowance – \$94,000	-	162,515
Contribution receivable from JCMH HCC	369,253	-
Other receivables – related parties	564,616	796,948
Other receivables	123,500	-
Supplies	1,933,016	325,903
Prepaid expenses and other	1,359,098	-
Estimated amounts due from third-party payors	770,000	-
Total current assets	23,250,008	13,667,544
Lease Assets, Net	759,291	-
Capital Assets, Net	20,332,032	11,280,092
Leases Receivable	65,781	-
Contribution Receivable from JCMH HCC – Noncurrent	3,366,000	-
Other Assets		
Investments in equity investees	7,435,582	-
Due from the Authority	-	3,580,495
Other	119,643	29,752
	7,555,225	3,610,247
Total assets	\$ 55,328,337	\$ 28,557,883

Liabilities, Deferred Inflows of Resources, and Net Position

	Primary Government	Component Unit – JCMH HCC
Current Liabilities		
Current portion of lease liabilities	\$ 270,045	\$ -
Accounts payable	7,906,471	107,035
Accrued interest payable	473	-
Due to the Authority	-	276,179
Accrued payroll and other expenses	7,673,329	-
Estimated amounts due to third-party payors	300,000	-
	<u>16,150,318</u>	<u>383,214</u>
Other Liabilities		
Contributions payable to the Authority	-	3,735,253
Long-term lease liabilities	510,869	-
Other	270,000	-
	<u>780,869</u>	<u>3,735,253</u>
Total other liabilities	<u>780,869</u>	<u>3,735,253</u>
Total liabilities	<u>16,931,187</u>	<u>4,118,467</u>
Deferred Inflows of Resources	<u>42,417</u>	<u>-</u>
Net Position		
Net investment in capital assets	20,310,409	11,280,092
Restricted expendable for operations	126,509	-
Restricted expendable for capital expenditures	3,990,525	-
Unrestricted	13,927,290	13,159,324
	<u>38,354,733</u>	<u>24,439,416</u>
Total net position	<u>38,354,733</u>	<u>24,439,416</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 55,328,337</u>	<u>\$ 28,557,883</u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2022

	Primary Government	Component Unit – JCMH HCC
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts – \$10,696,673	\$ 78,242,245	\$ -
Medical equipment and supplies sales and rentals, net of provision for uncollectible accounts – \$54,343	-	1,617,171
Lease revenue	-	683,754
Scanner services revenue	-	2,795,260
Retirement center revenue	-	1,619,200
Other	4,046,565	-
	<u>82,288,810</u>	<u>6,715,385</u>
Operating Expenses		
Salaries and wages	43,335,450	-
Employee benefits	9,115,602	-
Purchased services and professional fees	10,883,684	937,902
Supplies and other	23,277,681	3,301,910
Depreciation and amortization	2,789,009	774,668
	<u>89,401,426</u>	<u>5,014,480</u>
	<u>(7,112,616)</u>	<u>1,700,905</u>
Operating Income (Loss)		
Nonoperating Revenues (Expenses)		
Investment income	8,387	48,339
Government grants	3,576,907	-
Noncapital gifts and grants received	33,618	-
Other revenue	-	16,987
Interest expense	(56,867)	-
Gain on investments in equity investees	1,428,050	-
	<u>4,990,095</u>	<u>65,326</u>
	<u>(2,122,521)</u>	<u>1,766,231</u>
Income (Loss) Before Capital Gifts		
Capital Gifts to the Authority from JCMH HCC	<u>56,034</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>(2,066,487)</u>	<u>1,766,231</u>
Net Position, Beginning of Year	<u>40,421,220</u>	<u>22,673,185</u>
Net Position, End of Year	<u>\$ 38,354,733</u>	<u>\$ 24,439,416</u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Statement of Cash Flows
Year Ended June 30, 2022

	Primary Government	Component Unit – JCMH HCC
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 77,855,798	\$ 3,204,461
Receipts from and on behalf of customers – medical equipment and supplies sales and rentals	-	1,565,983
Receipts from and on behalf of residents – retirement center	-	1,615,511
Receipts from equipment and medical office space leasing	-	604,324
Payments to suppliers and contractors	(34,798,187)	(4,100,446)
Payments to employees	(51,776,914)	-
Other receipts and payments, net	3,952,659	-
	<u>(4,766,644)</u>	<u>2,889,833</u>
Cash Flows from Noncapital Financing Activities		
Government grants	3,176,907	-
Decrease in outstanding checks in excess of bank balance	(700,000)	-
Noncapital gifts and grants received	33,618	-
	<u>2,510,525</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(547,123)	(96,332)
Principal paid on leases payable	(284,475)	-
Interest paid on leases payable	(56,867)	-
Proceeds from sale of capital assets	48,675	2,275
Capital gifts to the Authority from JCMH HCC	56,034	-
	<u>(783,756)</u>	<u>(94,057)</u>
Cash Flows from Investing Activities		
Purchases of short-term investments	(259,149)	(2,986,681)
Sales of short-term investments	280,534	2,980,961
Investment income received	8,387	48,339
Distributions from investees, net	5,320	-
	<u>35,092</u>	<u>42,619</u>
Increase (Decrease) in Cash and Cash Equivalents	(3,004,783)	2,838,395
Cash and Cash Equivalents, Beginning of Year	9,446,613	6,294,533
Cash and Cash Equivalents, End of Year	<u>\$ 6,441,830</u>	<u>\$ 9,132,928</u>

See Notes to Financial Statements

	Primary Government	Component Unit – JCMH HCC
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (7,112,616)	\$ 1,700,905
Depreciation and amortization	2,789,009	774,668
Provision for uncollectible accounts	10,696,673	54,343
Accrued self-insurance costs	138,294	-
Changes in		
Patient, trade, and other accounts receivable, net	(4,355,654)	(109,220)
Supplies, prepaid expenses, and other assets	(810,391)	55,404
Estimated amounts due to/from third-party payors	(6,822,034)	-
Due from the Authority	-	418,682
Accounts payable and accrued expenses	710,075	(4,949)
	<u>\$ (4,766,644)</u>	<u>\$ 2,889,833</u>
Supplemental Cash Flows Information		
Lease obligation incurred for lease assets	\$ 15,685	\$ -

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

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

Nature of Operations

Jackson County Memorial Hospital Authority (the Authority) was created under a trust indenture dated July 1, 1981 as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of Jackson County, Oklahoma (the County). The Authority is a component unit of the County, and the Board of County Commissioners appoints the members of the Authority's Board of Trustees.

The Authority operates Jackson County Memorial Hospital (the Hospital) under a bargain lease agreement with the County. The lease term is from July 1, 1981 to June 30, 2031 or until such date as all indebtedness incurred by the Authority has been paid.

The Hospital, located in Altus, Oklahoma, primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the County and surrounding area. It also operates a home health agency, a skilled nursing facility, and various outpatient clinics in the same geographic area, as well as a critical access hospital (CAH) providing inpatient, outpatient, and emergency care services to patients in Hollis, Oklahoma, and the surrounding area.

Effective March 1, 2019, the Authority entered into a lease agreement with Harmon County Health Care Authority (the Harmon Authority) to assume all operations of Harmon Memorial Hospital (Harmon), a 25-bed CAH located in Hollis, Oklahoma. The initial lease term covers a period of 10 years and requires payments or equivalent investments in capital improvements of \$48,000 annually to the Harmon Authority. The lease also includes 10 additional one-year extension periods. Harmon primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Hollis, Oklahoma.

Neither the Hospital nor the Harmon Authority contracts are deemed to be exchange or exchange-like transactions and are, therefore, not subject to Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*.

Reporting Entity

The Jackson County Memorial Hospital Foundation (the Foundation) is a nonprofit corporation organized and operated for the exclusive benefit and support of the Authority. The Foundation and the Authority operate under the same governing Board of Trustees. Accordingly, the Foundation is included as a component unit in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the accompanying financial statements.

JCMH Health Care Corporation (JCMH HCC) is a legally separate nonprofit corporation formed in 1986 under the provisions of the *Oklahoma Nonprofit Corporations Act*. JCMH HCC's purpose is to carry out the objectives of the Authority and to enhance the healthcare services to the community of Altus, Oklahoma, and surrounding areas. Upon dissolution of JCMH HCC, its assets remaining after payment or adequate provision for the payment of all liabilities and obligations of JCMH HCC shall be

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

distributed to the Authority. The Board of Trustees of the Authority appoints the members of JCMH HCC's Board of Trustees. JCMH HCC is considered a component unit of the Authority and is discretely presented in the Authority's financial statements. See *Note 15* for condensed disclosures specific to JCMH HCC. Complete financial statements of JCMH HCC may be obtained by contacting its management at 580.379.5510.

The Authority and the Foundation have a fiscal year-end of June 30. JCMH HCC has a fiscal year-end of December 31. All information in the accompanying financial statements and footnotes related to JCMH HCC is as of and for the year ended December 31, 2021.

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from voluntary nonexchange transactions (principally, noncapital and capital gifts) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Investment income, voluntary nonexchange transactions, and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows of resources 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 Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2022, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit. The Authority does consider uninvested cash held in investment accounts as cash or cash equivalents.

Patient Accounts Receivable

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

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Supplies

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

Investments and Investment Income

Investments are carried at fair value. Fair value is determined using quoted market prices. Investments in non-negotiable certificates of deposit are carried at amortized cost. Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value, and the net change for the year in the fair value of investments carried at fair value.

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 Authority:

Buildings and improvements	3–40 years
Equipment	2–10 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.

Capital and Lease Asset Impairment

The Authority evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital or lease asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical costs and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

No asset impairment was recognized during the year ended June 30, 2022.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as payroll taxes, computed using rates in effect at that date. The estimated compensated absence liability expected to be paid more than one year after the balance sheet date is included in other long-term liabilities.

Risk Management

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

The Authority is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported. See *Notes 7 and 8* for more information.

Deferred Inflows of Resources

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

Net Position

Net position of the Authority is classified in three components on its balance sheet:

- Net investment in capital assets consists of capital and lease assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to the Authority.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable net position.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

The Internal Revenue Service has recognized both the Foundation and JCMH HCC as exempt from income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Code Section 501(c)(3). Both the Foundation and JCMH HCC are subject to federal and state income taxes on any unrelated business income resulting from their respective operations.

At December 31, 2021, JCMH HCC had approximately \$495,000 of federal net operating loss carryforwards, which expire between 2022 and 2037, and approximately \$93,000 of unused federal net operating loss carryforwards that have no expiration date.

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 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.

SHOPP revenue is recorded as part of net patient service revenue, and SHOPP assessment fees are recorded as part of other expenses on the accompanying statement of revenues, expenses, and changes in net position. The amounts noted in the table below for the year ended June 30, 2022 represent the approximate amounts received and paid by the Authority. The annual amounts to be

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is expected to be consistent with 2022.

SHOPP funds received	\$ 4,753,000
SHOPP assessment fees paid	<u>1,397,000</u>
Net SHOPP benefit	<u><u>\$ 3,356,000</u></u>

Change in Accounting Principle

On July 1, 2021, the Authority adopted GASB 87, *Leases*. Under GASB 87, the Authority, as lessee, at the inception of the lease, records a lease liability based on the present value of payments expected to be made during the lease term and a related lease asset. The Authority, as lessor, at the inception of the lease, records a lease receivable based on the present value of the expected collectible amounts to be received during the lease term and a related deferred inflow of resources. Under GASB 87, only exchange or exchange-like transactions are recorded as leases. There was no effect on beginning net position as of July 1, 2021 as a result of adoption of GASB 87.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Harmon inpatient services rendered to Medicare beneficiaries are paid based on a cost reimbursement methodology. Harmon outpatient services rendered to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority’s Medicare cost reports have been audited by the Medicare administrative contractor through the year ended June 30, 2019.
- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.
- **Other** – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Approximately 62% of the Authority's net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended June 30, 2022. 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.

CAHs and sole community hospitals are required to meet certain requirements for admittance into the respective programs. Additionally, facilities under each program undergo certain re-evaluations every three years to ensure they continue to meet the program requirements. CAH requirements include a limit on hospitals within 35 miles, providing 24-hour emergency care, and an annual average length of stay of 96 hours for acute care patients. The Authority has received notification from CMS that Harmon no longer meets the criteria to participate as a CAH. However, the implementation of this determination has been delayed by an additional approximate 20 months following the end of the currently ongoing Public Health Emergency.

Note 3: Deposits, Investments, and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, which generally require collateralization of all deposits with the Federal Deposit Insurance Corporation (FDIC) and other acceptable collateral in specific amounts.

At June 30, 2022, approximately \$48,000 of the Authority's bank balances of approximately \$8,617,000 were exposed to custodial credit risk. The above amount excludes deposits held by the Authority's blended component unit, the Foundation. The Foundation had bank balances of approximately \$303,000 at June 30, 2022. As a nongovernmental entity, the blended component unit is not subject to collateralization requirements. At June 30, 2022, none of the Foundation's bank balances exceeded FDIC limits.

Investments

The Authority's investment policy generally limits investments to direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and U.S. government bond mutual funds.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

At June 30, 2022, the Authority had the following investments and maturities:

Type	Fair Value	Maturities in Years		
		Less than 1	1-5	6-10
U.S. government bond mutual funds	\$ 91,763	\$ -	\$ -	\$ 91,763
Accrued investment income	<u>1,628</u>			
	<u>\$ 93,391</u>			

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s investment policy generally limits investment maturities to no more than 96 months. The U.S. government bond mutual funds are presented as an investment with a maturity of 6 to 10 years based on the weighted-average maturity of the underlying investments.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy does not address credit risk. At June 30, 2022, the Authority’s investments in U.S. government bond mutual funds were not rated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investment policy does not address how securities are to be held.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2022, the Authority had only one investment.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Summary of Carrying Values

The carrying values of deposits and investments are included in the accompanying balance sheet as follows:

Carrying value	
Deposits	\$ 7,764,998
Investments	93,391
Cash on hand	2,425
	<u>7,860,814</u>
	<u><u>\$ 7,860,814</u></u>
Included in the following balance sheet captions	
Cash and cash equivalents	\$ 6,441,830
Short-term investments	1,292,475
Restricted investments – current	126,509
	<u>7,860,814</u>
	<u><u>\$ 7,860,814</u></u>

Investment Income

Investment income for the year ended June 30, 2022 consisted of:

Interest and dividends	\$ 19,256
Net decrease in fair value of investments	<u>(10,869)</u>
	<u><u>\$ 8,387</u></u>

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at June 30, 2022 consisted of:

Medicare	\$ 4,394,769
Medicaid	1,351,325
Other third-party payors	5,775,860
Patients	7,202,757
	<u>18,724,711</u>
Less allowance for uncollectible accounts	<u>8,455,000</u>
	<u><u>\$ 10,269,711</u></u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Note 5: Capital and Lease Assets

Capital assets activity of the Authority for the year ended June 30, 2022 was:

	Beginning Balance (As Restated)	Additions	Transfers	Disposals	Ending Balance
Land	\$ 4,229,781	\$ -	\$ -	\$ -	\$ 4,229,781
Buildings, improvements, and fixed equipment	25,830,826	-	126,618	-	25,957,444
Major moveable equipment	46,989,501	41,416	256,963	(277,677)	47,010,203
Construction in progress	500,555	505,707	(383,581)	-	622,681
	<u>77,550,663</u>	<u>547,123</u>	<u>-</u>	<u>(277,677)</u>	<u>77,820,109</u>
Less accumulated depreciation					
Buildings, improvements, and fixed equipment	21,401,632	833,229	-	-	22,234,861
Major moveable equipment	33,831,874	1,649,682	-	(228,340)	35,253,216
	<u>55,233,506</u>	<u>2,482,911</u>	<u>-</u>	<u>(228,340)</u>	<u>57,488,077</u>
Capital assets, net	<u>\$ 22,317,157</u>	<u>\$ (1,935,788)</u>	<u>\$ -</u>	<u>\$ (49,337)</u>	<u>\$ 20,332,032</u>

Lease assets activity of the Authority for the year ended June 30, 2022 was:

	Beginning Balance (As Restated)	Additions	Disposals	Transfers	Ending Balance
Buildings	\$ 418,383	\$ -	\$ -	\$ -	\$ 418,383
Major moveable equipment	631,321	15,685	-	-	647,006
	<u>1,049,704</u>	<u>15,685</u>	<u>-</u>	<u>-</u>	<u>1,065,389</u>
Less accumulated amortization					
Buildings	-	67,761	-	-	67,761
Major moveable equipment	-	238,337	-	-	238,337
	<u>-</u>	<u>306,098</u>	<u>-</u>	<u>-</u>	<u>306,098</u>
Lease assets, net	<u>\$ 1,049,704</u>	<u>\$ (290,413)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 759,291</u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Note 6: Long-Term Obligations

Lease Liabilities

The following is a summary of lease liability transactions for the Authority for the year ended June 30, 2022:

	Beginning Balance (As Restated)	Additions	Deductions	Ending Balance	Current Portion
Lease liability	\$ 1,049,704	\$ 15,683	\$ (284,473)	\$ 780,914	\$ 270,045

The Authority leases equipment and clinic space, the terms of which expire in various years through 2032. Variable payments based upon the use of the underlying asset are not included in the lease liability because they are not fixed in substance.

The following is a schedule by year of payments under the leases as of June 30, 2022:

Year Ending June 30,	Total to be Paid	Principal	Interest
2023	\$ 316,000	\$ 270,045	\$ 45,955
2024	231,546	203,651	27,895
2025	110,125	89,762	20,363
2026	64,712	51,088	13,624
2027	62,839	52,891	9,948
2028–2032	121,936	113,477	8,459
	<u>\$ 907,158</u>	<u>\$ 780,914</u>	<u>\$ 126,244</u>

Compensated Absences Obligations

The following is a summary of compensated absences obligations transactions for the Authority for the year ended June 30, 2022:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Compensated absences obligations	\$ 5,843,474	\$ 5,205,022	\$ (5,271,474)	\$ 5,777,022	\$ 5,507,022

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Note 7: Medical Malpractice Coverage and Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a 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 Authority's claims experience, no accrual for medical malpractice claims has been made at June 30, 2022. It is reasonably possible that this estimate could change materially in the near term.

The Authority is a subscriber (member) of Tecumseh Health Reciprocal Risk Retention Group (Tecumseh), an entity approved by the state of Vermont to provide hospital professional liability and general liability coverage to its subscribers. Tecumseh was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of healthcare providers. Tecumseh members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. See *Note 14* for additional information about Tecumseh.

Note 8: Self-Insured Claims

The Authority sponsors workers' compensation coverage for its employees. Through June 30, 2015, the Authority was self-insured to the extent of the deductible amount under the excess risk insurance policy the Authority had obtained. Coverage limits under the self-insured plan were \$350,000 per occurrence with an employer's annual liability limit of \$1,000,000 per occurrence. Effective July 1, 2015, the Authority purchased commercial insurance coverage for workers' compensation. The Authority did not have any significant claims activity related to its self-insured workers' compensation coverage for 2022.

The Authority sponsors a healthcare plan for its employees and is self-insured to the extent of the deductible amount under the excess risk insurance policy the Authority has obtained. Coverage limits under the plan are \$300,000 per person per year.

Losses from asserted and unasserted claims identified under the Authority's incident reporting system are accrued based on estimates that incorporate the Authority's past claims experience as well as other considerations, including the nature of each claim or incident, relevant trend factors, and other economic and social factors. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Activity in the Authority’s self-insured employee health benefits during the year ended June 30, 2022 is summarized as follows:

Balance, beginning of year	\$ 226,733
Current year claims incurred and changes in estimates for claims incurred in prior years	(3,743,360)
Claims and expenses paid	<u>3,881,654</u>
 Balance, end of year	 <u><u>\$ 365,027</u></u>

The above self-insured plans’ accrued liability amounts are included in accrued payroll and other expenses on the accompanying balance sheet.

Note 9: Restricted and Designated Net Position

At June 30, 2022, the Authority had restricted net position as follows:

Restricted under workers’ compensation agreement	\$ 126,509
Restricted for capital expenditures	<u>3,990,525</u>
 Total restricted net position	 <u><u>\$ 4,117,034</u></u>

At June 30, 2022, approximately \$5,146,000 of unrestricted net position had been designated by the Authority’s Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may, at its discretion, later use these assets for other purposes.

Note 10: Charity Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue.

The estimated uncompensated costs associated with charity care services were approximately \$1,070,000 for the year ended June 30, 2022. The costs of charity care are estimated by applying the cost-to-charge ratio from the Authority’s most recent Medicare cost report to gross uncompensated charges.

In addition to uncompensated charges, the Authority provides services to other individuals, various community agencies, and the broader community. These services are provided at no charge to the public and include such items as health education and promotion, blood pressure and cholesterol

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

screenings, and health assessments. Costs related to these services are not separately identifiable and are included in expenses.

Note 11: Retirement Plan

The Authority contributes to a defined contribution retirement plan (the Plan) covering substantially all employees. Pension expense is recorded for the amount of the Authority’s required contributions, determined in accordance with the terms of the Plan. The Plan is administered by the Authority’s Board of Trustees and provides retirement and death benefits to participating employees and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the Authority’s Board of Trustees. The required contribution rate for participating employees for 2022 was 4% of a participating employee’s compensation (as defined in the plan document).

The approximate contributions actually made by employees and the Authority for the year ended June 30, 2022 were as follows:

Employees’ contributions	\$ 3,522,000
Authority’s contributions	<u>2,366,000</u>
	<u><u>\$ 5,888,000</u></u>

Note 12: Contingencies and Other Matters

Litigation

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

Note 13: Related-Party Transactions

The primary services JCMH HCC (including its wholly owned subsidiary) provides to the Authority are CT scan services, rental of building space, and the sale of durable medical equipment and supplies to patients of the Authority.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

The following are the significant related-party transactions between the Authority and JCMH HCC:

JCMH HCC provided CT scan services to the Authority of approximately \$2,880,000 for the year ended June 30, 2022. Included in accounts payable of the Authority for unpaid CT scan services provided by JCMH HCC is approximately \$4,364,000 as of June 30, 2022. The total amount included in accounts payable of the Authority to JCMH HCC is approximately \$5,277,000 as of June 30, 2022. At June 30, 2022, none of these accounts payable were considered noncurrent and classified as due to JCMH HCC – noncurrent on the accompanying balance sheet. At December 31, 2021, the amounts included as accounts receivable from the Authority for these services totaled approximately \$797,000. These amounts are reflected on JCMH HCC’s financial statements in the accompanying financial statements as other receivables – related parties.

The Authority provides various management and administrative services to JCMH HCC for which the Authority is reimbursed. During 2022, the Authority billed JCMH HCC approximately \$2,869,000. Included in other receivables – related parties at June 30, 2022 is approximately \$565,000 due from JCMH HCC for providing various management and administrative services. Differences on the accompanying balance sheet between JCMH HCC and the Authority reflect differences between each entity’s year-end.

The Authority leases building space from JCMH HCC under a one-year short-term lease agreement. Rent expense under this lease was approximately \$581,000 for the year ended June 30, 2022.

From time to time, JCMH HCC pledges financial support to the Authority. This financial support is primarily in the form of contributions to the Authority for the purchase of certain infrastructure and other equipment needs of the Authority.

In 2022, JCMH HCC gave the Authority gifts and pledged contributions of approximately \$57,000 to the Authority for the purchase of specific infrastructure needs, which is included in capital gifts to the Authority from JCMH HCC on the accompanying statement of revenues, expenses, and changes in net position.

Approximately \$3,735,000 of the pledged amounts were unpaid at June 30, 2022 and are included on the accompanying balance sheet as contribution receivable from JCMH HCC and contribution receivable from JCMH HCC – noncurrent.

Note 14: Investments in Equity Investees

The investments in equity investees relate to an approximate 29% ownership in Cancer Centers of Southwest Oklahoma, LLC (CCSO), an approximate 9% ownership in LifeCare Health Services, L.L.C. (LifeCare), an approximate 5% ownership in Tecumseh, and an approximate 12% ownership in LifeCare Association Insurance Exchange (LAIE) at June 30, 2022. These investments in equity investees are accounted for using the equity method.

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

The financial position and results of operations of the investees are summarized below. The information summarized below represents the results of operations for CCSO and LifeCare for the fiscal year ended June 30, 2022 and the results of operations for LAIE and Tecumseh for the year ended December 31, 2021.

	December 31, 2021		June 30, 2022	
	Tecumseh	LAIE	CCSO	LifeCare
Current assets	\$ 64,053,891	\$ 4,383,577	\$ 29,759,222	\$ 8,445,379
Property and other long-term assets, net	-	38,822	17,817,583	1,523,778
Total assets	<u>\$ 64,053,891</u>	<u>\$ 4,422,399</u>	<u>\$ 47,576,805</u>	<u>\$ 9,969,157</u>
Total liabilities	\$ 22,494,081	\$ 45,020	\$ 36,624,278	\$ 579,549
Partners' equity	41,559,810	4,377,379	10,952,527	9,389,608
Total liabilities and partners' equity	<u>\$ 64,053,891</u>	<u>\$ 4,422,399</u>	<u>\$ 47,576,805</u>	<u>\$ 9,969,157</u>
Revenues	<u>\$ 14,456,940</u>	<u>\$ 657,829</u>	<u>\$ 33,027,059</u>	<u>\$ 3,306,883</u>
Excess of revenues over expenses	<u>\$ 5,698,527</u>	<u>\$ 489,459</u>	<u>\$ 2,678,849</u>	<u>\$ 980,001</u>

Complete financial statements of the equity investees may be obtained by contacting the Authority's management.

Tecumseh Health Reciprocal Risk Retention Group

The Authority purchases its professional liability (medical malpractice) and general liability insurance coverage from Tecumseh (see *Note 7*). For the year ended June 30, 2022, the Authority paid approximately \$500,000 to Tecumseh for the coverage. The Authority's investment in Tecumseh was approximately \$2,469,000 as of June 30, 2022.

Cancer Centers of Southwest Oklahoma, LLC

CCSO was formed to develop and operate three facilities specializing in providing cancer treatment services for the residents of southwest Oklahoma. The Authority's investment in CCSO was approximately \$3,173,000 as of June 30, 2022.

LifeCare Health Services, L.L.C.

LifeCare is an equity investee between certain hospitals in Oklahoma organized to collaborate and share expenses and expertise to expand or enhance healthcare services in the communities served

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

by each participating hospital in furtherance of their independent missions. The Authority's investment in LifeCare was approximately \$986,000 as of June 30, 2022.

LifeCare Association Insurance Exchange

The Authority purchases its property insurance coverage from LAIE. For the year ended June 30, 2022, the Authority paid approximately \$111,000 to LAIE for the coverage. The Authority's investment in LAIE was approximately \$654,000 as of June 30, 2022.

Other Insignificant Investments in Equity Investees

The Authority holds other insignificant investments in MSO Healthcare of Oklahoma, LLC.

Note 15: JCMH Health Care Corporation

The following information relates to the Authority's discretely presented component unit, JCMH HCC, and is as of and for the year ended December 31, 2021.

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. JCMH HCC's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with FDIC insurance and other acceptable collateral in specific amounts.

At December 31, 2021, approximately \$288,000 of JCMH HCC's bank balances of approximately \$12,440,000 were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits and investments are included in the December 31 balance sheets as follows:

Carrying value	
Deposits	\$ 12,381,019
Cash on hand	1,159
	<u>12,382,178</u>
	<u>\$ 12,382,178</u>
Included in the following balance sheet captions	
Cash and cash equivalents	\$ 9,132,928
Short-term investments	3,249,250
	<u>12,382,178</u>
	<u>\$ 12,382,178</u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Capital Assets

Capital assets activity for the year ended December 31, 2021 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,489,569	\$ -	\$ -	\$ -	\$ 1,489,569
Buildings and improvements	20,094,179	3,070	(14,428)	-	20,082,821
Furniture, fixtures, and equipment	4,619,899	93,262	(62,170)	-	4,650,991
	<u>26,203,647</u>	<u>96,332</u>	<u>(76,598)</u>	<u>-</u>	<u>26,223,381</u>
Less accumulated depreciation					
Buildings and improvements	11,874,954	634,169	-	-	12,509,123
Furniture, fixtures, and equipment	2,352,321	125,623	(43,778)	-	2,434,166
	<u>14,227,275</u>	<u>759,792</u>	<u>(43,778)</u>	<u>-</u>	<u>14,943,289</u>
Capital assets, net	<u>\$ 11,976,372</u>	<u>\$ (663,460)</u>	<u>\$ (32,820)</u>	<u>\$ -</u>	<u>\$ 11,280,092</u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Note 16: Combining Component Unit Information

The following table includes condensed combining balance sheet information for the Authority and its blended component unit as of June 30, 2022:

	Authority	Foundation	Total
Assets			
Current assets	\$ 22,946,965	\$ 303,043	\$ 23,250,008
Capital assets, net	20,332,032	-	20,332,032
Lease assets, net	759,291	-	759,291
Other assets	10,930,350	56,656	10,987,006
	<u>54,968,638</u>	<u>359,699</u>	<u>55,328,337</u>
Total assets	<u>\$ 54,968,638</u>	<u>\$ 359,699</u>	<u>\$ 55,328,337</u>
Liabilities			
Current liabilities	\$ 16,144,745	\$ 5,573	\$ 16,150,318
Other noncurrent liabilities	780,869	-	780,869
	<u>16,925,614</u>	<u>5,573</u>	<u>16,931,187</u>
Total liabilities	<u>16,925,614</u>	<u>5,573</u>	<u>16,931,187</u>
Deferred Inflows of Resources			
	<u>42,417</u>	<u>-</u>	<u>42,417</u>
Net Position			
Net investment in capital assets	20,310,409	-	20,310,409
Restricted expendable	3,848,509	268,525	4,117,034
Unrestricted	13,841,689	85,601	13,927,290
	<u>38,000,607</u>	<u>354,126</u>	<u>38,354,733</u>
Total net position	<u>38,000,607</u>	<u>354,126</u>	<u>38,354,733</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 54,968,638</u>	<u>\$ 359,699</u>	<u>\$ 55,328,337</u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

The following table includes condensed combining statement of revenues, expenses, and changes in net position information for the Authority and its blended component unit for the year ended June 30, 2022. All depreciation and amortization expense for the year ended June 30, 2022 is related to the Authority.

	Authority	Foundation	Total
Operating revenues	\$ 82,288,810	\$ -	\$ 82,288,810
Operating expenses	<u>89,349,043</u>	<u>52,383</u>	<u>89,401,426</u>
Operating loss	(7,060,233)	(52,383)	(7,112,616)
Nonoperating revenues	4,944,106	45,989	4,990,095
Capital gifts	<u>56,034</u>	<u>-</u>	<u>56,034</u>
Decrease in net position	(2,060,093)	(6,394)	(2,066,487)
Net position, beginning of year	<u>40,060,700</u>	<u>360,520</u>	<u>40,421,220</u>
Net position, end of year	<u><u>\$ 38,000,607</u></u>	<u><u>\$ 354,126</u></u>	<u><u>\$ 38,354,733</u></u>

The following table includes condensed combining statement of cash flows information for the Authority and its blended component unit for the year ended June 30, 2022:

	Authority	Foundation	Total
Net cash used in operating activities	\$ (4,661,420)	\$ (105,224)	\$ (4,766,644)
Net cash provided by noncapital financing activities	2,465,329	45,196	2,510,525
Net cash used in capital and related financing activities	(783,756)	-	(783,756)
Net cash provided by investing activities	<u>15,786</u>	<u>19,306</u>	<u>35,092</u>
Decrease in cash and cash equivalents	(2,964,061)	(40,722)	(3,004,783)
Cash and cash equivalents, beginning of year	<u>9,212,377</u>	<u>234,236</u>	<u>9,446,613</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,248,316</u></u>	<u><u>\$ 193,514</u></u>	<u><u>\$ 6,441,830</u></u>

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

Note 17: Leases Receivable

The Authority leases a portion of its office space to various third parties, the terms of which expire 2023 through 2059.

Revenue recognized under lease contracts during the year ended June 30, 2022 was approximately \$30,600, which includes both lease revenue and interest. There were no variable or other payments received not previously included in the amount of the lease receivable.

Note 18: 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.

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

Because of these and other uncertainties, the Authority cannot estimate the length or severity of the impact of the pandemic on the Authority'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.

Provider Relief Fund

During the year ended June 30, 2022, the Authority received approximately \$2,901,000 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Authority 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 Authority is accounting for such payments as conditional contributions. 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 Authority's operating revenues and expenses through year-end, the Authority recognized approximately \$2,901,000 during the year ended June 30, 2022 related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – government grants in the accompanying statement of revenues, expenses, and changes in net position.

The Authority has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2022. The Authority will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Authority's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Notes to Financial Statements
June 30, 2022

subject to interpretation and change. If the Authority is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the accompanying financial statements compared to the Authority's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare Accelerated and Advance Payment Program

During the year ended June 30, 2020, the Authority requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible healthcare 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 healthcare 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%.

During the year ended June 30, 2020, the Authority received approximately \$7,757,000 from these accelerated Medicare payment requests. During the year ended June 30, 2022, Medicare applied approximately \$6,612,000 from these accelerated Medicare payment requests against filed claims. As of June 30, 2022, the Authority had no outstanding payments due to CMS.

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

Independent Auditor's Report

Board of Trustees
Jackson County Memorial Hospital Authority
Altus, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Jackson County Memorial Hospital Authority (the Authority), a component unit of Jackson County, Oklahoma, and JCMH Health Care Corporation (JCMH HCC), its discretely presented component unit, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 26, 2023, which contained an *Other Matter* paragraph regarding omission of required supplementary information and 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 Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Trustees
Jackson County Memorial Hospital Authority

Report on Compliance and Other Matters

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

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 result 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
January 26, 2023

Jackson County Memorial Hospital Authority
A Component Unit of Jackson County, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2022

**Reference
Number**

Finding

No matters are reportable.