# Norton County Hospital
## A Component Unit of Norton County, Kansas

Independent Auditor's Report and Financial Statements

June 30, 2021 and 2020

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### June 30, 2021 and 2020

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# Independent Auditor's Report

Board of Trustees
Norton County Hospital
Norton, Kansas

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

## *Management's Responsibility for the Financial Statements*

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

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norton County Hospital as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Praxity
MEMBER
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## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the pension and other postemployment benefit information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Norton County Hospital's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Wichita, Kansas
February 18, 2022

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Balance Sheets
### June 30, 2021 and 2020

## Assets and Deferred Outflows of Resources

| | 2021 | 2020 |
|---|---|---|
| **Current Assets** | | |
| Cash | $ 3,871,881 | $ 6,546,101 |
| Short-term certificates of deposit | 1,786,256 | 1,760,566 |
| Patient accounts receivable, net of allowance; 2021 - $566,000, 2020 - $585,000 | 2,587,583 | 2,497,054 |
| Noncapital appropriations receivable | 75,769 | 57,969 |
| Estimated amounts due from third-party payers | 118,000 | 275,857 |
| Contract pharmacy receivable | 67,855 | 79,314 |
| Supplies | 337,424 | 285,419 |
| Prepaid expenses | 204,720 | 143,341 |
| Other | 17,577 | - |
| Total current assets | 9,067,065 | 11,645,621 |
| **Noncurrent Certificates of Deposit** | | |
| Restricted by donors for capital acquisitions | 87,479 | 94,455 |
| | 87,479 | 94,455 |
| **Capital Assets, Net** | 4,091,569 | 3,826,786 |
| **Other Assets** | 336,834 | 189,000 |
| Total assets | 13,582,947 | 15,755,862 |
| **Deferred Outflows of Resources** | | |
| Pension | 1,650,879 | 952,962 |
| Other postemployment benefits | 133,743 | 982 |
| Total deferred outflows of resources | 1,784,622 | 953,944 |
| Total assets and deferred outflows of resources | $ 15,367,569 | $ 16,709,806 |

*See Notes to Financial Statements*

## Liabilities, Deferred Inflows of Resources and Net Position

| | 2021 | 2020 |
|---|---|---|
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ 123,279 | $ 118,318 |
| Accounts payable | 604,781 | 335,777 |
| Accrued expenses | 740,893 | 806,057 |
| Due to HHS | 1,895,089 | - |
| Unearned revenue | 149,462 | 3,742,060 |
| Total current liabilities | 3,513,504 | 5,002,212 |
| **Long-term Debt** | 611,293 | 1,981,173 |
| **Net Pension Liability** | 4,917,319 | 4,301,475 |
| **Total Other Postemployment Benefits Liability** | 202,251 | 77,200 |
| Total liabilities | 9,244,367 | 11,362,060 |
| **Deferred Inflows of Resources** | | |
| Pension | 934,557 | 926,327 |
| Other postemployment benefits | 38,802 | 44,310 |
| Total deferred inflows of resources | 973,359 | 970,637 |
| **Net Position** | | |
| Net investment in capital assets | 3,356,997 | 2,973,895 |
| Restricted - expendable for Capital acquisitions | 87,479 | 94,455 |
| Unrestricted | 1,705,367 | 1,308,759 |
| Total net position | 5,149,843 | 4,377,109 |
| Total liabilities, deferred inflows of resources and net position | $ 15,367,569 | $ 16,709,806 |

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Statements of Revenues, Expenses and Changes in Net Position
### Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Operating Revenues** | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2021 - $556,595, 2020 - $628,332 | $ 12,358,579 | $ 11,113,055 |
| Contract pharmacy revenue | 1,225,817 | 1,208,428 |
| Other | 200,121 | 154,736 |
| Total operating revenues | 13,784,517 | 12,476,219 |
| **Operating Expenses** | | |
| Salaries | 7,066,080 | 5,709,406 |
| Employee benefits | 1,529,284 | 1,414,234 |
| Purchased services and professional fees | 3,698,554 | 3,168,713 |
| Drugs | 1,152,719 | 1,223,787 |
| Medical and surgical supplies | 386,666 | 425,942 |
| Food | 83,261 | 67,906 |
| Utilities | 247,174 | 227,015 |
| Legal and accounting fees | 155,484 | 102,181 |
| Other supplies and expenses | 1,521,975 | 1,434,809 |
| Depreciation | 609,966 | 563,132 |
| Total operating expenses | 16,451,163 | 14,337,125 |
| **Operating Loss** | (2,666,646) | (1,860,906) |
| **Nonoperating Revenues (Expenses)** | | |
| Noncapital appropriations - Norton County | 189,300 | 181,481 |
| Investment income | 42,883 | 105,757 |
| Interest expense | (33,536) | (39,632) |
| Gain (loss) on disposal of capital assets | 250 | (2,746) |
| Noncapital grants and gifts | 196,374 | 171,727 |
| Provider Relief Funds (*CARES Act*) | 1,797,509 | - |
| Paycheck Protection Program (PPP) loan forgiveness | 1,246,600 | - |
| Total nonoperating revenues (expenses) | 3,439,380 | 416,587 |
| **Increase (Decrease) in Net Position** | 772,734 | (1,444,319) |
| **Net Position, Beginning of Year** | 4,377,109 | 5,821,428 |
| **Net Position, End of Year** | $ 5,149,843 | $ 4,377,109 |

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Statements of Cash Flows
### Years Ended June 30, 2021 and 2020

| | 2021 | 2020 |
|---|---|---|
| **Operating Activities** | | |
| Receipts from and on behalf of patients | $ 12,437,366 | $ 11,115,020 |
| Payments to suppliers and contractors | (7,257,175) | (6,562,012) |
| Payments to employees | (8,747,589) | (7,066,462) |
| Other receipts, net | (271,571) | 5,105,224 |
| Net cash provided by (used in) operating activities | (3,838,969) | 2,591,770 |
| **Noncapital Financing Activities** | | |
| Noncapital appropriations - Norton County | 171,500 | 185,000 |
| Noncapital grants and gifts | 196,374 | 171,727 |
| Provider Relief Funds (*CARES Act*) | 1,797,509 | - |
| Proceeds from issuance of long-term debt | - | 1,246,600 |
| Net cash provided by noncapital financing activities | 2,165,383 | 1,603,327 |
| **Capital and Related Financing Activities** | | |
| Principal paid on long-term debt | (118,319) | (228,987) |
| Interest paid on long-term debt | (31,985) | (39,419) |
| Proceeds from sale of capital assets | - | 501 |
| Purchase of capital assets | (874,499) | (214,680) |
| Net cash used in capital and related financing activities | (1,024,803) | (482,585) |
| **Investing Activities** | | |
| Investment income received | 42,883 | 105,757 |
| Purchase of certificates of deposit | (3,556,925) | (4,014,129) |
| Proceeds from disposition of certificates of deposit | 3,538,211 | 4,805,096 |
| Net cash provided by investing activities | 24,169 | 896,724 |
| **Increase (Decrease) in Cash** | (2,674,220) | 4,609,236 |
| **Cash, Beginning of Year** | 6,546,101 | 1,936,865 |
| **Cash, End of Year** | $ 3,871,881 | $ 6,546,101 |

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Statements of Cash Flows (Continued)
### Years Ended June 30, 2021 and 2020

| | | |
|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities** | | |
| Operating loss | $ (2,666,646) | $ (1,860,906) |
| Depreciation | 609,966 | 563,132 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | (90,529) | (344,081) |
| Estimated amounts due from and to third-party payers | 169,316 | 346,046 |
| Accounts payable and accrued expenses | 115,228 | 138,462 |
| Unearned revenue | (3,592,598) | 3,742,060 |
| Due to HHS | 1,895,089 | - |
| Other assets | (278,795) | 7,057 |
| Net cash provided by (used in) operating activities | $ (3,838,969) | $ 2,591,770 |
| **Noncash Investing, Capital and Financing Activities** | | |
| PPP loan forgiveness | $ 1,246,600 | $ - |

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Notes to Financial Statements
### June 30, 2021 and 2020

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

### *Nature of Operations and Reporting Entity*

Norton County Hospital (Hospital) is an acute care hospital located in Norton, Kansas. The Hospital is a component unit of Norton County, Kansas (County), and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Norton County area.

### *Basis of Accounting and Presentation*

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

### *Patient Accounts Receivable*

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

### *Investments and Investment Income*

Investments consist of nonnegotiable certificates of deposit carried at amortized cost. Investment income includes interest income on cash and certificates of deposit.

### *Supplies*

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

### *Capital Assets*

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

| | |
|---|---|
| Land improvements | 5 – 20 years |
| Buildings | 5 – 40 years |
| Equipment | 3 – 20 years |

### *Capital Asset Impairment*

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended June 30, 2021 and 2020.

### *Compensated Absences*

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

### *Due to HHS*

Amounts shown as due to Department of Health and Human Services (HHS) are based on evaluation of eligible expenses and lost revenue through Period 1 (January 2020 – June 2021), of the Provider Relief Fund. The Hospital is required to return funds to HHS in December 2021 related to excess funds received during Period 1. See additional comments in *Note 12*

### *Paycheck Protection Program (PPP) Loan*

The Hospital received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security ACT (CARES Act)* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on December 7, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

### *Cost-Sharing Defined Benefit Pension Plan*

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement System Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### *Defined Benefit Other Postemployment Benefit Plan*

The Hospital has a single employer defined benefit other postemployment benefit (OPEB) plan, Long-Term Disability (LTD) Plan (the OPEB Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

### *Deferred Outflows of Resources*

The Hospital reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

### *Deferred Inflows of Resources*

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets.

### *Net Position*

Net position of the Hospital is classified in three components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- 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 Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### *Risk Management*

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

### *Net Patient Service Revenue*

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers 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 Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

### *Noncapital Appropriations – Norton County*

The Hospital received approximately 1% of its financial support from county appropriations derived from property taxes levied by Norton County in both 2021 and 2020. One hundred percent of these funds were used to support operations.

### *Provider Relief Funds (CARES Act)*

On March 27, 2020, the *CARES Act* was signed into law as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The *CARES Act* contained provisions for certain healthcare providers to receive Provider Relief Funds (PRF) from the U.S. Department of Health and Human Services (HHS). The distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS. The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions required to retain the funds have been met and are classified as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions is recorded as unearned revenue or due to HHS in the accompanying balance sheets.

### *Income Taxes*

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for the purpose of employees participating in Section 403(b) annuities.

## Note 2: 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 Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2021 and 2020, respectively, none of the Hospital's bank balances of $5,921,837 and $8,415,818, were exposed to custodial credit risk.

### *Summary of Carrying Values*

The carrying values of deposits shown above are included in the balance sheets as follows:

| | 2021 | 2020 |
|---|---|---|
| Carrying value | | |
| Deposits | $ 5,745,616 | $ 8,401,122 |
| Included in the following balance sheet captions | | |
| Cash | $ 3,871,881 | $ 6,546,101 |
| Short-term certificates of deposit | 1,786,256 | 1,760,566 |
| Noncurrent certificates of deposit | 87,479 | 94,455 |
| | $ 5,745,616 | $ 8,401,122 |

### *Investment Income*

Investment income for the years ended June 30, 2021 and 2020, consisted entirely of interest income.

## Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2021 and 2020, consisted of:

| | 2021 | 2020 |
|---|---|---|
| Medicare | $ 963,788 | $ 1,249,938 |
| Medicaid | 230,986 | 112,846 |
| Other third-party payers | 1,335,244 | 945,122 |
| Patients | 623,565 | 774,148 |
| | 3,153,583 | 3,082,054 |
| Less allowance for uncollectible accounts | (566,000) | (585,000) |
| | $ 2,587,583 | $ 2,497,054 |

## Note 4: Capital Assets

Capital assets activity for the years ended June 30, 2021 and 2020, were:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Land | $ 203,657 | $ - | $ - | $ - | $ 203,657 |
| Land improvements | 308,328 | - | - | - | 308,328 |
| Buildings | 10,198,089 | - | - | - | 10,198,089 |
| Equipment | 5,686,655 | 874,499 | (144,890) | - | 6,416,264 |
| Construction in progress | - | - | - | - | - |
| | 16,396,729 | 874,499 | (144,890) | - | 17,126,338 |
| Less accumulated depreciation | | | | | |
| Land improvements | 275,878 | 10,743 | - | - | 286,621 |
| Buildings | 7,266,565 | 318,104 | - | - | 7,584,669 |
| Equipment | 5,027,500 | 281,119 | (145,140) | - | 5,163,479 |
| | 12,569,943 | 609,966 | (145,140) | - | 13,034,769 |
| Capital assets, net | $ 3,826,786 | $ 264,533 | $ 250 | $ - | $ 4,091,569 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Land | $ 157,482 | $ 46,175 | $ - | $ - | $ 203,657 |
| Land improvements | 308,328 | - | - | - | 308,328 |
| Buildings | 10,159,304 | 38,785 | - | - | 10,198,089 |
| Equipment | 5,739,422 | 129,720 | (182,487) | - | 5,686,655 |
| | 16,364,536 | 214,680 | (182,487) | - | 16,396,729 |
| Less accumulated depreciation | | | | | |
| Land improvements | 262,535 | 13,343 | - | - | 275,878 |
| Buildings | 6,940,306 | 326,259 | - | - | 7,266,565 |
| Equipment | 4,983,210 | 223,530 | (179,240) | - | 5,027,500 |
| | 12,186,051 | 563,132 | (179,240) | - | 12,569,943 |
| Capital assets, net | $ 4,178,485 | $ (348,452) | $ (3,247) | $ - | $ 3,826,786 |

## Note 5: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2021 and 2020, consisted of:

| | 2021 | 2020 |
|---|---|---|
| Payable to suppliers and contractors | $ 604,175 | $ 336,722 |
| Payable to employees (including payroll taxes and benefits) | 741,499 | 805,112 |
| | $ 1,345,674 | $ 1,141,834 |

## Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance which provides $200,000 of coverage for each medical incident and $600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $800,000 of coverage for each medical incident and $2,400,000 of aggregate coverage for each policy year.

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

## Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended June 30, 2021 and 2020:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Revenue bonds payable (A) | $ 259,339 | $ - | $ 60,942 | $ 198,397 | $ 63,608 |
| Revenue bonds payable (B) | 593,552 | - | 57,377 | 536,175 | 59,671 |
| SBA PPP loan payable | 1,246,600 | - | 1,246,600 | - | - |
| Total long-term debt | $ 2,099,491 | $ - | $ 1,364,919 | $ 734,572 | $ 123,279 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Long-term debt | | | | | |
| Revenue bonds payable (A) | $ 317,689 | $ - | $ 58,350 | $ 259,339 | $ 60,942 |
| Revenue bonds payable (B) | 764,189 | - | 170,637 | 593,552 | 57,376 |
| SBA PPP loan payable | - | 1,246,600 | - | 1,246,600 | - |
| Total long-term debt | $ 1,081,878 | $ 1,246,600 | $ 228,987 | $ 2,099,491 | $ 118,318 |

### *Revenue Bonds Payable (A)*

The revenue bonds payable consists of the Norton County, Kansas Hospital Revenue Bonds Series 2004A, 2004C and 2005 in the original amounts of $200,000, $450,000 and $950,000, respectively. The bonds are payable in annual installments through May 27, 2024. The Hospital, acting as its own trustee, is required to make monthly deposits of approximately $11,857 to a debt service fund. All of the bonds still outstanding may be redeemed at the Hospital's option at any time at a redemption price of 100%. The bonds are secured by the net revenues of the Hospital and the assets restricted under the bond indenture agreement.

The indenture agreement requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.10 to 1.00 and restrictions on incurrence of additional debt. The Hospital was in compliance with the debt-service coverage ratio at June 30, 2021.

### *Revenue Bonds Payable (B)*

The revenue bonds payable consists of the Norton County, Kansas Hospital Revenue Bonds Series 2011A and 2011B in the original amounts of $1,200,000 and $1,040,000, respectively. The bonds are payable in annual installments through June 15, 2031. The Hospital made additional principal payments which has changed final maturity to 2029. The Hospital, acting as its own trustee, is required to make monthly deposits of approximately $16,979 to a debt service fund. All of the bonds still outstanding may be redeemed at the Hospital's option at any time at a redemption price of 100%. The bonds are secured by the net revenues of the Hospital and the assets restricted under the bond indenture agreement.

The indenture agreement requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.10 to 1 and restrictions on incurrence of additional debt. The Hospital was in compliance with the debt-service coverage ratio at June 30, 2021.

### *Debt Service Requirements*

The revenue bond debt service requirements as of June 30, 2020, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2022 | $ 153,406 | $ 123,279 | $ 30,127 |
| 2023 | 153,406 | 128,449 | 24,957 |
| 2024 | 152,443 | 132,873 | 19,570 |
| 2025 | 81,119 | 67,120 | 13,999 |
| 2026 | 81,118 | 69,804 | 11,314 |
| 2027 - 2029 | 229,786 | 213,047 | 16,739 |
| | $ 851,278 | $ 734,572 | $ 116,706 |

### *SBA PPP Loan Payable*

The Hospital obtained a loan through the Paycheck Protection Program (PPP) on April 14, 2020, in the amount of $1,246,600. The loan has provisions that, if met, allow for the Hospital to be forgiven up to 100% of the loan amount. Management believes that 100% of the loan will be forgiven. If any amounts are not forgiven, interest and principal payments begin 10 months from the date of the end of the covered period. With the passing of the *Paycheck Protection Program Flexibility Act of 2020*, PPP loans entered into before June 5, 2020, could be modified to reflect a 5-year maturity by agreement with the lender and borrow. If not modified, the loan has a 2-year maturity and carries a 1% interest rate. The loan is a program under the Small Business Administration (SBA) and is fully guaranteed by the SBA. The Hospital received legal notice on December 7, 2020, that the PPP loan was forgiven in its entirety.

## Note 8: Net Patient Service Revenue

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

*Medicare*. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were $255,921 and $289,837 in 2021 and 2020, respectively.

Approximately 73% and 70% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

## Note 9: Charity Care

The costs of charity care provided under the Hospital's charity care policy were $241,978 and $253,408 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

## Note 10: Pension Plan

### *Plan Description*

The Kansas Public Employees Retirement System Plan is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System (KPERS), Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS plan is a cost-sharing multiple-employer defined benefit plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

KPERS makes separate calculations for pension-related amounts for the following four groups participating in the plan:

- State/School
- Local
- Police and Firemen
- Judges

The Hospital's employees participate in the Local group.

### *Benefits Provided*

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERS has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined aged and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

Early retirement is permitted at the age of 55 and 10 years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62, plus 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries.

The terms of the plan provide for annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost of living adjustment.

### *Contributions*

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the statewide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4.0% of their annual pay. Effective January 1, 2014, the rate was raised to 5.0% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's

contractually required contribution rate for the year ended June 30, 2021 and 2020, was 8.74% and 8.75% of annual payroll, respectively. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Hospital's contributions to KPERS for pensions for the years ended June 30, 2021 and 2020, were $584,311 and $468,660, respectively.

### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2021 and 2020, the Hospital reported a liability of $4,917,319 and $4,301,475, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019 and 2018, respectively, rolled forward to June 30, 2020 and 2019, respectively. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2020, the Hospital's proportion was 0.283640%, which was a decrease of 0.024187% from its proportion measured as of June 30, 2019, of 0.307826%. At June 30, 2018, the proportion was 0.376321%.

For the years ended June 30, 2021 and 2020, the Hospital recognized pension expense of $511,210 and $487,448, respectively. At June 30, 2021 and 2020, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | 2021 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ 82,104 | $ 63,218 |
| Net difference between projected and actual earning on pension plan investments | 573,729 | - |
| Changes of assumptions | 296,186 | - |
| Changes in proportion and differences between the Hospital's contributions and proportionate share of contributions | 114,549 | 871,339 |
| Hospital's contributions subsequent to the measurement date | 584,311 | - |
| Total | $ 1,650,879 | $ 934,557 |

| | 2020 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ 9,416 | $ 108,329 |
| Net difference between projected and actual earning on pension plan investments | 101,200 | - |
| Changes of assumptions | 131,469 | 8,718 |
| Changes in proportion and differences between the Hospital's contributions and proportionate share of contributions | 242,217 | 809,280 |
| Hospital's contributions subsequent to the measurement date | 468,660 | - |
| Total | $ 952,962 | $ 926,327 |

At June 30, 2021, the Hospital reported $584,311 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2021, related to pensions will be recognized in pension expense as follows:

| | |
|---|---|
| 2022 | $ 3,917 |
| 2023 | 493 |
| 2024 | (7,316) |
| 2025 | 133,750 |
| 2026 | 1,167 |
| | $ 132,011 |

### *Actuarial Assumptions*

The total pension liability in the December 31, 2019 and 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | 2020 | 2019 |
|---|---|---|
| Inflation | 2.75% | 2.75% |
| Salary increases, including inflation | 3.25% to 11.75% | 3.50% to 12% |
| Investment rate of return, net of pension plan investment expense, including inflation | 7.50% | 7.75% |

The mortality rates used in both the December 31, 2019 and 2018, valuations were based on the RP-2014 Healthy Annuitant Table, with age setbacks and age set forwards as well as other adjustments for mortality improvements based on Scale MP-2016.

The actuarial assumptions used in both the December 31, 2019 and 2018, valuations were based on the results of an actuarial experience study for the three-year period ended December 31, 2018 and December 31, 2015, respectively.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Target Allocation | Long-term Expected Real Rate of Return |
| U.S. equities | 23.50% | 5.20% | 0.00% | 0.00% |
| Non-U.S. equities | 23.50% | 6.40% | 0.00% | 0.00% |
| Global equity | 0.00% | 0.00% | 47.00% | 6.85% |
| Private equity | 8.00% | 9.50% | 0.00% | 0.00% |
| Private real estate | 11.00% | 4.45% | 11.00% | 5.05% |
| Yield driven | 8.00% | 4.70% | 8.00% | 6.55% |
| Real return | 11.00% | 3.25% | 11.00% | 1.71% |
| Fixed income | 11.00% | 1.55% | 13.00% | 1.25% |
| Short-term investments | 4.00% | -0.25% | 2.00% | -0.25% |
| Alternatives | 0.00% | 0.00% | 8.00% | 9.85% |
| | 100.00% | | 100.00% | |

### *Discount Rate*

The discount rate used to measure the total pension liability was 7.50% and 7.75% for the years ended June 30, 2020 and 2019, respectively. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net

position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### *Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.50%. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Hospital's proportionate share of the net pension liability | $ 6,920,636 | $ 4,917,319 | $ 3,233,052 |

### *Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS' financial report.

## Note 11: Other Postemployment Benefit Plan

### *Plan Description*

The Hospital contributes to the KPERS Long-Term Disability plan (the OPEB Plan), a single employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. The OPEB Plan is administered by a board of trustees appointed by KPERS. The OPEB Plan's assets are not accumulated in a qualified trust because contributions from the employer to the OPEB plan and earnings on those contributions are not irrevocable. Benefit provisions are contained in the plan document and were established and can be amended by action of the KPERS's governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

### *Benefits Provided*

The OPEB Plan provides LTD and life insurance benefits to eligible disabled members. Benefits provided are self-funded, and the full cost of the benefits is covered by the OPEB Plan. The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of $100 and a maximum of $5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever first occurs. Upon the death of a member who is receiving monthly disability benefits, the plan will pay a lump sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

The employees covered by the benefit terms at June 30 (the measurement date), are:

| | 2020 | 2019 |
|---|---|---|
| Active employees | 96 | 94 |
| Disabled employees | 2 | 1 |
| | 98 | 95 |

### *Total OPEB Liability*

The Hospital's total OPEB liability of $202,251 and $77,200 was measured as of June 30, 2020 and 2019, for the years ended June 30, 2021 and 2020, respectively, and was determined by actuarial valuations as of December 31, 2019 and 2018, respectively, rolled forward to June 30, 2020 and 2019, respectively.

The total OPEB liability in the December 31, 2019 and 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | 2020 | 2019 |
|---|---|---|
| Inflation | 2.75% | 2.75% |
| Discount rate | 2.21% | 3.50% |
| Salary increases, including inflation | 3.50% to 10% | 3.50% to 10% |

The discount rate was based on the Bond Buyer General Obligation 20-Year Bond Municipal Index. The discount rate changed from 3.87% in 2018 to 3.5% in 2019 and to 2.21% in 2020.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2020 Mortality Tables for the December 31, 2019, actuarial valuation.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2019 Mortality Tables for the December 31, 2018, actuarial valuation.

The actuarial assumptions used in the December 31, 2019, valuations were based on the results of an actuarial experience study for the period January 1, 2016 – December 31, 2018.

The actuarial assumptions used in the December 31, 2018, valuations were based on the results of an actuarial experience study for 2013 - 2015.

### *Changes in the Total OPEB Liability*

Changes in the total OPEB liability are:

| | 2021 | 2020 |
|---|---|---|
| Balance, beginning of year | $ 77,200 | $ 75,379 |
| Changes for the year: | | |
| Service cost | 18,599 | 21,535 |
| Interest on total OPEB liability | 2,590 | 3,671 |
| Differences between expected and actual experience | 140,478 | (20,339) |
| Change of assumptions or other inputs | 7,342 | 1,095 |
| Benefit payments | (43,958) | (4,141) |
| Net changes | 125,051 | 1,821 |
| Balance, end of year | $ 202,251 | $ 77,200 |

### *Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Health Care Cost Trend Rates*

The total OPEB liability of the Hospital, at June 30, 2021, has been calculated using a discount rate of 2.21%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the current discount rate.

,

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|---|---|---|---|
| Hospital's total OPEB Liability | $ 206,881 | $ 202,251 | $ 197,031 |

The total OPEB liability of the Hospital is not impacted by health care cost trend rates given the nature of the benefits provided by the OPEB plan, as such no sensitivity tables were prepared for the health care trend rates.

### *OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

For the years ended June 30, 2021 and 2020, the Hospital recognized OPEB expense of $30,740 and $19,811, respectively. At June 30, 2021 and 2020, the Hospital reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

| | 2021 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ 126,274 | $ 36,857 |
| Changes of assumptions | 7,469 | 1,945 |
| Total | $ 133,743 | $ 38,802 |

| | 2020 | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | $ - | $ 42,041 |
| Changes of assumptions | 982 | 2,269 |
| Total | $ 982 | $ 44,310 |

Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2021, related to OPEB will be recognized in OPEB expense as follows:

| | |
|---|---|
| 2022 | $ 9,551 |
| 2023 | 9,551 |
| 2024 | 9,551 |
| 2025 | 9,551 |
| 2026 | 9,551 |
| Thereafter | 47,186 |
| | $ 94,941 |

## Note 12: COVID-19 Pandemic & *CARES Act* Funding

On March 22, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases.

Beginning in mid-March, the Hospital deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the fiscal year 2021.

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

The extent of the COVID-19 pandemic's adverse effect on the Hospital's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Hospital's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and result of operations may have an effect on debt covenant compliance and 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, 2021 and 2020, the Hospital received $100,000 and $3,742,060, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The Hospital is accounting for such payments as voluntary nonexchange transactions. As such, payments are recognized as revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through June 30, 2021 and 2020, the Hospital recognized $1,797,509 and $0, respectively, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenues – *CARES Act* funding in the statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions is recorded as a component of unearned revenue or due to HHS in the accompanying balance sheets.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the *CARES Act* in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) dated June 11, 2021, and the Frequently Asked Questions (FAQs) issued by HHS as of June 30, 2021, and subsequent in accordance with GASB codification Section 2250 and have concluded as follows:

- July 1, 2021 FAQs – recognized

The Hospital has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2021, and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

## Note 13: Contingencies

### *Litigation*

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

## Note 14: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Medical Center. The duration of these uncertainties and ultimate financial effects cannot be reasonably estimated at this time.

In October 2021, the Hospital received $99,493 in a distribution from the Frontline Hospital Employee Retention Plan through the Strengthening People and Revitalizing Kansas (SPARK) program. Funding under this program may only be utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The funding is part of the Coronavirus Relief Fund.

On November 23, 2021, the Hospital received $372,978 in a distribution from the American Rescue Plan rural funding program. This funding carries the same terms and conditions of previous Provider Relief Funding received.

## Note 15: Future Change in Accounting Principle

### *Leases*

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

# Required Supplementary Information

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Schedule of the Hospital's Proportionate Share of the Net Pension Liability
### Kansas Public Employees Retirement System Plan
### Last 10 Fiscal Years

| | 2021 * | 2020 * | 2019 * | 2018 * | 2017 * | 2016 * | 2015 * |
|---|---|---|---|---|---|---|---|
| Hospital's proportion of the net pension liability | 0.283639% | 0.307826% | 0.376321% | 0.384579% | 0.360536% | 0.341698% | 0.332467% |
| Hospital's proportionate share of the net pension liability | $ 4,917,319 | $ 4,301,475 | $ 5,245,124 | $ 5,570,456 | $ 5,577,598 | $ 4,486,645 | $ 4,092,047 |
| Hospital's covered-employee payroll | $ 5,357,000 | $ 5,704,080 | $ 6,710,497 | $ 6,814,466 | $ 6,172,082 | $ 5,693,377 | $ 5,438,769 |
| Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 91.79% | 75.41% | 78.16% | 81.74% | 90.37% | 78.80% | 75.24% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.30% | 69.88% | 68.88% | 67.12% | 65.10% | 64.95% | 66.60% |

**Note to Schedule:** This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

*The amounts presented for each fiscal year are as of the measurement date (June 30 of each previous fiscal year).

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Schedule of the Hospital's Pension Contributions
### Kansas Public Employees Retirement System Plan
### Last 10 Fiscal Years

| | 2021 * | 2020 * | 2019 * | 2018 * | 2017 * | 2016 * | 2015 * |
|---|---|---|---|---|---|---|---|
| Contractually required contribution | $ 584,311 | $ 468,660 | $ 491,875 | $ 567,137 | $ 600,418 | $ 575,559 | $ 515,352 |
| Contribution in relation to the contractually required contribution | 584,311 | 468,660 | 491,875 | 567,137 | 600,418 | 575,559 | 515,352 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Hospital's covered-employee payroll | $ 6,686,817 | $ 5,357,000 | $ 5,704,080 | $ 6,710,497 | $ 6,814,466 | $ 6,172,082 | $ 5,693,377 |
| Contributions as a percentage of covered-employee payroll | 8.74% | 8.75% | 8.62% | 8.45% | 8.81% | 9.33% | 9.05% |

**Note to Schedule:** This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

*The amounts presented for each fiscal year are as of the most recent fiscal year-end (June 30).

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Schedule of Changes in the Hospital's Total OPEB Liability and Related Ratios Last 10 Fiscal Years

| | 2021 * | 2020 * | 2019 * | 2018 * |
|---|---|---|---|---|
| **Total OPEB Liability** | | | | |
| Service cost | $ 18,599 | $ 21,535 | $ 21,330 | $ 25,387 |
| Interest on total OPEB liability | 2,590 | 3,671 | 3,677 | 2,314 |
| Difference between expected and actual experience | 140,478 | (20,339) | (29,980) | - |
| Change of assumptions or other inputs | 7,342 | 1,095 | (1,024) | (2,111) |
| Benefit payments | (43,958) | (4,141) | - | - |
| **Net Change in Total OPEB Liability** | 125,051 | 1,821 | (5,997) | 25,590 |
| **Hospital's Total OPEB Liability - Beginning** | 77,200 | 75,379 | 81,376 | 55,786 |
| **Hospital's Total OPEB Liability - Ending** | $ 202,251 | $ 77,200 | $ 75,379 | $ 81,376 |
| **Hospital's Covered-Employee Payroll** | $ 5,027,718 | $ 4,843,600 | $ 6,277,889 | $ 6,625,913 |
| **Hospital's Total OPEB Liability as a percentage of covered-employee payroll** | 4.02% | 1.59% | 1.20% | 1.23% |
| **Discount Rate** | 2.21% | 3.50% | 3.87% | 3.58% |

**Note to Schedule:** This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

*The amounts presented for each fiscal year are as of the most recent fiscal year-end (June 30)

# Supplementary Information

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Net Patient Service Revenue
### Years Ended June 30, 2021 and 2020

| | 2021 | | |
|---|---|---|---|
| | Inpatient | Outpatient | Total |
| Nursing, dietary and room services | | | |
| Acute hospital | $ 471,418 | $ - | $ 471,418 |
| Swing-beds | 596,241 | - | 596,241 |
| Observation | 4,278 | 332,102 | 336,380 |
| Nursery | 39,114 | - | 39,114 |
| Operating room | 53,081 | 957,830 | 1,010,911 |
| Delivery room | 29,542 | 2,310 | 31,852 |
| Anesthesia | 20,088 | 121,609 | 141,697 |
| Radiology | 79,211 | 3,200,039 | 3,279,250 |
| Laboratory | 182,020 | 2,626,740 | 2,808,760 |
| Respiratory therapy | 120,810 | 314,019 | 434,829 |
| Physical therapy | 113,277 | 809,826 | 923,103 |
| Speech therapy | 10,429 | 29,601 | 40,030 |
| Occupational therapy | 72,360 | 79,763 | 152,123 |
| Electrocardiology | 7,810 | 286,357 | 294,167 |
| Central supply | 55,357 | 280,432 | 335,789 |
| Pharmacy | 236,824 | 4,369,901 | 4,606,725 |
| Outpatient clinics | 50,999 | 302,208 | 353,207 |
| Lifeline | - | 18,907 | 18,907 |
| Rural health clinic | - | 1,987,807 | 1,987,807 |
| Emergency room | 204,688 | 3,074,850 | 3,279,538 |
| | $ 2,347,547 | $ 18,794,301 | 21,141,848 |
| Provision for uncollectible accounts | | | 556,595 |
| Less contractual allowances and charity care | | | 8,226,674 |
| Net patient service revenue | | | $ 12,358,579 |

| 2020 | | |
|---|---|---|
| Inpatient | Outpatient | Total |
| $ 389,961 | $ - | $ 389,961 |
| 564,228 | - | 564,228 |
| - | 293,273 | 293,273 |
| 4,614 | - | 4,614 |
| 8,022 | 820,633 | 828,655 |
| - | 1,454 | 1,454 |
| 2,790 | 115,714 | 118,504 |
| 98,982 | 2,813,985 | 2,912,967 |
| 153,822 | 2,327,856 | 2,481,678 |
| 90,327 | 230,637 | 320,964 |
| 114,116 | 871,357 | 985,473 |
| 11,694 | 24,211 | 35,905 |
| - | - | - |
| 4,544 | 263,122 | 267,666 |
| 45,161 | 286,433 | 331,594 |
| 225,978 | 3,731,921 | 3,957,899 |
| 37,331 | 250,691 | 288,022 |
| - | 20,495 | 20,495 |
| - | 1,897,553 | 1,897,553 |
| 126,785 | 2,919,656 | 3,046,441 |
| $ 1,878,355 | $ 16,868,991 | 18,747,346 |
| | | 628,332 |
| | | 7,005,959 |
| | | $ 11,113,055 |

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Contractual Allowances, Charity Care and Other Operating Revenues
### Years Ended June 30, 2021 and 2020

## Contractual Allowances and Charity Care

| | 2021 | 2020 |
|---|---|---|
| Charity care | $ 295,245 | $ 301,508 |
| Contractual allowances | | |
| Medicare | 3,376,775 | 3,043,970 |
| Medicaid | 733,093 | 416,297 |
| Blue Cross | 2,473,278 | 2,661,005 |
| Other | 1,222,812 | 490,357 |
| Employee discounts | 125,471 | 92,822 |
| | $ 8,226,674 | $ 7,005,959 |

## Other Operating Revenues

| | 2021 | 2020 |
|---|---|---|
| Cafeteria sales | $ 112,827 | $ 59,574 |
| Rent | - | 500 |
| Medical records transcript fees | 2,607 | 1,380 |
| Mobile ultrasound | 47,442 | 57,952 |
| Medical supplies | 6,132 | 13,049 |
| Miscellaneous | 31,113 | 22,281 |
| | $ 200,121 | $ 154,736 |

# Norton County Hospital
## A Component Unit of Norton County, Kansas
### Operating Expenses
### Years Ended June 30, 2021 and 2020

| | 2021 | | |
|---|---|---|---|
| | Salaries | Other | Total |
| Nursing services | $ 880,982 | $ 641,973 | $ 1,522,955 |
| Operating room and recovery room | 192,795 | 354,229 | 547,024 |
| Delivery room | 37,061 | 27,111 | 64,172 |
| Anesthesia | 120,993 | 390,178 | 511,171 |
| Radiology | 490,621 | 369,047 | 859,668 |
| Laboratory | 199,939 | 793,332 | 993,271 |
| Chemotherapy | 120,200 | 15,397 | 135,597 |
| Respiratory therapy | 114,699 | 53,458 | 168,157 |
| Physical therapy | 342,662 | 12,865 | 355,527 |
| Speech therapy | - | 16,448 | 16,448 |
| Occupational therapy | 52,721 | 243 | 52,964 |
| Electrocardiology | 49,584 | 24,009 | 73,593 |
| Central supply | 37,795 | (33,604) | 4,191 |
| Pharmacy | 25,186 | 752,210 | 777,396 |
| Contract pharmacy | - | 1,113,395 | 1,113,395 |
| Outpatient clinics | 120,148 | 18,170 | 138,318 |
| Doctors' building clinic | 2,347,612 | 60,283 | 2,407,895 |
| Emergency room | 185,043 | 634,999 | 820,042 |
| Depreciation | - | 609,966 | 609,966 |
| Employee benefits | - | 1,529,284 | 1,529,284 |
| Administration and general | 963,691 | 1,417,683 | 2,381,374 |
| Plant operation | 125,406 | 386,905 | 512,311 |
| Laundry and linen | 34,407 | 6,552 | 40,959 |
| Housekeeping | 132,014 | 18,642 | 150,656 |
| Dietary | 232,129 | 114,990 | 347,119 |
| Nursing administration | 110,016 | 12,293 | 122,309 |
| Medical records | 150,376 | 45,025 | 195,401 |
| | $ 7,066,080 | $ 9,385,083 | $ 16,451,163 |

| 2020 | | |
|---|---|---|
| Salaries | Other | Total |
| $ 875,638 | $ 308,842 | $ 1,184,480 |
| 98,137 | 334,185 | 432,322 |
| 10,615 | 2,019 | 12,634 |
| 221,185 | 9,331 | 230,516 |
| 456,297 | 365,174 | 821,471 |
| 250,030 | 396,257 | 646,287 |
| 103,997 | 3,672 | 107,669 |
| 65,486 | 46,912 | 112,398 |
| 348,313 | 5,591 | 353,904 |
| - | 18,006 | 18,006 |
| - | - | - |
| 49,481 | 28,020 | 77,501 |
| 33,408 | 33,006 | 66,414 |
| 18,572 | 1,103,912 | 1,122,484 |
| - | 799,410 | 799,410 |
| 112,834 | 9,313 | 122,147 |
| 1,497,708 | 407,876 | 1,905,584 |
| 15,019 | 1,112,462 | 1,127,481 |
| - | 563,132 | 563,132 |
| - | 1,414,234 | 1,414,234 |
| 831,812 | 1,158,827 | 1,990,639 |
| 112,235 | 365,687 | 477,922 |
| 33,502 | 3,530 | 37,032 |
| 127,388 | 23,754 | 151,142 |
| 213,834 | 84,653 | 298,487 |
| 119,730 | 12,683 | 132,413 |
| 114,185 | 17,231 | 131,416 |
| $ 5,709,406 | $ 8,627,719 | $ 14,337,125 |