



Financial Statements  
June 30, 2024 and 2023

**Love County Health Center dba  
Mercy Health Love County**

A Component Unit of Love County, Oklahoma

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Financial Statements

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## Independent Auditor's Report

The Board of Control  
Love County Health Center dba  
Mercy Health Love County  
A Component Unit of Love County, Oklahoma  
Marietta, Oklahoma

### ***Opinion***

We have audited the financial statements of the business-type activities of the Love County Health Center dba Mercy Hospital Love County (Hospital), a Component Unit of Love County, Oklahoma, as of and for the years then ended June 30, 2024 and 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 respective financial position of the Hospital, as of June 30, 2024 and 2023, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Required Supplementary Information***

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our 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 March 24, 2025 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
March 24, 2025

Love County Health Center dba  
Mercy Health Love County  
Statements of Net Position  
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 14,337,880	\$ 7,474,946
Restricted cash for Provider Relief Funds	-	215,887
Receivables		
Patient, net of estimated uncollectibles of approximately \$1,315,000 in 2024 and \$748,000 in 2023	768,464	1,081,004
Sales tax	339,771	380,723
Estimated third-party payor settlements	308,513	562,221
Other	24,954	20,756
Supplies	28,748	264,164
Prepaid expenses	<u>209,990</u>	<u>151,151</u>
Total current assets	<u>16,018,320</u>	<u>10,150,852</u>
Capital assets		
Capital assets not being depreciated	1,154,351	1,161,566
Capital assets being depreciated, net	<u>1,062,219</u>	<u>3,142,112</u>
Total capital assets	<u>2,216,570</u>	<u>4,303,678</u>
Total assets	<u><u>\$ 18,234,890</u></u>	<u><u>\$ 14,454,530</u></u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable		
Trade	\$ 158,364	\$ 152,529
Mercy contract personnel	3,137,758	3,298,974
Due to Mercy	2,362,268	2,730,278
Other	257,846	225,533
Refundable advance - Provider Relief Funds	<u>-</u>	<u>215,887</u>
Total current liabilities	<u>5,916,236</u>	<u>6,623,201</u>
Net Position		
Net investment in capital assets	2,216,570	4,303,678
Unrestricted	<u>10,102,084</u>	<u>3,527,651</u>
Total net position	<u>12,318,654</u>	<u>7,831,329</u>
Total liabilities and net position	<u><u>\$ 18,234,890</u></u>	<u><u>\$ 14,454,530</u></u>

Love County Health Center dba  
Mercy Health Love County  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$1,877,523 in 2024 and \$2,018,168 in 2023	\$ 12,355,235	\$ 12,950,695
First Aid and EMS contract revenue	2,387,939	2,290,122
Management service	376,805	404,968
Other revenue	123,958	91,351
Total operating revenues	<u>15,243,937</u>	<u>15,737,136</u>
Operating Expenses		
Nursing services	3,797,671	3,572,518
Other professional services	8,226,277	7,893,729
General services	773,698	917,705
Administrative services	4,712,201	4,575,495
Depreciation	458,122	577,896
Total operating expenses	<u>17,967,969</u>	<u>17,537,343</u>
Operating Loss	<u>(2,724,032)</u>	<u>(1,800,207)</u>
Nonoperating Revenues		
Interest Income	259,693	29,922
Sales tax income	2,295,162	2,075,629
Provider Relief Funds	215,887	375,659
Grants and contributions	-	252,949
Net nonoperating revenues	<u>2,770,742</u>	<u>2,734,159</u>
Revenues in Excess of Expenses	46,710	933,952
Gain from Involuntary Conversion	<u>4,440,615</u>	<u>-</u>
Change in Net Position	4,487,325	933,952
Net Position, Beginning of Year	<u>7,831,329</u>	<u>6,897,377</u>
Net Position, End of Year	<u><u>\$ 12,318,654</u></u>	<u><u>\$ 7,831,329</u></u>

Love County Health Center dba  
Mercy Health Love County  
Statements of Cash Flows  
Years Ended June 30, 2024 and 2023

	2024	2023
Operating Activities		
Receipts from and on behalf of patients	\$ 12,921,483	\$ 13,657,113
Payments to suppliers and contractors	(4,878,573)	(4,409,707)
Payments to contract personnel	(12,945,775)	(12,303,556)
Other receipts and payments, net	2,884,504	2,784,888
Net Cash used for Operating Activities	<u>(2,018,361)</u>	<u>(271,262)</u>
Noncapital Financing Activities		
Sales taxes received	2,336,114	2,070,380
Payment of Provider Relief Funds	-	(205,726)
Noncapital grants and contributions	-	252,949
Net Cash from Noncapital Financing Activities	<u>2,336,114</u>	<u>2,117,603</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	(574,168)	(51,618)
Proceeds from involuntary conversion	6,643,769	-
Net Cash from (used for) Capital and Capital Related Financing Activities	<u>6,069,601</u>	<u>(51,618)</u>
Net Cash from Investing Activities		
Investment income	<u>259,693</u>	<u>29,922</u>
Net Change in Cash and Cash Equivalents	6,647,047	1,824,645
Cash and Cash Equivalents, Beginning of Year	<u>7,690,833</u>	<u>5,866,188</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 14,337,880</u></u>	<u><u>\$ 7,690,833</u></u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 14,337,880	\$ 7,474,946
Restricted cash for Provider Relief Funds	<u>-</u>	<u>215,887</u>
Total cash and cash equivalents	<u><u>\$ 14,337,880</u></u>	<u><u>\$ 7,690,833</u></u>



Love County Health Center dba  
Mercy Health Love County  
Statements of Cash Flows  
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (2,724,032)	\$ (1,800,207)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation	458,122	577,895
Provision for bad debts	1,877,523	2,018,168
Changes in assets and liabilities		
Patient receivables	(1,564,983)	(1,622,951)
Other receivables	(4,198)	(1,553)
Supplies	235,416	26,946
Prepaid expenses	(58,839)	(30,456)
Trade payables	5,835	63,301
Mercy contract personnel	32,313	32,671
Due to Mercy	(368,010)	140,042
Other payables	(161,216)	13,681
Estimated third-party payor settlements	<u>253,708</u>	<u>311,201</u>
Net Cash used for Operating Activities	<u>\$ (2,018,361)</u>	<u>\$ (271,262)</u>

## **Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of the Love County Health Center dba Mercy Health Love County (the Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

### **Reporting Entity**

The Hospital is a twenty-five bed, short-term, acute care, critical access hospital located in Marietta, Oklahoma. Management of the Hospital is composed of a five-member board of control appointed by the Love County Commissioners. The Hospital has entered into a Management Services Agreement with Mercy Hospital Ardmore, Inc. (Mercy) for a one-year term that is renewable annually. The Hospital is a component unit of Love County, Oklahoma. The Hospital is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

### **Measurement Focus and Basis of Accounting**

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the Hospital's assets and liabilities with the difference reported as net position. Net position is reported in the following components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

*Restricted net position:*

Expendable -Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. The Hospital had no restricted, expendable net position at June 30, 2024 and 2023.

Nonexpendable-Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital. The Hospital had no restricted, nonexpendable net position at June 30, 2024 and 2023.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

**Use of Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding restricted cash. For purposes of the statement of cash flows, the Hospital considers all cash with a maturity of three months or less as cash and cash equivalents.

**Restricted Cash**

Cash that has restrictions which change the nature or normal understanding of availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets which includes amounts associated with Provider Relief Funds.

### **Patient Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collections procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

### **Sales Tax**

On October 8, 2013, the citizens of Love County, Oklahoma approved a 1% sales tax for a duration of 10 years. The sales tax was renewed for another 10 years on February 14, 2023. The funds are to be used for the equipping, maintaining, and operating the Hospital. The Hospital received approximately 13% and 11% of its financial support from county appropriations related to sales taxes during the years ended June 30, 2024 and 2023.

### **Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

### **Investment Income**

Investment income on cash and cash equivalents consists primarily of interest from deposits which are included in nonoperating revenues when earned.

### **Capital Assets**

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Land improvements	5-25 years
Buildings and improvements	5-50 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

### **Impairment of Long-Lived Assets**

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. The Hospital sustained damage from a natural disaster resulting in an impairment loss of \$2,203,154. The Authority received insurance proceeds in the amount of \$6,643,769. These amounts are included in the gain on involuntary conversion. No impairment was identified for the year ended June 30, 2023.

### **Operating Revenues and Expenses**

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

### **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### **Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Hospital's charity care policy were \$302,919 and \$216,283 for the years ended June 30, 2024 and 2023. Total direct and indirect cost related to those forgone charges were approximately \$210,000 and \$140,000 for the years ended June 30, 2024 and 2023, based on average ratios of cost to gross charges. The amount of charity care given depends on the number of patients that apply for charity care during the year and the cost of services provided.

## Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues.

## Note 2 - Net Patient Service Revenue

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

**Medicare:** The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2022. Clinical services are paid on a cost basis or fixed fee schedule.

**Medicaid:** The Hospital is reimbursed for services rendered to patients covered by the state Medicaid program on a prospective per discharge or fee schedule method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended June 30, 2024 and 2023:

	2024	2023
Medicare	33%	36%
Medicaid	19%	19%
Commercial insurance and other	37%	36%
Self pay	11%	9%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient service revenue for the year ended June 30, 2024 decreased approximately \$87,000 for the difference in amounts collected compared to amounts originally estimated.

### **Note 3 - Deposits**

The carrying amounts of deposits as of June 30, 2024 and 2023 are included in the Hospital's statement of net position as follows:

	<u>2024</u>	<u>2023</u>
Carrying amount		
Cash and deposits	<u>\$ 14,337,880</u>	<u>\$ 7,690,833</u>

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 14,337,880	\$ 7,474,946
Restricted cash for Provider Relief Funds	<u>-</u>	<u>215,887</u>
	<u>\$ 14,337,880</u>	<u>\$ 7,690,833</u>

### **Deposits - Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Hospital. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Hospital's deposit policy does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at June 30, 2024 and 2023 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

**Note 4 - Provider Relief Funds and Other Funding**

The Hospital received Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has varying deadlines to incur eligible expenses and lost revenues based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As of June 30, 2024 and 2023, the Hospital had a liability of \$-0- and \$215,887, which was included in refundable advance - Provider Relief Funds on the accompanying statements of net position, as well as restricted cash totaling \$-0- and \$215,887, which is subject to the restrictions imposed by HHS. During the years ended June 30, 2024 and 2023, the Hospital recognized \$215,887 and \$375,659 as revenue included as nonoperating revenues on the statements of revenues, expenses and changes in net position. The Hospital returned \$205,726 of unused Provider Relief Funds during 2023.



**Note 5 - Capital Assets**

Capital assets additions, retirements, transfers and balances for the years ended June 30, 2024 are as follows:

	Balance June 30, 2023	Additions	Transfers and Retirements	Balance June 30, 2024
Capital assets not being depreciated				
Land	\$ 1,161,566	\$ -	\$ (7,215)	\$ 1,154,351
Capital assets being depreciated				
Land improvements	\$ 735,973	\$ 23,837	\$ -	\$ 759,810
Building and improvements	5,182,716	9,180	(3,641,912)	1,549,984
Equipment	8,116,502	541,151	(1,091,109)	7,566,544
Total capital assets being depreciated	14,035,191	\$ 574,168	\$ (4,733,021)	9,876,338
Less accumulated depreciation for				
Land improvements	(451,935)	\$ (37,676)	\$ 157,512	(332,099)
Building and improvements	(3,171,975)	(197,509)	1,923,623	(1,445,861)
Equipment	(7,269,169)	(222,937)	455,947	(7,036,159)
Total accumulated depreciation	(10,893,079)	\$ (458,122)	\$ 2,537,082	(8,814,119)
Net capital assets being depreciated	\$ 3,142,112			\$ 1,062,219
Capital assets, net	\$ 4,303,678			\$ 2,216,570

Love County Health Center dba  
Mercy Health Love County  
Notes to Financial Statements  
June 30, 2024 and 2023

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

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

## Note 6 - Management Agreement

The Hospital is currently managed by Mercy. The management agreement is renewed annually on July 1 for the succeeding 12-month period. The management agreement was renewed on July 1, 2024 through June 30, 2025. The Hospital is to pay an annual payment of \$290,000 during the first fiscal quarter and a payment of \$30,000 per month. The Hospital contracts with Mercy for all its personnel. The Hospital incurred expenses totaling \$16,904,839 and \$15,423,553 for contracted salary and benefits, management fees and other professional services for the years ended June 30, 2024 and 2023. As of June 30, 2024 and 2023, the Hospital owes Mercy \$5,500,026 and \$6,029,252 for contracted salary and benefits, management fees and other professional services.

**Note 7 - Emergency Medical Services Contract**

The Hospital has a one-year contract with Love County Emergency Medical Services (EMS) Board of Trustees to operate ambulance services to the County's residents. The EMS Board of Trustees transfers property tax revenues received to the Hospital as compensation for the services provided under the EMS contract. The contract may be renewed annually upon mutual consent of both parties. Included in operating revenue for the years June 30, 2024 and 2023, is \$376,805 and \$404,968 for services rendered under the contract.

**Note 8 - Chickasaw Nation Contracts**

The Hospital currently has contracts with the Chickasaw Nation to provide onsite Brigade Services (First Aid) and Emergency Medical Services (Ambulance) at the Winstar Casino located in Thackerville, Oklahoma and Riverwind Casino located in Norman, Oklahoma. For the years ended June 30, 2024 and 2023, the Hospital received \$1,029,212, and \$1,185,554, under the Emergency Medical Service contract. For the years ended June 30, 2024 and 2023, the Hospital received \$1,358,727, and \$1,104,568, under the Brigade Services contract.

**Note 9 - Concentrations of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from third-party payors and patients at June 30, 2024 and 2023 was as follows:

	2024	2023
Medicare	17%	20%
Medicaid	6%	5%
Commercial insurance and other	43%	54%
Self pay	34%	21%
	<u>100%</u>	<u>100%</u>

**Note 10 - Supplemental Hospital Offset Payment Program Act**

The Supplemental Hospital Offset Payment Program Act (SHOPP) – Fee for Service, designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds for the state of Oklahoma from federal sources. The SHOPP is currently set to sunset on December 31, 2025. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. As a critical access hospital, the Hospital is exempt from the assessment fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the Hospital.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as a reduction in Medicaid contractual adjustments.

The State has a second pool SHOPP – State Directed Payment which are made through the Sooner Select managed care program and does not impact the fee for service SHOPP. The Sooner Select contract period runs from April 1, 2024 through June 30, 2025. To facilitate payment timing continuity to the extent practical during Oklahoma's transition to managed care, OHCA is initially making quarterly interim payments to each SHOPP eligible hospital based on modeled managed care plan discharges and base payments. However, in order to comply with CMS requirements, OHCA will perform a reconciliation based on actual in-network managed care plan discharges and payments for the April 2024 through June 2025 contract period. This reconciliation will be performed following the conclusion of the contract period and after the contract period encounter data is sufficiently complete. Without results of all hospitals in the state for the year end June 30, 2024 and the related redistribution by facility, the Hospital is unable to estimate settlements at this time for the fiscal year 2024.

The Hospital received SHOPP funds totaling approximately \$1,491,000 and \$1,163,000 for the years ended June 30, 2024 and 2023, which are included in net patient service revenue.

The SHOPP is expected to change in fiscal year 2025 due to the State of Oklahoma's shift to managed care Medicaid. Future changes in law or regulation at the federal or state level can affect or eliminate SHOPP.

## **Note 11 - Contingencies**

### **Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

### **Malpractice Insurance**

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

### **Litigations, Claims, and Disputes**

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

#### **Note 12 - Financial Impact of Natural Disaster**

On April 27, 2024, the Hospital and its community experienced a significant natural disaster, a tornado. The natural disaster resulted in significant property damage and loss of revenue due to discontinuance of certain services during the closure of the facility. The physical damage to buildings and certain equipment, repair and restoration costs, loss of revenue and related insurance recoveries have been accounted for in the accompanying financial statements as follows.

Insurance recoveries for capital assets of \$4,440,615 were recognized as an increase in net position on the statement of revenues, expenses, and changes in net position for the year ended June 30, 2024. This amount consists of the insurance recoveries recognized of \$6,643,769 less the building impairment of \$2,203,154, which represents the book value of the capital assets impaired.

Management has submitted a claim for business interruption insurance for \$1,307,000, which was subsequently denied by the carrier. Management is appealing the denial.

The Hospital was able to open their rural health clinic, respiratory (EKG) and laboratory departments in June 2024. Outpatient physical therapy and radiology (ultrasounds) departments were open in July 2024. The laboratory department was closed in February 2025. The Hospital is scheduled to open their emergency department in June 2025 followed by laboratory and the remaining radiology departments. The ambulance service never ceased operations after the disaster.

Subsequent to year end, the Hospital received \$718,379 for additional related costs incurred. Management estimates the total costs to restore and replace the buildings and equipment as of June 30, 2024 is approximately \$43.2 million.

During the year ended June 30, 2024, the Hospital expended approximately \$80,000 to repair and restore the building which is necessary before the rebuilding process can begin for which related insurance proceeds have been offset against these costs within operating expenses on the statement of revenues, expenses, and changes in net position.



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

The Board of Control  
Love County Health Center dba  
Mercy Health Love County  
Marietta, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities of Love County Health Center dba Mercy Health Love County (Hospital), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 24, 2025.

**Report on Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2024-001 and 2024-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2024-003 to be a significant deficiency.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2024-004.

### **Hospital's Response to Findings**

*Government Audit Standards* requires the auditor to perform limited procedures on the Hospital's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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

The signature is written in a cursive, handwritten style. It reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
March 24, 2025

## Findings – Financial Statements Audit – Internal Controls over Financial Reporting

### Material Weaknesses

#### 2024-001 Preparation of Financial Statements

*Criteria:* A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

*Condition:* The Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, material misstatements to the financial statements for inventory adjustments, sales tax reconciliation, provide relief fund recognition, insurance proceeds and accounting for impairment were identified.

*Cause:* This weakness is due to the limited resources in the financial reporting process due to budgetary constraints and not all material service agreements were in writing. In addition, the Hospital experienced a natural disaster which resulted in significant and unusual transactions.

*Effect:* The effect of this condition is that year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to interim financial statements. Additionally, the financial statements required material adjustments.

*Auditor's Recommendation:* We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally and correct errors. Also, the Hospital should include written agreements between parties to ensure proper accounting is followed.

*Views of Responsible Officials:* Given the staffing levels of the Hospital, we do not think it would be cost-effective to fully cure this deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

#### 2024-002 Cost Report Estimate

*Criteria:* A properly designed system of internal control over financial reporting allows entities to initiate, record, process and report financial data reliably in accordance with generally accepted accounting principles.



*Condition:* The allowance calculation for the Medicare cost report settlement was not properly estimated during the year.

*Cause:* A misstatement to the internal financial statements was not prevented or detected on a timely basis in the normal course of business. Therefore, there was an adjusting journal entry at year end to properly state estimated third party payor settlements.

*Effect:* Interim financial statements may not be properly stated. A material audit adjustment was made to estimated third party payor settlements.

*Auditor's Recommendation:* We recommend that a process is put in place to ensure the estimate for the Medicare cost report settlement is being made at year end and periodically throughout the year as determined necessary by management.

*Views of Responsible Officials:* Management will work to analyze these accounts and determine the proper course of action on the accounts.

### **Significant Deficiency**

#### **2024-003      Capital Asset Listing**

*Criteria:* A proper control over capital asset is to maintain a detailed listing of the assets. The listing should be reconciled to the general ledger on a timely basis to ensure accurate accounting.

*Condition:* During the year, the Hospital was damaged by a tornado that resulted in significant damage and impairment and to buildings, improvements, and equipment. Management removed capital assets that had a net book value that were no longer in service however assets that have been fully depreciated remained on the listing.

*Cause:* The Hospital has not completed a full inventory of their capital assets.

*Effect:* The capital assets are overstated in the statement of net position.

*Auditor's Recommendation:* We recommend that the Hospital completes a full inventory of their capital asset listing and remove all assets no longer in service.

*Views of Responsible Officials:* Management will work on to review and update the capital asset listing to ensure a full and accurate listing.

**Deficiency in Internal Control Over Compliance**

**2024-004      Maintenance of Insurance**

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

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

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

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

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

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