Coffey Health System, A Component Unit of Coffey County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021



Coffey Health System
A Component Unit of Coffey County, Kansas
December 31, 2022 and 2021

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Independent Auditor's Report

Board of Trustees
Coffey Health System
Burlington, Kansas

Opinion

We have audited the accompanying financial statements of Coffey Health System, a component unit of Coffey County, Kansas, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Coffey Health System'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 Coffey Health System as of December 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Coffey Health System 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 Coffey Health System'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.

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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 Coffey Health System'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 Coffey Health System's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

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

FORVIS, LLP

Wichita, Kansas
November 8, 2023

Coffey Health System
A Component Unit of Coffey County, Kansas
Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash	$ 1,611,768	$ 5,999,652
Patient accounts receivable, net of allowance;		
2022 - $1,620,000, 2021 - $1,390,800	2,416,516	3,384,464
340B contract pharmacy receivable	59,063	51,301
Estimated amounts due from third-party payers	253,068	320,000
Supplies	485,523	539,481
Prepaid expenses and other	155,309	110,922
Total current assets	4,981,247	10,405,820
Capital Assets, Net	11,578,745	9,595,627
Total assets	$ 16,559,992	$ 20,001,447
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 249,986	$ 510,125
Accounts payable	847,000	801,861
Accrued expenses	1,505,692	1,948,554
Unearned revenue	-	940,327
Advance from Medicare	-	1,628,656
Total current liabilities	2,602,678	5,829,523
Long-term Debt	2,012,403	2,120,229
Total liabilities	4,615,081	7,949,752
Net Position		
Net investment in capital assets	9,316,356	7,031,941
Unrestricted	2,628,555	5,019,754
Total net position	11,944,911	12,051,695
Total liabilities and net position	$ 16,559,992	$ 20,001,447

Coffey Health System
A Component Unit of Coffey County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022 - $1,988,204, 2021 - $1,117,744	$ 22,012,048	$ 23,948,656
340B drug pricing program	1,170,238	821,546
Other	190,440	190,231
Total operating revenues	23,372,726	24,960,433
Operating Expenses		
Salaries and wages	15,036,557	16,043,898
Employee benefits	3,563,934	3,693,559
Purchased services and professional fees	3,491,085	2,830,836
Supplies and other	5,148,064	5,567,130
Depreciation	1,326,356	1,193,207
Total operating expenses	28,565,996	29,328,630
Operating Loss	(5,193,270)	(4,368,197)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Coffey County	3,059,241	2,039,494
Interest income	7,521	12,365
Interest expense	(47,407)	(60,276)
Gain on disposal of capital assets	488,943	15,759
Noncapital grants and gifts	357,559	229,008
Provider Relief Funds (*CARES Act*)	1,220,629	3,354,187
Paycheck Protection Program (PPP) loan forgiveness	-	2,777,100
Total nonoperating revenues, net	5,086,486	8,367,637
Increase (Decrease) in Net Position	(106,784)	3,999,440
Net Position, Beginning of Year	12,051,695	8,052,255
Net Position, End of Year	$ 11,944,911	$ 12,051,695

Coffey Health System
A Component Unit of Coffey County, Kansas
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Receipts from and on behalf of patients	$ 22,580,748	$ 22,887,627
Payments to suppliers and contractors	(8,848,400)	(9,043,720)
Payments to and on behalf of employees	(19,049,597)	(19,328,215)
Other receipts	(749,887)	(1,999,364)
Net cash used in operating activities	(6,067,136)	(7,483,672)
Noncapital Financing Activities		
Noncapital appropriations - Coffey County	3,059,241	2,039,494
Noncapital grants and gifts	357,559	229,008
Provider Relief Funds (*CARES Act*)	1,220,629	3,354,187
Net cash provided by noncapital financing activities	4,637,429	5,622,689
Capital and Related Financing Activities		
Principal paid on long-term debt	(301,297)	(250,641)
Interest paid on long-term debt	(47,407)	(60,276)
Purchase of capital assets	(3,009,023)	(2,900,214)
Proceeds from disposal of capital assets	392,029	-
Net cash used in capital and related financing activities	(2,965,698)	(3,211,131)
Investing Activities		
Interest income received	7,521	12,365
Net cash provided by investing activities	7,521	12,365
Decrease in Cash	(4,387,884)	(5,059,749)
Cash, Beginning of Year	5,999,652	11,059,401
Cash, End of Year	$ 1,611,768	$ 5,999,652

Coffey Health System
A Component Unit of Coffey County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	2022	2021
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (5,193,270)	$ (4,368,197)
Depreciation	1,326,356	1,193,207
Changes in operating assets and liabilities		
Patient accounts receivable, net	967,948	(980,906)
Estimated amounts due from and to third-party payers	66,932	115,000
Advance from Medicare	(1,628,656)	(1,077,603)
Unearned revenue	(940,327)	(2,189,595)
Accounts payable and accrued expenses	(667,928)	(288,769)
Supplies, prepaid expenses and other assets	1,809	113,191
Net cash used in operating activities	$ (6,067,136)	$ (7,483,672)
Noncash Investing, Capital and Financing Activities		
Capital asset additions included in accounts payable	$ 300,451	$ 110,159
Capital lease obligations incurred for capital assets	$ -	$ 56,000
PPP loan forgiveness	$ -	$ 2,777,100

Coffey Health System
A Component Unit of Coffey County, Kansas
Notes to Financial Statements
December 31, 2022 and 2021

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

Nature of Operations and Reporting Entity

Coffey Health System (System) is an acute care hospital located in Burlington, Kansas. The System is a component unit of Coffey County, Kansas (County), and the Board of County Commissioners appoints members to the Board of Trustees of the System. The System primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Coffey county area. It also operates a home health agency and long-term care and assisted living facilities in the same geographic area. Home health services were discontinued in 2021.

Basis of Accounting and Presentation

The financial statements of the System 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. Government-mandated or voluntary nonexchange transactions that are not program specific, such as intergovernmental revenue, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The System first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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.

Noncapital Appropriations – Coffey County

The System received approximately 11% and 6% of its financial support from noncapital appropriations derived from property taxes levied by the County in 2022 and 2021, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

Risk Management

The System 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, except 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 upon 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.

Patient Accounts Receivable

The System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System 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 over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the System:

Land improvements	5 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

Capital Asset Impairment

The System 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, 2022 and 2021.

Compensated Absences

System 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 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.

Net Position

Net position of the System 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.

Net Patient Service Revenue

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

Paycheck Protection Program (PPP) Loan

The System 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 System received legal notice on January 25, 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.

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 System 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 System 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, if any, is recorded as unearned revenue in the accompanying balance sheets.

Income Taxes

As an essential government function of the County, the System is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Leases

Effective January 1, 2022, the System adopted GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented. The System's lease agreements that were in effect during 2021 and 2022 are immaterial to the financial statements, as a result there are no right-to-use assets or lease liabilities recorded on the balance sheets.

Foundation

The System is the beneficiary of Coffey Health Foundation (Foundation), a separate legal entity with its own board of trustees. The Foundation has legal title to all of the Foundation's assets. The Foundation is not a component unit of the System and, thus, not reflected in the accompanying financial statements.

Note 2: Net Patient Service Revenue

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

Medicare. The System 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. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor.

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

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective rate methodology. The System is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted 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 57% and 52% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2022 and 2021, 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 System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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 System'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, 2022 and 2021, respectively, $1,384,036 and $5,514,193 of the System's bank balances of $2,134,036 and $6,315,920 were exposed to custodial credit risk as follows:

	2022	2021
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the System's name	$ 1,384,036	$ 5,514,193

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	$ 1,609,818	$ 5,997,702
Petty cash	1,950	1,950
	$ 1,611,768	$ 5,999,652
Included in the following balance sheet captions		
Cash	$ 1,611,768	$ 5,999,652

Note 4: Patient Accounts Receivable

The System 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, consisted of:

	2022	2021
Medicare	$ 1,071,464	$ 1,382,574
Medicaid	192,944	293,063
Blue Cross	407,503	624,114
Other third-party payers	535,505	839,358
Patients	1,840,736	1,636,155
	4,048,152	4,775,264
Less allowance for uncollectible accounts	1,620,000	1,390,800
	$ 2,428,152	$ 3,384,464

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 274,184	$ -	$ -	$ -	$ 274,184
Land improvements	986,917	-	-	-	986,917
Buildings	14,103,427	314,846	-	-	14,418,273
Fixed equipment	9,589,189	25,461	-	-	9,614,650
Major moveable equipment	16,442,388	604,111	-	-	17,046,499
Construction in progress	110,159	2,365,056	-	-	2,475,215
	41,506,264	3,309,474	-	-	44,815,738
Less accumulated depreciation					
Land improvements	962,682	5,128	-	-	967,810
Buildings	9,735,184	350,628	-	-	10,085,812
Fixed equipment	8,068,680	337,780	-	-	8,406,460
Major moveable equipment	13,144,091	632,820	-	-	13,776,911
	31,910,637	1,326,356	-	-	33,236,993
Capital Assets, Net	$ 9,595,627	$ 1,983,118	$ -	$ -	$ 11,578,745

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 274,184	$ -	$ -	$ -	$ 274,184
Land improvements	986,917	-	-	-	986,917
Buildings	12,912,719	-	-	1,190,708	14,103,427
Fixed equipment	9,164,524	-	(110,773)	535,438	9,589,189
Major moveable equipment	15,417,787	-	(237,284)	1,261,885	16,442,388
Construction in progress	186,639	3,066,373	(154,822)	(2,988,031)	110,159
	38,942,770	3,066,373	(502,879)	-	41,506,264
Less accumulated depreciation					
Land improvements	957,500	5,182	-	-	962,682
Buildings	9,412,534	322,650	-	-	9,735,184
Fixed equipment	7,836,434	343,019	(110,773)	-	8,068,680
Major moveable equipment	12,859,019	522,356	(237,284)	-	13,144,091
	31,065,487	1,193,207	(348,057)	-	31,910,637
Capital Assets, Net	$ 7,877,283	$ 1,873,166	$ (154,822)	$ -	$ 9,595,627

Note 6: Medical Malpractice Coverage and Claims

The System purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides $500,000 and $200,000 of coverage for each medical incident and $1,500,000 and $600,000 of aggregate coverage for each policy years ending December 31, 2022 and 2021, respectively. 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 $500,000 and $800,000 of coverage for each medical incident and $1,500,000 and $2,400,000 of aggregate coverage for each policy years ending December 31, 2022 and 2021, respectively.

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 System's claims experience, no such accrual has been made. It is reasonably possible this estimate could change materially in the future.

Note 7: Sale of Patient Accounts Receivable

The Hospital has an agreement with a third party to sell patient accounts receivable. The third party has the right to purchase or reject accounts that are offered for sale. The agreement was effective through December 31, 2022, with an automatic 12-month renewal unless written notice from either the Hospital or third party is given within 30 days of the termination of the agreement. The agreement has been renewed through December 31, 2023, as of the report date. The maximum amount that the third party will purchase and have outstanding at any one time from the Hospital is $750,000. There is a recourse provision that if an account that is sold by the Hospital to the third party is delinquent for 61 days it will be considered in default and the Hospital is required to repurchase the outstanding amount of the loan from the third party. The minimum amount of an individual account that the third party will purchase is $500 and the maximum is $50,000. The maximum loan length is 60 months. When the sale of patient accounts receivable occurs, the Hospital receives cash from the third party and the account receivable and related allowance is relieved from the Hospital's books. The Hospital does record an estimated liability related to the potential recourse of the accounts sold. The Hospital uses a 12-month rolling average of defaulted loans with the third party. The recourse liability is recorded as a component of accounts payable in the accompanying balance sheets. The total outstanding loans the third party held related to purchases of the System's patient accounts was approximately $127,000 and $161,000 at December 31, 2022 and 2021, respectively. The liability recorded for potential recourse on those balances based on default experience was approximately $41,000 and $48,000 at December 31, 2022 and 2021, respectively.

Note 8: Long-term Debt

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

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable (A)	$ 1,505,417	$ -	$ 90,325	$ 1,415,092	$ 60,217
Note payable (C)	66,668	-	66,668	-	-
Financed capital purchases	1,058,269	-	210,972	847,297	189,769
Total long-term debt	$ 2,630,354	$ -	$ 367,965	$ 2,262,389	$ 249,986

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable (A)	$ 1,505,417	$ -	$ -	$ 1,505,417	$ 240,867
Note payable (B)	2,777,100	-	2,777,100	-	-
Note payable (C)	133,334	-	66,666	66,668	66,668
Financed capital purchases	1,252,910	56,000	250,641	1,058,269	202,590
Total long-term debt	$ 5,668,761	$ 56,000	$ 3,094,407	$ 2,630,354	$ 510,125

Note Payable (A)

The note payable to the County was originally due June 3, 2025, but a one-year deferral of payments was granted by the County in July 2018, which modified the final due date to June 3, 2026, with principal payable annually beginning July 3, 2017. An additional one-year deferral of payments was granted by the County in July 2019, which modified the final due date to June 4, 2027. On June 22, 2020, the County agreed to forgive 50% of the balance due in the amount of $1,505,000 and deferred the next payment due until May 3, 2022. The final payment date was moved to June 3, 2026. In May 2022, the County agreed to modify the repayments from Monthly to semi-annually with payments due June 30 and December 31, which modified the maturity date of this loan to 2046. The loan is a 0% interest loan. The note is secured by certain capital assets. The debt service requirements as of December 31, 2022, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	$ 60,217	$ 60,217	$ -
2024	60,217	60,217	-
2025	60,217	60,217	-
2026	60,217	60,217	-
2027	60,217	60,217	-
2028-2032	301,084	301,084	-
2033-2037	301,084	301,084	-
2038-2042	301,084	301,084	-
2043-2046	210,755	210,755	-
	$ 1,415,092	$ 1,415,092	$ -

Note Payable (B)

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 System received a Paycheck Protection Program (PPP) loan of $2,777,100 in 2020. The loan has an interest rate of 1%, with monthly payments due starting 10 months after the 24-week covered period. The System received legal notice on January 25, 2021, that the PPP loan was forgiven in its entirety.

Note Payable (C)

The System entered into a settlement agreement related to a Civil Investigative Demand (CID). Future principal payments of $66,666 were due June 30, 2021 and 2022. Interest of $9,667 and $4,833 was payable with the amounts due June 30, 2021 and 2022, respectively. The Hospital paid off this settlement agreement during 2022.

Financed Capital Purchases

The System is obligated under multiple finance purchase agreements for equipment that are accounted for as finance purchases.

The following is a schedule by year of debt service requirement payments under the finance purchase agreements including interest at rates of 3.90% to 6.508% as of December 31, 2022:

Year Ending December 31,	
2023	$ 221,205
2024	171,798
2025	138,822
2026	138,823
2027	144,538
2028	143,803
Total financed capital purchases payments	958,989
Less amount representing interest	111,692
Financed capital purchases pricipal payments	$ 847,297

Note 9: Pension Plan

The System contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the System's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan is a replacement for social security and provides retirement 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 System's governing body. Contribution rates for plan members and the System expressed as a percentage of covered payroll were 4% and 7%, respectively, for 2022 and 2021. Contributions actually made by plan members and the System aggregated $577,381 and $1,010,417 during 2022 and $591,485 and $1,035,099 during 2021, respectively.

Note 10: 340B Drug Pricing Program

The System participates in the 340B Drug Pricing Program (340B Program) enabling the System to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The System recorded revenues of $1,170,238 and $821,546 for the years ending December 31, 2022 and 2021, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The System recorded expenses of $627,855 and $534,956 for the years ending December 31, 2022 and 2021, 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.

Note 11: COVID-19 Pandemic & *CARES Act* Funding

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

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

Because of these and other uncertainties, the System cannot estimate the length or severity of the effect of the pandemic on the System's business. Decreases in cash flows and result of operations may have an effect on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the years ended December 31, 2022 and 2021, the System received $280,302 and $1,164,592, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the System 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 System 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 System's operating revenues and expenses through December 31, 2022 and 2021, the System recognized $1,220,629 and $$3,354,187, 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 $0 and $940,327 is recorded as part of unearned revenue in the accompanying balance sheets for the years ended December 31, 2022 and 2021, respectively.

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.

Paycheck Protection Program (PPP) Loan

During the year ended December 31, 2020, the System received a PPP loan of $2,777,100 established by the *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 SBA, or lender; as a result of such audit, adjustment could be required to any revenue recognized. The System received legal notice on January 25, 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.

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the System 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 were expected to be recaptured by CMS according to the payback provisions.

During the year ended December 31, 2020, the System received $2,706,259 from these accelerated Medicare payment requests. 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, 2022 and 2021. All funds were paid back as of December 31, 2022.

Other COVID-19 Funding

During the years ended December 2022 and 2021, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for critical 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 System received and recognized $63,613 and $0 during 2022 and 2021, respectively, related to this Small Rural Hospital Improvement Program (SHIP) grant and the revenue 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.

Note 12: Contingencies

Litigation

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

Note 13: Future Changes in Accounting Principles

Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA) provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

Note 14: Subsequent Events

The System closed its long-term care facility in January 2023. It sold the building in August 2023 for $550,000.

The System opened a revolving line of credit with a local bank for $400,000 in May 2023 that expires May 2024. Interest is payable monthly and accrues at 6.98%. The line of credit is collateralized by another deposit account the System holds. As of the report date, there was approximately $200,000 drawn on the line of credit.

The System entered in a lease agreement for an MRI that it took possession of in April 2023. The agreement includes 84 monthly payments of $11,665, which started in April 2023.

Supplementary Information

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Net Patient Service Revenues
Years Ended December 31, 2022 and 2021

	2022		
	Inpatient	Outpatient	Total
Nursing Services			
Acute hospital	$ 1,047,339	$ 14,747	$ 1,062,086
Swing-bed	136,484	-	136,484
Nursery	95,112	-	95,112
Long-term care	1,254,786	-	1,254,786
Assisted living	338,086	-	338,086
	2,871,807	14,747	2,886,554
Other Professional Services			
Operating room	87,231	1,952,705	2,039,936
Recovery room	1,696	249,312	251,008
Delivery room	318,325	44,314	362,639
Anesthesiology	67,777	402,930	470,707
Radiology	413,588	8,817,503	9,231,091
Laboratory	395,985	4,713,190	5,109,175
Blood administration	8,095	10,320	18,415
Respiratory services	386,678	129,965	516,643
Physical therapy	185,137	985,410	1,170,547
Occupational therapy	115,397	288,964	404,361
Speech pathology	118,892	293,188	412,080
Electrocardiology	16,352	240,610	256,962
Central service	1,208	12,027	13,235
Pharmacy	1,274,222	2,596,537	3,870,759
Specialty clinics	3,575	1,772,348	1,775,923
Emergency room	94,730	3,977,443	4,072,173
Observation	44,256	606,683	650,939
Rural health clinic	-	5,508,996	5,508,996
Ambulance	-	1,202,462	1,202,462
Home health	-	-	-
Physician clinics	-	113,956	113,956
Lifeline	-	13,065	13,065
Senior care	-	-	-
	3,533,144	33,931,928	37,465,072
	$ 6,404,951	$ 33,946,675	40,351,626
Contractual Allowances, Charity Care and Provision for Uncollectible Accounts			18,339,578
Net Patient Service Revenue			$ 22,012,048

2021		
Inpatient	Outpatient	Total
$ 1,212,706	$ 9,680	$ 1,222,386
85,776	-	85,776
65,950	-	65,950
1,322,386	-	1,322,386
446,221	-	446,221
3,133,039	9,680	3,142,719
537,563	2,331,265	2,868,828
9,328	286,200	295,528
163,829	22,404	186,233
90,901	505,228	596,129
485,542	9,019,712	9,505,254
448,014	5,295,511	5,743,525
10,678	15,295	25,973
430,054	114,373	544,427
111,699	1,082,535	1,194,234
83,315	331,377	414,692
24,007	213,551	237,558
17,812	218,610	236,422
1,035	5,739	6,774
1,881,000	3,277,269	5,158,269
11,006	1,090,200	1,101,206
131,795	3,700,042	3,831,837
37,073	401,928	439,001
-	4,903,212	4,903,212
-	1,179,990	1,179,990
-	191,404	191,404
-	721,249	721,249
-	14,538	14,538
-	41,309	41,309
4,474,651	34,962,941	39,437,592
$ 7,607,690	$ 34,972,621	42,580,311
		18,631,655
		$ 23,948,656

Coffey Health System
A Component Unit of Coffey County, Kansas
Deductions from Revenue and Other Operating Revenue
Years Ended December 31, 2022 and 2021

	2022	2021
Deductions from Revenue		
Medicare	$ 9,281,037	$ 10,066,309
Medicaid	1,745,131	1,904,099
Blue Cross	3,275,467	3,587,501
Other third-party payers	1,993,215	1,859,232
Charity care	5,350	44,775
Administrative adjustments	51,174	51,995
Provision for uncollectible accounts	1,988,204	1,117,744
	$ 18,339,578	$ 18,631,655
Other Operating Revenue		
Cafeteria	$ 102,485	$ 127,607
In-house catering	69,136	41,010
Education	2,387	-
Sale of medical records	14,068	15,013
Miscellaneous	2,364	6,601
	$ 190,440	$ 190,231

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Operating Expenses
Years Ended December 31, 2022 and 2021

	2022			2021		
	Salaries	Other	Total	Salaries	Other	Total
Nursing Services						
Nursing service	$ 915,789	$ 270,435	$ 1,186,224	$ 1,009,096	$ 501,746	$ 1,510,842
Nursery	4,993	2,165	7,158	18,712	2,007	20,719
Long-term care	1,412,870	388,365	1,801,235	1,519,474	498,745	2,018,219
Assisted living	421,941	140,365	562,306	596,691	211,868	808,559
Nursing administration	81,604	3,116	84,720	76,994	58,224	135,218
	2,837,197	804,446	3,641,643	3,220,967	1,272,590	4,493,557
Other Professional Services						
Operating room	320,807	111,416	432,223	257,902	124,019	381,921
Recovery room	12,417	1,142	13,559	18,835	567	19,402
Delivery room	472,992	73,392	546,384	307,090	25,181	332,271
Anesthesiology	204,189	304,009	508,198	287,325	39,131	326,456
Radiology	664,478	776,389	1,440,867	610,164	767,084	1,377,248
Laboratory	460,956	900,088	1,361,044	339,691	1,007,246	1,346,937
Blood administration	-	17,790	17,790	-	20,900	20,900
Respiratory services	179,401	16,444	195,845	213,483	11,188	224,671
Physical therapy	278,161	41,507	319,668	276,541	27,030	303,571
Occupational therapy	121,663	851	122,514	114,089	936	115,025
Speech pathology	80,348	6,697	87,045	57,895	7,145	65,040
Electrocardiology	24,940	20	24,960	17,827	35	17,862
Central service	20,047	278,939	298,986	29,921	416,822	446,743
Pharmacy	191,793	1,170,086	1,361,879	204,072	1,241,755	1,445,827
Specialty clinics	185,623	211,284	396,907	103,318	58,540	161,858
Emergency room	1,195,733	673,237	1,868,970	1,271,730	351,857	1,623,587
Rural health clinic	3,361,272	633,671	3,994,943	3,554,309	716,235	4,270,544
Ambulance	1,005,862	89,223	1,095,085	1,152,474	94,358	1,246,832
Home health	(1,834)	5,711	3,877	272,886	64,252	337,138
Physician clinics	83,371	22,140	105,511	558,074	33,673	591,747
Lifeline	-	5,082	5,082	-	4,933	4,933
Wolf Creek	45,988	4,265	50,253	72,766	3,643	76,409
	8,908,207	5,343,383	14,251,590	9,720,392	5,016,530	14,736,922

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Operating Expenses (Continued)
Years Ended December 31, 2022 and 2021

	2022			2021		
	Salaries	Other	Total	Salaries	Other	Total
General Services						
Plant operation	$ 255,057	$ 480,176	$ 735,233	$ 259,808	$ 413,327	$ 673,135
Laundry	-	15,223	15,223	189	8,594	8,783
Housekeeping	251,008	36,839	287,847	216,402	38,624	255,026
Dietary	283,186	253,183	536,369	334,939	233,193	568,132
	789,251	785,421	1,574,672	811,338	693,738	1,505,076
Administration Services						
Administration and general	2,034,375	1,535,812	3,570,187	1,862,367	1,240,870	3,103,237
Medical records	340,269	91,145	431,414	320,177	108,045	428,222
Marketing	127,258	78,942	206,200	108,657	66,193	174,850
	2,501,902	1,705,899	4,207,801	2,291,201	1,415,108	3,706,309
Employee Benefits		3,563,934	3,563,934		3,693,559	3,693,559
Depreciation		1,326,356	1,326,356		1,193,207	1,193,207
	$ 15,036,557	$ 13,529,439	$ 28,565,996	$ 16,043,898	$ 13,284,732	$ 29,328,630

Coffey Health System
A Component Unit of Coffey County, Kansas
Schedules of Financial and Statistical Comparisons
Years Ended December 31,

	2022	2021	2020	2019	2018
Operating Revenues	$ 23,372,726	$ 24,960,433	$ 23,915,601	$ 24,199,946	$ 23,283,973
Operating Expenses	28,565,996	29,328,630	27,218,707	25,649,780	25,666,511
Loss From Operations	$ (5,193,270)	$ (4,368,197)	$ (3,303,106)	$ (1,449,834)	$ (2,382,538)
Total Salaries	$ 15,036,557	$ 16,043,898	$ 14,963,517	$ 14,302,497	$ 14,056,002
Full-time Equivalents	246.4	256.3	266.1	260.5	256.6
Patient Days (Acute and Swing-bed)					
Medicare	1,206	981	1,334	1,047	1,428
Other	425	486	337	352	236
Total	1,631	1,467	1,671	1,399	1,664
Percent of Occupancy (Acute and Swing-bed)	17.9	16.1	18.3	15.3	12.7
Medicare Percent (Acute and Swing-bed)	73.9	66.9	79.8	74.8	85.8
Discharges (Acute and Swing-bed)					
Medicare	210	198	268	219	333
Other	127	148	160	174	102
Total	337	346	428	393	435
Average Length of Stay (Acute and Swing-bed)					
Medicare	5.7	5.0	5.0	4.8	4.3
Other	3.3	3.3	2.1	2.0	2.3
Overall	4.8	4.2	3.9	3.6	3.8