

Ness County Hospital District No. 2

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Ness County Hospital District No. 2

December 31, 2021 and 2020

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Independent Auditor's Report

Board of Directors
Ness County Hospital District No. 2
Ness City, Kansas

Opinion

We have audited the accompanying financial statements of Ness County Hospital District No. 2 as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise Ness County Hospital District No. 2's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Ness County Hospital District No. 2 as of December 31, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Ness County Hospital District No. 2 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 Ness County Hospital District No. 2's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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, 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 Ness County Hospital District No. 2'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 Ness County Hospital District No. 2'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, economical or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

FORVIS,LLP

Wichita, Kansas
July 22, 2022

Ness County Hospital District No. 2

Balance Sheets

December 31, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash	\$ 4,892,777	\$ 5,333,931
Short-term certificates of deposit	84,626	83,498
Restricted cash	40,226	40,226
Patient accounts receivable, net of allowance; 2021 - \$336,000, 2020 - \$376,000	2,554,085	1,612,019
Property taxes receivable	1,528,837	1,523,174
Estimated amounts due from Medicare	55,000	1,234,000
Supplies	223,747	256,168
Prepaid expenses and other	75,544	35,494
Total current assets	9,454,842	10,118,510
 Long-term Certificates of Deposit	 48,718	 48,718
 Cash Held in Capital Assets Project Fund	 7,675	 19,698
 Capital Assets, Net	 5,989,157	 5,354,673
 Other Assets - Farm Land	 156,142	 156,142
Total assets	<u>\$ 15,656,534</u>	<u>\$ 15,697,741</u>

Liabilities, Deferred Inflows of Resources and Net Position

	2021	2020
Current Liabilities		
Current maturities of long-term debt	\$ 301,082	\$ 586,976
Accounts payable	405,170	384,302
Accrued expenses	779,955	663,273
Medicare advance	1,356,789	599,643
Unearned revenue	173,000	2,552,464
Total current liabilities	3,015,996	4,786,658
Medicare Advance	-	1,516,746
Long-term Debt	2,195,237	3,282,557
Total liabilities	5,211,233	9,585,961
Deferred Inflows of Resources - Property Taxes	1,528,837	1,523,174
Net Position		
Net investment in capital assets	3,500,513	2,585,788
Restricted – expendable for specific operating activities	40,226	40,226
Unrestricted	5,375,725	1,962,592
Total net position	8,916,464	4,588,606
Total liabilities, deferred inflows of resources and net position	\$ 15,656,534	\$ 15,697,741

Ness County Hospital District No. 2
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 - \$104,352, 2020 - \$155,395	\$ 9,536,701	\$ 9,095,697
Other	1,070,387	376,302
Total operating revenues	10,607,088	9,471,999
Operating Expenses		
Salaries and wages	5,181,182	5,775,478
Employee benefits	1,536,860	1,774,841
Purchased services and professional fees	1,806,218	1,305,975
Supplies and other	2,972,593	3,071,055
Depreciation	561,223	425,893
Total operating expenses	12,058,076	12,353,242
Operating Loss	(1,450,988)	(2,881,243)
Nonoperating Revenues (Expenses)		
Property taxes	1,611,156	1,751,310
Interest income	18,514	24,226
Interest expense	(75,827)	(83,966)
Noncapital grants and gifts	307,805	148,506
Provider Relief Funds (<i>CARES Act</i>)	2,813,345	1,331,200
Paycheck Protection Program (PPP) loan forgiveness	1,080,950	-
Farm income	4,968	6,114
Farm expense	(1,042)	(19,448)
Total nonoperating revenues	5,759,869	3,157,942
Excess of Revenues Over Expenses Before Capital Grants and Gifts	4,308,881	276,699
Capital Grants and Gifts	18,977	75,942
Increase in Net Position	4,327,858	352,641
Net Position, Beginning of Year	4,588,606	4,235,965
Net Position, End of Year	\$ 8,916,464	\$ 4,588,606

Ness County Hospital District No. 2
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 9,014,035	\$ 9,347,739
Payments to suppliers and contractors	(4,766,737)	(4,219,815)
Payments to and on behalf of employees	(6,600,195)	(7,374,052)
Other receipts (payments), net	<u>(1,308,988)</u>	<u>2,928,766</u>
Net cash provided by (used in) operating activities	<u>(3,661,885)</u>	<u>682,638</u>
Cash Flows From Noncapital Financing Activities		
Property taxes	1,611,156	1,751,310
Noncapital grants and gifts	307,805	148,506
Provider Relief Funds (<i>CARES Act</i>)	2,813,345	1,331,200
Proceeds from issuance of PPP loan	<u>-</u>	<u>1,080,950</u>
Net cash provided by noncapital financing activities	<u>4,732,306</u>	<u>4,311,966</u>
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	18,977	75,942
Principal paid on long-term debt	(292,264)	(257,873)
Interest paid on long-term debt	(75,827)	(83,966)
Purchase of capital assets	<u>(1,195,796)</u>	<u>(2,076,193)</u>
Net cash used in capital and related financing activities	<u>(1,544,910)</u>	<u>(2,342,090)</u>
Cash Flows From Investing Activities		
Interest income received	18,514	24,226
Purchase of certificates of deposit	(1,128)	(2,006)
Farm income received	4,968	6,114
Farm expenses paid	<u>(1,042)</u>	<u>(19,448)</u>
Net cash provided by investing activities	<u>21,312</u>	<u>8,886</u>
Increase (Decrease) in Cash	<u>(453,177)</u>	<u>2,661,400</u>
Cash, Beginning of Year	<u>5,393,855</u>	<u>2,732,455</u>
Cash, End of Year	<u><u>\$ 4,940,678</u></u>	<u><u>\$ 5,393,855</u></u>

Ness County Hospital District No. 2
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 4,892,777	\$ 5,333,931
Restricted cash	40,226	40,226
Cash held in capital asset project fund	<u>7,675</u>	<u>19,698</u>
Total cash	<u><u>\$ 4,940,678</u></u>	<u><u>\$ 5,393,855</u></u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,450,988)	\$ (2,881,243)
Depreciation	561,223	425,893
Loss on disposal of assets	89	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(942,066)	(462,347)
Estimated amounts due from and to Medicare	1,179,000	(1,402,000)
Accounts payable and accrued expenses	137,550	409,586
Medicare advance	(759,600)	2,116,389
Unearned revenue	(2,379,464)	2,552,464
Other assets and liabilities	<u>(7,629)</u>	<u>(76,104)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (3,661,885)</u></u>	<u><u>\$ 682,638</u></u>
Noncash Investing, Capital and Financing Activities		
PPP loan forgiveness	\$ 1,080,950	\$ -

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

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

Nature of Operations and Reporting Entity

Ness County Hospital District No. 2 (Hospital) is an acute care hospital located in Ness City, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ness County area. It also operates a home health agency in the same geographic area.

The Ness County Health Foundation, Inc. (Foundation) is a legally separate, tax-exempt, not-for-profit organization whose purpose is to raise and hold funds to support the Hospital and its programs. The Board of Directors of the Hospital appoints a voting majority of the Board of the Foundation resulting in the Hospital being financially accountable for the Foundation with the Foundation being included in the Hospital's financial statements as a blended component unit.

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 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 property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, there were no cash equivalents.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

Certificates of Deposit

Certificates of deposit are reported at cost, which approximates fair value. Certificates of deposit with maturities of less than one year are reported as current assets. Those with maturities greater than one year are reported as long-term.

Property Taxes

The Hospital received approximately 10% in 2021 and 14% in 2020 of its financial support from property taxes. One hundred percent of these funds were used to support operations.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

Risk Management

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

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.

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 and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	5 – 15 years

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

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 December 31, 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. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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.

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 August 18, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

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. Deferred inflows of resources consist of property taxes levied for use in future periods.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

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 grantors or donors external to the Hospital.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Hospital has agreements with third-party 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. The costs of charity care provided under the Hospital's charity care policy were \$16,775 and \$21,024 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.

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 in the accompanying balance sheets.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

Income Taxes

As an essential government entity, 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 Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Note 2: 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 critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

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.

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted on July 1 and January 1 using an average of the three previously filed annual cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 69% and 68% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 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.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital'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 December 31, 2021 and 2020, none of the Hospital's bank balances of \$4,917,407 and \$5,227,626, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

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

	2021	2020
Carrying value		
Deposits – Hospital	\$ 4,898,740	\$ 5,385,835
Petty cash	581	581
	<u>4,899,321</u>	<u>5,386,416</u>
Deposits – Foundation	<u>174,701</u>	<u>139,655</u>
	<u>\$ 5,074,022</u>	<u>\$ 5,526,071</u>
Included in the following balance sheet captions:		
Cash	\$ 4,892,777	\$ 5,333,931
Short-term certificates of deposit	84,626	83,498
Restricted cash	40,226	40,226
Long-term certificates of deposit	48,718	48,718
Cash held in capital asset project fund	<u>7,675</u>	<u>19,698</u>
	<u>\$ 5,074,022</u>	<u>\$ 5,526,071</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 115,387	\$ -	\$ -	\$ -	\$ 115,387
Land improvements	226,253	267,941	-	-	494,194
Buildings	4,916,698	777,966	-	286,507	5,981,171
Fixed equipment	3,751,032	643,480	(35,980)	-	4,358,532
Major moveable equipment	2,466,470	386,806	(44,355)	-	2,808,921
Construction in progress	286,507	-	-	(286,507)	-
	11,762,347	2,076,193	(80,335)	-	13,758,205
Less accumulated depreciation					
Land improvements	212,001	8,761	-	-	220,762
Buildings	3,936,461	97,577	-	-	4,034,038
Fixed equipment	1,642,118	252,891	(35,980)	-	1,859,029
Major moveable equipment	2,267,394	66,664	(44,355)	-	2,289,703
	8,057,974	425,893	(80,335)	-	8,403,532
Capital Assets, Net	\$ 3,704,373	\$ 1,650,300	\$ -	\$ -	\$ 5,354,673

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2021	2020
Payable to suppliers and contractors	\$ 441,440	\$ 427,771
Payable to employees (including payroll taxes and benefits)	743,685	619,804
	<u><u>\$ 1,185,125</u></u>	<u><u>\$ 1,047,575</u></u>

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium 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.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

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 future.

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31:

2021					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 2,788,583	\$ -	\$ 292,264	\$ 2,496,319	\$ 301,082
PPP loan	1,080,950	-	1,080,950	-	-
Total long-term debt	<u>\$ 3,869,533</u>	<u>\$ -</u>	<u>\$ 1,373,214</u>	<u>\$ 2,496,319</u>	<u>\$ 301,082</u>

2020					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 3,046,456	\$ -	\$ 257,873	\$ 2,788,583	\$ 292,255
PPP Loan	-	1,080,950	-	1,080,950	294,721
Total long-term debt	<u>\$ 3,046,456</u>	<u>\$ 1,080,950</u>	<u>\$ 257,873</u>	<u>\$ 3,869,533</u>	<u>\$ 586,976</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2021 and 2020, follows:

	2021	2020
Equipment	\$ 2,713,289	\$ 2,713,289
Accumulated depreciation	<u>1,157,528</u>	<u>1,118,528</u>
	<u>\$ 1,555,761</u>	<u>\$ 1,594,761</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

The following is a schedule by year of future minimum lease payments under the capital lease including interest at 2.90% to 3.95% together with the present value of the future minimum lease payments as of December 31, 2021:

Year Ending December 31,	
2022	\$ 374,125
2023	374,125
2024	374,125
2025	355,847
2026	337,569
Thereafter	<u>1,010,707</u>
Total minimum lease payments	<u>2,826,498</u>
Less amount representing interest	<u>330,179</u>
Present value of future minimum lease payments	<u>\$ 2,496,319</u>

Paycheck Protection Program (PPP) Loan

The *CARES Act* and other subsequent legislation provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Hospital received a PPP loan of \$1,080,950 in 2020. The loan has provisions that, if met, allow for the Hospital to be forgiven up to 100% of the loan amount. The Hospital received legal notice on August 18, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Note 9: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% each for 2021 and 2020, plus any voluntary contributions up to the federal Internal Revenue Service limit established at an annual basis. Contributions actually made by plan members and the Hospital aggregated \$119,960 and \$88,058 during 2021 and \$157,727 and \$173,662 during 2020, respectively. The Hospital does not control the plan assets.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan voluntary. Contributions made by plan members totaled \$50,500 and \$74,007 during 2021 and 2020, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

Note 10: Assets Held in Trust

The Hospital is a contingent income beneficiary of a trust. Because the assets of the trust are not controlled by the Hospital, they are not included in the Hospital's financial statements.

Distributions of income are made at the discretion of the trustees. Income distributed to the Hospital by the trust amounted to \$15,115 in 2021 and \$15,115 in 2020.

Note 11: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (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 been 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.

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.

Because of these and other uncertainties, the Hospital cannot estimate the length or severity of the effect of the pandemic on the Hospital's business. Decreases in cash flows and results of operations may have an effect on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, and potential impairments of long-lived assets.

Provider Relief Fund

During the years ended 2021 and 2020, the Hospital received \$542,852 and \$3,774,693 of distributions from the *CARES Act* Provider Relief Fund, respectively. 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 HHS.

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The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions 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 December 31, 2021 and 2020, the Hospital recognized \$2,813,345 and \$1,331,200, respectively, related to the Provider Relief Fund, and these payments are recorded as Provider Relief Funds (*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions of \$173,000 and \$2,443,493 is recorded as a component of unearned revenue in the accompanying balance sheets for the years ended December 31, 2021 and 2020, respectively.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the *CARES Act* in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS for the years ended December 31, 2021 and 2020, and has recognized revenue accordingly. 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.

Other COVID-19 Funding

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of Kansas hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received and recognized \$100,000 on April 24, 2020, related to this special emergency grant. The payment is recorded as a component of Provider Relief Funds (*CARES Act*) in the accompanying statements of revenues, expenses and changes in net position.

During 2020, HHS provided \$100 million in aid to hospitals and health care systems in preparing for a surge in COVID-19 patients. Of that funding, \$50 million was allotted to State Hospitals Associations for distribution through competitive grant applications. KHA received \$784,542 in funds, which were distributed on May 1. In addition, KHA was awarded an additional \$1.95 million to be distributed in the future. The Hospital received and recognized \$3,000 during 2020, related to this Assistant Secretary for Preparedness and Response (ASPR) grant. The payment is recorded as a component of Provider Relief Funds (*CARES Act*) in the accompanying statements of revenues, expenses and changes in net position.

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Notes to Financial Statements

December 31, 2021 and 2020

During the years ended December 31, 2021 and 2020, the Coronavirus Small Rural Hospital Improvement Program (SHIP) provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital received \$58,613 during 2021, related to this SHIP grant. The Hospital received \$20,000 during 2020, related to this SHIP grant. The Hospital recognized \$58,613 and \$20,000 for the years ended December 31, 2021 and 2020, respectively, related to this SHIP grant. The recognition is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

In November 2021, the Hospital received and recognized \$99,493 from a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Hospital requested accelerated Medicare payments as provided for in the *CARES Act*, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions and are reflected as Medicare advance on the balance sheets.

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

During the year ended December 31, 2020, the Hospital received \$2,116,389 from the accelerated Medicare payment request. During the year ended December 31, 2021, Medicare applied \$759,600 from these accelerated Medicare payment requests against filed claims. The unapplied amount of accelerated Medicare payment requests is recorded under the caption advance from Medicare in the accompanying balance sheets and classified as a current and a long-term liability based upon payback provisions in effect at December 31, 2021 and 2020.

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Notes to Financial Statements

December 31, 2021 and 2020

Note 12: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$686,388 and \$202,842 for the years ending December 31, 2021 and 2020, respectively, which is included in other operating revenue in the accompanying statements of revenues and expenses and changes in net position. The Hospital recorded expenses of \$469,162 and \$116,371 for the years ending December 31, 2021 and 2020, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2021 and 2020:

	December 31, 2021		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 9,328,859	\$ 125,983	\$ 9,454,842
Capital assets, net	5,989,157	-	5,989,157
Other assets	7,675	204,860	212,535
Total assets	<u>\$ 15,325,691</u>	<u>\$ 330,843</u>	<u>\$ 15,656,534</u>
Liabilities			
Current liabilities	\$ 3,015,996	\$ -	\$ 3,015,996
Noncurrent liabilities	2,195,237	-	2,195,237
Total liabilities	<u>5,211,233</u>	<u>-</u>	<u>5,211,233</u>
Deferred Inflows of Resources - Property Taxes	<u>1,528,837</u>	<u>-</u>	<u>1,528,837</u>
Net Position			
Net investment in capital assets	3,295,653	204,860	3,500,513
Restricted – expendable for specific operating activities	40,226	-	40,226
Unrestricted	<u>5,249,742</u>	<u>125,983</u>	<u>5,375,725</u>
Total net position	<u>8,585,621</u>	<u>330,843</u>	<u>8,916,464</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,325,691</u>	<u>\$ 330,843</u>	<u>\$ 15,656,534</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

	December 31, 2020		
	Hospital	Foundation	Total
Assets			
Current assets	\$ 10,027,573	\$ 90,937	\$ 10,118,510
Capital assets, net	5,354,673	-	5,354,673
Other assets	19,698	204,860	224,558
Total assets	<u>\$ 15,401,944</u>	<u>\$ 295,797</u>	<u>\$ 15,697,741</u>
Liabilities			
Current liabilities	\$ 4,786,658	\$ -	\$ 4,786,658
Noncurrent liabilities	4,799,303	-	4,799,303
Total liabilities	<u>9,585,961</u>	<u>-</u>	<u>9,585,961</u>
Deferred Inflows of Resources - Property Taxes	<u>1,523,174</u>	<u>-</u>	<u>1,523,174</u>
Net Position			
Net investment in capital assets	2,380,928	204,860	2,585,788
Restricted – expendable for specific operating activities	40,226	-	40,226
Unrestricted	<u>1,871,655</u>	<u>90,937</u>	<u>1,962,592</u>
Total net position	<u>4,292,809</u>	<u>295,797</u>	<u>4,588,606</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,401,944</u>	<u>\$ 295,797</u>	<u>\$ 15,697,741</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

The following tables include condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2021 and 2020:

	December 31, 2021		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue	\$ 9,536,701	\$ -	\$ 9,536,701
Other	1,034,745	35,642	1,070,387
Total operating revenues	10,571,446	35,642	10,607,088
Operating Expenses			
Other operating expenses	11,490,427	6,426	11,496,853
Depreciation	561,223	-	561,223
Total operating expenses	12,051,650	6,426	12,058,076
Operating Income (Loss)	(1,480,204)	29,216	(1,450,988)
Nonoperating Revenues (Expenses)			
Property taxes	1,611,156	-	1,611,156
Interest income	16,610	1,904	18,514
Interest expense	(75,827)	-	(75,827)
Noncapital grants and gifts	307,805	-	307,805
Provider Relief Funds (<i>CARES Act</i>)	2,813,345	-	2,813,345
PPP loan forgiveness	1,080,950	-	1,080,950
Farm income	-	4,968	4,968
Farm expense	-	(1,042)	(1,042)
Total nonoperating revenues	5,754,039	5,830	5,759,869
Excess of Revenues Over Expenses Before Capital Grants and Gifts	4,273,835	35,046	4,308,881
Capital Grants and Gifts	18,977	-	18,977
Increase in Net Position	4,292,812	35,046	4,327,858
Net Position, Beginning of Year	4,292,809	295,797	4,588,606
Net Position, End of Year	\$ 8,585,621	\$ 330,843	\$ 8,916,464

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

	December 31, 2020		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue	\$ 9,095,697	\$ -	\$ 9,095,697
Other	364,903	11,399	376,302
Total operating revenues	9,460,600	11,399	9,471,999
Operating Expenses			
Other operating expenses	11,907,302	20,047	11,927,349
Depreciation	425,893	-	425,893
Total operating expenses	12,333,195	20,047	12,353,242
Operating Loss	(2,872,595)	(8,648)	(2,881,243)
Nonoperating Revenues (Expenses)			
Property taxes	1,751,310	-	1,751,310
Interest income	21,298	2,928	24,226
Interest expense	(83,966)	-	(83,966)
Noncapital grants and gifts	148,506	-	148,506
Provider Relief Funds (<i>CARES Act</i>)	1,331,200	-	1,331,200
PPP loan forgiveness	-	-	-
Farm income	-	6,114	6,114
Farm expense	-	(19,448)	(19,448)
Total nonoperating revenues	3,168,348	(10,406)	3,157,942
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	295,753	(19,054)	276,699
Capital Grants and Gifts	73,496	2,446	75,942
Increase (Decrease) in Net Position	369,249	(16,608)	352,641
Net Position, Beginning of Year	3,923,560	312,405	4,235,965
Net Position, End of Year	\$ 4,292,809	\$ 295,797	\$ 4,588,606

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

The following tables include condensed combining statement of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2021 and 2020:

	December 31, 2021		
	Hospital	Foundation	Total
Net Cash Provided by (Used in)			
Operating Activities	\$ (3,691,101)	\$ 29,216	\$ (3,661,885)
Net Cash Provided by Noncapital			
Financing Activities	4,732,306	-	4,732,306
Net Cash Used in Capital and Related			
Financing Activities	(1,544,910)	-	(1,544,910)
Net Cash Provided by			
Investing Activities	<u>14,354</u>	<u>6,958</u>	<u>21,312</u>
Increase (Decrease) in Cash	(489,351)	36,174	(453,177)
Cash, Beginning of Year	<u>5,254,200</u>	<u>139,655</u>	<u>5,393,855</u>
Cash, End of Year	<u>\$ 4,764,849</u>	<u>\$ 175,829</u>	<u>\$ 4,940,678</u>

	December 31, 2020		
	Hospital	Foundation	Total
Net Cash Provided by (Used in)			
Operating Activities	\$ 691,286	\$ (8,648)	\$ 682,638
Net Cash Provided by Noncapital			
Financing Activities	4,311,966	-	4,311,966
Net Cash Provided by (Used in) Capital			
and Related Financing Activities	(2,344,536)	2,446	(2,342,090)
Net Cash Provided by (Used in)			
Investing Activities	<u>17,286</u>	<u>(8,400)</u>	<u>8,886</u>
Increase (Decrease) in Cash	2,676,002	(14,602)	2,661,400
Cash, Beginning of Year	<u>2,576,192</u>	<u>156,263</u>	<u>2,732,455</u>
Cash, End of Year	<u>\$ 5,252,194</u>	<u>\$ 141,661</u>	<u>\$ 5,393,855</u>

Ness County Hospital District No. 2

Notes to Financial Statements

December 31, 2021 and 2020

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 Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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 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.

Supplementary Information

Ness County Hospital District No. 2
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
December 31, 2021

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenue	\$ 8,594,635	\$ 9,193,730	\$ (599,095)
Other revenue	<u>1,070,387</u>	<u>358,366</u>	<u>712,021</u>
Total operating revenue	<u>9,665,022</u>	<u>9,552,096</u>	<u>112,926</u>
Operating expenses	11,870,978	12,335,777	(464,799)
Capital expenditures	<u>1,195,796</u>	<u>140,000</u>	<u>1,055,796</u>
Total operating expenses	<u>13,066,774</u>	<u>12,475,777</u>	<u>590,997</u>
Operating loss	<u>(3,401,752)</u>	<u>(2,923,681)</u>	<u>(478,071)</u>
Property tax revenue	1,611,156	1,825,995	(214,839)
Other nonoperating revenues	<u>3,138,622</u>	<u>102,010</u>	<u>3,036,612</u>
Total nonoperating revenues	<u>4,749,778</u>	<u>1,928,005</u>	<u>2,821,773</u>
Excess (deficiency) of revenue over expenses	<u>\$ 1,348,026</u>	<u>\$ (995,676)</u>	<u>\$ 2,343,702</u>

Note: The above schedule reflects a comparison of current year operations and the tax budget.