

Kiowa District Hospital

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Kiowa District Hospital
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Kiowa District Hospital
Kiowa, Kansas

We have audited the accompanying financial statements of Kiowa District Hospital (Hospital), and its discretely presented component unit, Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the 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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Kiowa District Hospital and its discretely presented component unit as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our 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 that collectively comprise the Hospital's basic financial statements. The Net Patient Service Revenues and Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents are 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.

BKD, LLP

Wichita, Kansas
May 26, 2020

Kiowa District Hospital
Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash	\$ 675,251	\$ 1,729,407
Patient accounts receivable, net of allowance; 2019 - \$243,000, 2018 - \$199,000	749,640	622,953
Estimated amounts due from third-party payers	320,000	-
Supplies	204,862	242,431
Prepaid expenses and other	-	34,131
Property taxes receivable	1,003,933	1,018,637
Total current assets	2,953,686	3,647,559
Capital Assets, Net	6,833,502	7,344,216
Total assets	\$ 9,787,188	\$ 10,991,775
 Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 184,637	\$ 210,227
Accounts payable	181,824	107,511
Accrued expenses	360,651	482,829
Estimated amounts due to third-party payers - current	230,458	1,335,000
Total current liabilities	957,570	2,135,567
Other Liabilities		
Long-term Debt	2,428,663	2,613,176
Estimated amounts due to third-party payers	136,447	-
Total other liabilities	2,565,110	2,613,176
Total liabilities	3,522,680	4,748,743
Deferred Inflows of Resources - Property Taxes	1,003,933	1,018,637
Net Position		
Net investment in capital assets	4,220,202	4,520,813
Unrestricted	1,040,373	703,582
Total net position	5,260,575	5,224,395
Total liabilities, deferred inflows of resources and net position	\$ 9,787,188	\$ 10,991,775

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Cash	\$ 243,640	\$ 154,578
Short-term certificate of deposit	33,031	100,884
Total assets	\$ 276,671	\$ 255,462
 Net Assets		
Without donor restrictions	\$ 276,671	\$ 255,462
Total net assets	\$ 276,671	\$ 255,462

Kiowa District Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenues, net of provision for uncollectible accounts; 2019 - \$99,620, 2018 - \$44,196	\$ 7,966,969	\$ 7,769,308
Other	259,638	268,314
Total operating revenues	8,226,607	8,037,622
Operating Expenses		
Salaries and wages	4,000,869	3,531,527
Employee benefits	704,198	721,421
Purchased services and professional fees	1,666,485	2,412,871
Supplies and other	1,298,702	1,278,189
Drugs	329,472	383,277
Food	82,495	82,245
Insurance	63,271	86,383
Utilities and telephone	212,914	192,340
Repairs and maintenance	190,397	177,290
Depreciation	624,407	675,277
Gain on disposal of capital assets	-	(34,021)
Total operating expenses	9,173,210	9,506,799
Operating Loss	(946,603)	(1,469,177)
Nonoperating Revenues (Expenses)		
Property taxes	1,040,831	1,035,363
Interest income	4,669	2,797
Interest expense	(111,734)	(99,011)
Noncapital grants and gifts	49,017	122,142
Total nonoperating revenues	982,783	1,061,291
Increase (Decrease) in Net Position	36,180	(407,886)
Net Position, Beginning of Year	5,224,395	5,632,281
Net Position, End of Year	\$ 5,260,575	\$ 5,224,395

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Activities
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support		
Contributions	\$ 148,908	\$ 110,736
Interest income	3,073	1,015
Total revenues, gains and other support	151,981	111,751
Expenses		
Contributions to Hospital	27,800	23,200
Contributions to Barber County Health Coalition	100,000	75,260
Fund raising expenses	1,912	1,144
Other expenses	1,060	1,388
Total expenses	130,772	100,992
Change in Net Assets	21,209	10,759
Net Assets, Beginning of Year	255,462	244,703
Net Assets, End of Year	\$ 276,671	\$ 255,462

Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 6,552,187	\$ 9,628,453
Payments to suppliers and contractors	(3,694,578)	(5,123,430)
Payments to employees	(4,827,245)	(4,044,839)
Other receipts, net	259,638	234,293
Net cash provided by (used in) operating activities	(1,709,998)	694,477
Noncapital Financing Activities		
Property taxes supporting operations	1,040,831	1,035,363
Noncapital grants and gifts	49,017	122,142
Net cash provided by noncapital financing activities	1,089,848	1,157,505
Capital and Related Financing Activities		
Principal paid on long-term debt	(210,103)	(256,632)
Interest paid on long-term debt	(114,879)	(102,125)
Purchase of capital assets	(113,693)	(253,947)
Net cash used in capital and related financing activities	(438,675)	(612,704)
Investing Activities		
Interest income	4,669	2,797
Net cash provided by investing activities	4,669	2,797
Increase (Decrease) in Cash	(1,054,156)	1,242,075
Cash, Beginning of Year	1,729,407	487,332
Cash, End of Year	\$ 675,251	\$ 1,729,407

Kiowa District Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net		
Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (946,603)	\$ (1,469,177)
Depreciation	624,407	675,277
Gain on disposal of capital assets	-	(34,021)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(126,687)	724,145
Estimated amounts due from and to third-party payers	(1,288,095)	1,135,000
Supplies and prepaid expenses	71,700	(31,545)
Accounts payable and accrued expenses	(44,720)	(305,202)
	\$ (1,709,998)	\$ 694,477
Net cash provided by (used in) operating activities	\$ (1,709,998)	\$ 694,477

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 21,209	\$ 10,759
Net cash provided by operating activities	21,209	10,759
Investing Activities		
Purchase of certificate of deposit	(35,140)	(100,884)
Proceeds from disposition of certificate of deposit	102,993	-
Net cash provided by (used in) investing activities	67,853	(100,884)
(Decrease) Increase in Cash	89,062	(90,125)
Cash, Beginning of Year	154,578	244,703
Cash, End of Year	\$ 243,640	\$ 154,578

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

Kiowa District Hospital (the Hospital) was organized to provide acute health care services for the benefit of the community members, primarily in Barber County, Kansas. The Hospital's facilities are operated by a Board of Directors elected by the qualified voters of the Hospital District. The Hospital Division primarily earns revenues by providing inpatient and outpatient services to residents of Barber County, Kansas, and the surrounding communities. In addition, residential long-term care services are provided under a separate license by the Manor Division (Manor) of the Hospital's operations.

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 and liabilities 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 and program-specific, government-mandated or voluntary nonexchange 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, 2019 and 2018, the Hospital had no cash equivalents.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

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, determined using the first-in, first-out method, or net realizable value.

Capital Assets

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

Land improvements	5 – 40 years
Buildings	5 – 56 years
Fixed equipment	3 – 43 years
Major moveable equipment	3 – 15 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. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

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. Sick leave benefits are realized as paid time off and 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.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2019 and 2018

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 other than workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based on the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Deferred Inflows of Resources

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

Net Position

Net position of the Hospital is classified in two 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.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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 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.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2019 and 2018

Property Taxes

The Hospital received approximately 11% in both 2019 and 2018 of its financial support from property taxes. One hundred percent (100%) of these funds were used to support operations in both years.

Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

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.

Foundation

Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation acts primarily as a fund raising organization to supplement the resources that are available to the Hospital in support of its programs. The five to seven member board of the Foundation is self-perpetuating and consists of area business and community members.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are historically used for the benefits of the Hospital. Because the relationship and level of support the Hospital receives from the Foundation, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the years ended December 31, 2019 and 2018, the Foundation distributed \$27,800 and \$23,200 funds to the Hospital, respectively.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

Note 2: 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, 2019 and 2018, respectively, \$191,463 and \$1,158,804 of the Hospital's bank balances of \$783,878 and \$2,118,580 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 191,463</u>	<u>\$ 1,158,804</u>

Summary of Carrying Values

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

	2019	2018
Carrying value Deposits	<u>\$ 675,251</u>	<u>\$ 1,729,407</u>
Included in the following balance sheet captions Cash	<u>\$ 675,251</u>	<u>\$ 1,729,407</u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

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 December 31, 2019 and 2018, consisted of:

	2019	2018
Medicare	\$ 438,495	\$ 387,934
Medicaid	97,040	58,458
Blue Cross	58,134	70,289
Other third-party payers	92,913	53,887
Patients	306,058	251,385
	<u>992,640</u>	<u>821,953</u>
Less allowance for uncollectible accounts	<u>243,000</u>	<u>199,000</u>
	<u><u>\$ 749,640</u></u>	<u><u>\$ 622,953</u></u>

Note 4: Capital Assets

Capital assets activity for the years ended December 31, 2019 and 2018, was:

	2019			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ 38,867
Land improvements	81,521	-	-	81,521
Buildings	7,021,083	-	-	7,021,083
Fixed equipment	1,793,951	-	-	1,793,951
Major moveable equipment	2,638,078	66,624	(42,900)	2,661,802
Construction in progress	-	47,069	-	47,069
	<u>11,573,500</u>	<u>113,693</u>	<u>(42,900)</u>	<u>11,644,293</u>
Less accumulated depreciation				
Land improvements	28,221	7,613	-	35,834
Buildings	1,428,018	266,233	-	1,694,251
Fixed equipment	823,527	141,074	-	964,601
Major moveable equipment	1,949,518	209,487	(42,900)	2,116,105
	<u>4,229,284</u>	<u>624,407</u>	<u>(42,900)</u>	<u>4,810,791</u>
Capital assets, net	<u><u>\$ 7,344,216</u></u>	<u><u>\$ (510,714)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,833,502</u></u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

	2018			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ 38,867
Land improvements	81,521	-	-	81,521
Buildings	7,010,997	10,086	-	7,021,083
Fixed equipment	1,793,951	-	-	1,793,951
Major moveable equipment	2,459,708	243,861	(65,491)	2,638,078
	<u>11,385,044</u>	<u>253,947</u>	<u>(65,491)</u>	<u>11,573,500</u>
Less accumulated depreciation				
Land improvements	20,608	7,613	-	28,221
Buildings	1,158,237	269,781	-	1,428,018
Fixed equipment	660,507	163,020	-	823,527
Major moveable equipment	1,814,167	234,863	(99,512)	1,949,518
	<u>3,653,519</u>	<u>675,277</u>	<u>(99,512)</u>	<u>4,229,284</u>
Capital assets, net	<u>\$ 7,731,525</u>	<u>\$ (421,330)</u>	<u>\$ 34,021</u>	<u>\$ 7,344,216</u>

Note 5: Accounts Payable and Accrued Expenses

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

	2019	2018
Payable to suppliers and contractors	\$ 181,824	\$ 107,511
Payable to or on behalf of employees (including payroll taxes and benefits)	301,123	420,156
Bond interest payable	59,528	62,673
	<u>\$ 542,475</u>	<u>\$ 590,340</u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2019 and 2018:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	\$ 131,250	\$ -	\$ 13,250	\$ 118,000	\$ 13,500
USDA Hospital Refunding Revenue Bond Series 2014	2,545,000	-	125,000	2,420,000	125,000
Capital lease obligations	147,153	-	71,853	75,300	46,137
Total long-term debt	\$ 2,823,403	\$ -	\$ 210,103	\$ 2,613,300	\$ 184,637
	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building Commission bonds payable - 2012	\$ 144,000	\$ -	\$ 12,750	\$ 131,250	\$ 13,250
USDA Hospital Refunding Revenue Bond Series 2014	2,665,000	-	120,000	2,545,000	125,000
Capital lease obligations	271,035	-	123,882	147,153	71,977
Total long-term debt	\$ 3,080,035	\$ -	\$ 256,632	\$ 2,823,403	\$ 210,227

Public Building Commission Bonds Payable – 2012

The Public Building Commission (PBC) bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds, Series 2012, in the original amount of \$4,000,000 dated August 15, 2012, which bear interest at 2.0% to 3.0%. The bonds are payable in annual installments beginning September 1, 2013 through September 1, 2027. Semiannual interest only payments are due beginning March 1, 2013 through September 1, 2027. In connection with the issuance of the bonds, the Hospital has entered into a sublease with Barber County, Kansas. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

The Hospital's debt service requirements for the PBC bonds as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 16,468	\$ 13,500	\$ 2,968
2021	16,564	14,000	2,564
2022	16,516	14,250	2,266
2023	16,678	14,750	1,928
2024	16,326	14,750	1,576
2025-2027	<u>49,204</u>	<u>46,750</u>	<u>2,454</u>
	<u>\$ 131,756</u>	<u>\$ 118,000</u>	<u>\$ 13,756</u>

USDA Hospital Refunding Bond Series 2014

On April 15, 2014, the Kiowa District Hospital issued United States Department of Agriculture (USDA) Hospital Refunding Revenue Bond, Series 2014, under the USDA Rural Development program in the amount of \$3,000,000 and bearing interest at 3.375%. Principal and interest payments under this issue began April 15, 2015, and extend through April 15, 2034. The bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements for the USDA bonds as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	\$ 206,675	\$ 125,000	81,675
2021	207,456	130,000	77,456
2022	208,069	135,000	73,069
2023	208,513	140,000	68,513
2024	208,788	145,000	63,788
2025-2029	1,042,156	800,000	242,156
2030-2034	<u>1,042,706</u>	<u>945,000</u>	<u>97,706</u>
	<u>\$ 3,124,363</u>	<u>\$ 2,420,000</u>	<u>\$ 704,363</u>

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2019 and 2018, totaled \$38,324 and \$126,758, respectively, net of accumulated depreciation of \$200,725 and \$512,820, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates between 3.41% to 5.09% with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,			
2020		\$	49,103
2021			29,693
Total minimum lease payments			78,796
Less amount representing interest			3,496
			75,300
Present value of future minimum lease payments		\$	75,300

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.

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 8: Net Patient Service Revenues

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). Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of cost subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits

Kiowa District Hospital

Notes to Financial Statements

December 31, 2019 and 2018

thereof by the Medicare administrative contractor. Beginning April 1, 2013, a mandatory payment reduction known as sequestration, of 2%, went into effect. Under current legislation, sequestration is scheduled to last until 2025.

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 point in the future.

Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 79% and 81% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, 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 \$26,236 and \$26,446 for 2019 and 2018, 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

The Hospital established a 457(b) deferred compensation plan covering substantially all employees of the Hospital, UMB Bank is the Trustee of the trust established to hold the plan assets. Plan contributions are made by participating employees. The Plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. Contributions actually made by plan members and the Hospital aggregated \$45,656 and \$143,734 during 2019 and \$39,802 and \$113,394 during 2018, respectively. The fair market value of employee investments at December 31, 2019 and 2018, were \$1,389,223 and \$983,040, respectively. These amounts are not reported as assets or liabilities of the Hospital.

Kiowa District Hospital

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Note 11: Future Change in Accounting Principle

Fiduciary Activities

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2019. The Hospital is evaluating the impact the statement will have on the financial statements.

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.

Kiowa District Hospital
Notes to Financial Statements
December 31, 2019 and 2018

Note 12: Friends of Kiowa District Hospital and Manor Foundation, Inc.

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose purpose is to raise funds for improving access to and enhancing the quality of healthcare services in Kiowa, Kansas and the surrounding area.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Foundation in perpetuity. At December 31, 2019 and 2018, there were no net assets with donor restrictions.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, the Foundation had no cash equivalents.

At December 31, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$68,000.

Certificate of Deposit

The Foundation reports certificates of deposits at amortized cost.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the Statements of Activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2019 and 2018

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Staff/Facilities

The Hospital provides the office space and utilities as well as a portion of the salaries. The values of these donations have not been reflected in the financial statements.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund raising and special projects. No amounts have been recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Revenues, Gains and Other Support

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Related Entity

The Foundation works closely with the Hospital. Facilities and start-up funds were provided by the Hospital. As discussed above, much of the funds raised by the Foundation are distributed to the Hospital. The entities share one common member of their Boards of Trustees/Directors.

Liquidity and Availability

The Foundation's financial assets available within one year of the balance sheet date for general expenditures encompass all assets of the Foundation at both December 31, 2019 and 2018.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2019 and 2018

Note 13: 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.

On April 10, 2020, the Hospital received approximately \$318,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain the stimulus payments.

On April 21, 2020, the Hospital received approximately \$1,327,000 of advanced Medicare payments through the Medicare Accelerated and Advanced Payment Program. This is a short-term advance payment that will have to be paid back on terms that are set by the regulations. The Hospital will continue to submit claims as usual after receiving the advanced payment; however, 120 calendar days after the lump-sum accelerated payment is received, the Medicare Administrative Contractor will recoup 100% of any future Medicare remittance payments to satisfy the accelerated payment received by the Hospital. The Hospital's Medicare payments will be reduced until the accelerated payment amount is paid off in full. This could lead to periods where Medicare payments are zero dependent on the amount of advanced payment received by the Hospital and current billings to Medicare. After a defined period of time, as set by the regulations, if the entire advanced amount is not paid in full, the Centers for Medicare and Medicaid Services will expect the Hospital to submit payment of any unpaid balance. Acute care and critical access hospitals have one year from the date the accelerated payment is received to repay any unpaid balance in full. At the end of the repayment period, the Hospital may request extended repayment plans for unpaid amounts, which will accrue interest at the prevailing interest rate (currently 10.25%).

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 the 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 \$100,000 on April 27, 2020, related to this special emergency grant.

On May 6, 2020, the Hospital received approximately \$3,041,000 of additional stimulus funds from HHS. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

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On May 8, 2020, the Hospital obtained a loan through a local bank that is fully guaranteed by the U.S. Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The amount borrowed is approximately \$834,000 at 1.00% interest with a maturity date of May 8, 2022. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

On May 20, 2020, the Hospital received approximately \$49,000 of additional stimulus funds from HHS. Congress has directed this funding to address the expenses Rural Health Clinics (RHCs) are incurring for COVID-19 testing. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

Supplementary Information

Kiowa District Hospital
Net Patient Service Revenues
Years Ended December 31, 2019 and 2018

	2019	2018
Hospital Revenues		
Inpatient	\$ 2,119,454	\$ 1,597,061
Outpatient	2,491,876	3,000,736
Clinic Revenues	661,123	618,033
Long-term Care Facility Revenues	1,509,022	1,409,981
Subtotal	6,781,475	6,625,811
Plus Contractual Adjustments	1,285,114	1,187,693
Less Provision for Uncollectible Accounts	(99,620)	(44,196)
Net Patient Service Revenues	\$ 7,966,969	\$ 7,769,308

Kiowa District Hospital
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
December 31, 2019

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net patient service revenues	\$ 6,552,187	\$ 8,370,000	\$ (1,817,813)
Other revenue	<u>259,638</u>	<u>409,923</u>	<u>(150,285)</u>
Total revenues	<u>6,811,825</u>	<u>8,779,923</u>	<u>(1,968,098)</u>
Operating expenses	8,920,464	10,360,250	(1,439,786)
Interest paid	<u>114,879</u>	<u>-</u>	<u>114,879</u>
Operating expenses	<u>9,035,343</u>	<u>10,360,250</u>	<u>(1,324,907)</u>
Operating loss	<u>(2,223,518)</u>	<u>(1,580,327)</u>	<u>(643,191)</u>
Property taxes revenue	1,040,831	1,018,637	22,194
Other nonoperating revenues	<u>53,686</u>	<u>150,000</u>	<u>(96,314)</u>
Total nonoperating revenues	<u>1,094,517</u>	<u>1,168,637</u>	<u>(74,120)</u>
Deficiency of revenues over expenses	<u>\$ (1,129,001)</u>	<u>\$ (411,690)</u>	<u>\$ (717,311)</u>

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