

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**December 31, 2021 and 2020**

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## Independent Auditor's Report

Board of Directors  
Stevens County Hospital  
Hugoton, Kansas

### ***Opinion***

We have audited the accompanying financial statements of Stevens County Hospital (Hospital), a component unit of Stevens County, Kansas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Stevens County Hospital as of December 31, 2021 and 2020, 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 the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

In performing an audit in accordance with GAAS, we:

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

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

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

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

**FORVIS,LLP**

Wichita, Kansas  
December 5, 2022

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Balance Sheets**  
**December 31, 2021 and 2020**

|  | <u>2021</u>                 | <u>2020</u>                 |
|--|-----------------------------|-----------------------------|
| <b>Assets</b>  |                             |                             |
| <b>Current Assets</b>  |                             |                             |
| Cash and cash equivalents  | \$ 3,949,751                | \$ 6,744,066                |
| Short-term certificates of deposit   | 5,258                       | 3,541                       |
| Patient accounts receivable, net of allowance;<br>2021 – \$1,074,000, 2020 – \$723,000 | 3,440,136                   | 1,793,978                   |
| Accounts receivable – retail pharmacy  | 136,641                     | 67,382                      |
| Estimated amounts due from third-party payers  | -                           | 250,000                     |
| Supplies   | 321,932                     | 310,809                     |
| Prepaid expenses and other   | 163,459                     | 230,121                     |
|  | <u>8,017,177</u>            | <u>9,399,897</u>            |
| <b>Capital Assets, Net</b>   | <u>18,959,694</u>           | <u>18,908,713</u>           |
| Total assets   | <u><u>\$ 26,976,871</u></u> | <u><u>\$ 28,308,610</u></u> |
| <br><b>Liabilities and Net Position</b>  |                             |                             |
| <b>Current Liabilities</b>   |                             |                             |
| Current maturities of long-term debt   | \$ 31,559                   | \$ 1,521,810                |
| Accounts payable   | 337,636                     | 285,948                     |
| Accrued expenses   | 1,206,100                   | 1,052,334                   |
| Estimated amounts due to third-party payers  | 35,000                      | -                           |
| Unearned revenue   | 100,000                     | 1,575,891                   |
|  | <u>1,710,295</u>            | <u>4,435,983</u>            |
| <b>Long-term Debt</b>  | <u>21,392</u>               | <u>482,376</u>              |
| Total liabilities  | <u>1,731,687</u>            | <u>4,918,359</u>            |
| <b>Net Position</b>  |                             |                             |
| Net investment in capital assets   | 18,906,743                  | 16,904,527                  |
| Unrestricted   | 6,338,441                   | 6,485,724                   |
|  | <u>25,245,184</u>           | <u>23,390,251</u>           |
| Total liabilities and net position   | <u><u>\$ 26,976,871</u></u> | <u><u>\$ 28,308,610</u></u> |

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2021 and 2020**

|  | <u>2021</u>                 | <u>2020</u>                 |
|--|-----------------------------|-----------------------------|
| <b>Operating Revenues</b>  |                             |                             |
| Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$836,000, 2020 – \$334,000 | \$ 17,143,353               | \$ 16,494,525               |
| Other  | <u>31,256</u>               | <u>26,426</u>               |
| Total operating revenues   | <u>17,174,609</u>           | <u>16,520,951</u>           |
| <b>Operating Expenses</b>  |                             |                             |
| Salaries and wages   | 8,890,007                   | 8,725,976                   |
| Employee benefits  | 3,061,254                   | 2,999,265                   |
| Purchased services and professional fees   | 2,157,171                   | 1,617,903                   |
| Supplies and other   | 4,439,998                   | 3,478,711                   |
| Retail pharmacy supplies   | 906,330                     | 927,030                     |
| Depreciation   | <u>981,420</u>              | <u>892,933</u>              |
| Total operating expenses   | <u>20,436,180</u>           | <u>18,641,818</u>           |
| <b>Operating Loss</b>  | <u>(3,261,571)</u>          | <u>(2,120,867)</u>          |
| <b>Nonoperating Revenues (Expenses)</b>  |                             |                             |
| Noncapital appropriations – Stevens County   | 1,096,934                   | 1,435,953                   |
| Interest income  | 22,836                      | 21,035                      |
| Interest expense   | (1,395)                     | (2,007)                     |
| Noncapital grants and gifts  | 394,493                     | 358,996                     |
| Provider Relief Funds ( <i>CARES Act</i> )   | 1,683,336                   | 2,967,486                   |
| Paycheck Protection Program (PPP) loan forgiveness   | 1,920,300                   | -                           |
| Other  | <u>-</u>                    | <u>5,053</u>                |
| Total nonoperating revenues  | <u>5,116,504</u>            | <u>4,786,516</u>            |
| <b>Increase in Net Position</b>  | 1,854,933                   | 2,665,649                   |
| <b>Net Position, Beginning of Year</b>   | <u>23,390,251</u>           | <u>20,724,602</u>           |
| <b>Net Position, End of Year</b>   | <u><u>\$ 25,245,184</u></u> | <u><u>\$ 23,390,251</u></u> |

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2021 and 2020**

|   | <u>2021</u>                | <u>2020</u>                |
|---|----------------------------|----------------------------|
| <b>Operating Activities</b>                               |                            |                            |
| Receipts from and on behalf of patients                   | \$ 15,712,936              | \$ 16,219,754              |
| Payments to suppliers and contractors                     | (7,396,272)                | (6,622,424)                |
| Payments to and on behalf of employees                    | (11,797,495)               | (11,626,776)               |
| Other receipts, net                                       | <u>(1,444,635)</u>         | <u>1,602,317</u>           |
| Net cash used in operating activities                     | <u>(4,925,466)</u>         | <u>(427,129)</u>           |
| <b>Noncapital Financing Activities</b>                    |                            |                            |
| Noncapital appropriations – Stevens County                | 1,096,934                  | 1,435,953                  |
| Noncapital grants and gifts                               | 394,493                    | 358,996                    |
| Proceeds from issuance of debt                            | -                          | 1,920,300                  |
| Provider Relief Funds ( <i>CARES Act</i> )                | 1,683,336                  | 2,967,486                  |
| Other   | <u>-</u>                   | <u>5,053</u>               |
| Net cash provided by noncapital financing activities      | <u>3,174,763</u>           | <u>6,687,788</u>           |
| <b>Capital and Related Financing Activities</b>           |                            |                            |
| Principal paid on long-term debt                          | (30,935)                   | (30,322)                   |
| Interest paid on long-term debt                           | (1,395)                    | (2,007)                    |
| Purchase of capital assets                                | <u>(1,032,401)</u>         | <u>(97,664)</u>            |
| Net cash used in capital and related financing activities | <u>(1,064,731)</u>         | <u>(129,993)</u>           |
| <b>Investing Activities</b>                               |                            |                            |
| Interest income received                                  | 22,836                     | 21,035                     |
| Change in certificates of deposit                         | <u>(1,717)</u>             | <u>1,706</u>               |
| Net cash provided by investing activities                 | <u>21,119</u>              | <u>22,741</u>              |
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>   | (2,794,315)                | 6,153,407                  |
| <b>Cash and Cash Equivalents, Beginning of Year</b>       | <u>6,744,066</u>           | <u>590,659</u>             |
| <b>Cash and Cash Equivalents, End of Year</b>             | <u><u>\$ 3,949,751</u></u> | <u><u>\$ 6,744,066</u></u> |

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2021 and 2020**

|   | <u>2021</u>           | <u>2020</u>         |
|---|-----------------------|---------------------|
| <b>Reconciliation of Operating Loss to Net</b>              |                       |                     |
| <b>Cash Used in Operating Activities</b>                    |                       |                     |
| Operating loss  | \$ (3,261,571)        | \$ (2,120,867)      |
| Depreciation  | 981,420               | 892,933             |
| Provision for uncollectible accounts                        | 836,244               | 333,780             |
| Changes in operating assets and liabilities                 |                       |                     |
| Patient accounts receivable, net                            | (2,551,661)           | (399,551)           |
| Estimated amounts due from and to third-party payers        | 285,000               | (209,000)           |
| Accounts payable and accrued expenses                       | 205,454               | (314,101)           |
| Unearned revenue  | (1,475,891)           | 1,575,891           |
| Supplies and prepaid expenses and other                     | 55,539                | (186,214)           |
|   | <u>\$ (4,925,466)</u> | <u>\$ (427,129)</u> |
| <b>Noncash, Investing, Capital and Financing Activities</b> |                       |                     |
| PPP loan forgiveness  | \$ 1,920,300          | \$ -                |



**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2021 and 2020**

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

***Nature of Operations and Reporting Entity***

Stevens County Hospital (the Hospital) is an acute care hospital located in Hugoton, Kansas. The Hospital is a component unit of Stevens County (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Stevens County area. It also operates a long-term care facility and retail pharmacy in the same geographic area.

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets 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 county appropriations, 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 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.

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, cash equivalents consisted primarily of certificates of deposit, which are carried at amortized cost.

***Noncapital Appropriations – Stevens County***

The Hospital received approximately 5% and 7% of its financial support from county appropriations derived from property taxes levied by the County in 2021 and 2020, respectively. One hundred percent of these funds were used to support operations in both years.

**Stevens County Hospital**  
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**December 31, 2021 and 2020**

Property taxes are assessed by the County in November of one year 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 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, except workers' compensation and property and casualty coverage. Settled claims have not exceeded 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. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported for both workers' compensation and property and casualty risks.

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

|                          |               |
|--------------------------|---------------|
| Land improvements        | 10 – 40 years |
| Building                 | 5 – 40 years  |
| Fixed equipment          | 5 – 25 years  |
| Major moveable equipment | 3 – 20 years  |

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2021 and 2020**

***Capital Asset Impairment***

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. 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, 2021 and 2020.

***Compensated Absences***

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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

The Hospital received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security Act (CARES Act)* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on February 10, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2021 and 2020**

***Net Position***

Net position of the Hospital is classified in two components. 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 purpose 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 Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

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

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

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2021 and 2020**

***Income Taxes***

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

**Note 2: Net Patient Service Revenue**

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

*Medicare.* The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. 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.

*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 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 case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 44% and 43% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers 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.

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2021 and 2020**

**Note 3: Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

At December 31, 2021 and 2020, respectively, \$3,531,045 and \$6,651,993 of the Hospital's bank balances of \$4,134,003 and \$7,244,634 were exposed to custodial credit risk as follows:

|   | <b>2021</b>         | <b>2020</b>         |
|---|---------------------|---------------------|
| Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name | <u>\$ 3,531,042</u> | <u>\$ 6,651,993</u> |

**Summary of Carrying Values**

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

|  | <b>2021</b>         | <b>2020</b>         |
|--|---------------------|---------------------|
| Carrying value                                   |                     |                     |
| Deposits   | <u>\$ 3,955,009</u> | <u>\$ 6,747,607</u> |
| Included in the following balance sheet captions |                     |                     |
| Cash and cash equivalents                        | \$ 3,949,751        | \$ 6,744,066        |
| Short-term certificates of deposit               | <u>5,258</u>        | <u>3,541</u>        |
|  | <u>\$ 3,955,009</u> | <u>\$ 6,747,607</u> |

**Stevens County Hospital**  
**A Component Unit of Stevens County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2021 and 2020**

**Note 4: 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, 2021 and 2020, consisted of:

|   | <b>2021</b>                | <b>2020</b>                |
|---|----------------------------|----------------------------|
| Medicare                                  | \$ 1,935,094               | \$ 473,108                 |
| Medicaid                                  | 330,590                    | 270,357                    |
| Blue Cross                                | 410,519                    | 260,480                    |
| Other third-party payers                  | 666,079                    | 479,711                    |
| Patients                                  | 1,171,854                  | 1,033,322                  |
|   | <u>4,514,136</u>           | <u>2,516,978</u>           |
| Less allowance for uncollectible accounts | <u>1,074,000</u>           | <u>723,000</u>             |
|   | <u><u>\$ 3,440,136</u></u> | <u><u>\$ 1,793,978</u></u> |

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2021 and 2020, was:

|                               | <b>2021</b>                  |                         |                    |                             |
|-------------------------------|------------------------------|-------------------------|--------------------|-----------------------------|
|                               | <b>Beginning<br/>Balance</b> | <b>Additions</b>        | <b>Disposals</b>   | <b>Transfers</b>            |
| Land improvements             | \$ 103,580                   | \$ -                    | \$ -               | \$ -                        |
| Buildings                     | 24,764,411                   | 19,449                  | -                  | -                           |
| Fixed equipment               | 3,009,403                    | -                       | -                  | -                           |
| Major moveable equipment      | 6,090,698                    | 1,012,952               | -                  | -                           |
|                               | <u>33,968,092</u>            | <u>1,032,401</u>        | <u>-</u>           | <u>-</u>                    |
|                               |                              |                         |                    | <u>35,000,493</u>           |
| Less accumulated depreciation |                              |                         |                    |                             |
| Land improvements             | 94,594                       | 3,196                   | -                  | -                           |
| Buildings                     | 8,048,498                    | 601,225                 | -                  | -                           |
| Fixed equipment               | 1,098,135                    | 191,824                 | -                  | -                           |
| Major moveable equipment      | 5,818,152                    | 185,175                 | -                  | -                           |
|                               | <u>15,059,379</u>            | <u>981,420</u>          | <u>-</u>           | <u>-</u>                    |
|                               |                              |                         |                    | <u>16,040,799</u>           |
| Capital assets, net           | <u><u>\$ 18,908,713</u></u>  | <u><u>\$ 50,981</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u>          |
|                               |                              |                         |                    | <u><u>\$ 18,959,694</u></u> |

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|                               | 2020                 |                     |                    |             |                      |
|-------------------------------|----------------------|---------------------|--------------------|-------------|----------------------|
|                               | Beginning<br>Balance | Additions           | Disposals          | Transfers   | Ending<br>Balance    |
| Land improvements             | \$ 103,580           | \$ -                | \$ -               | \$ -        | \$ 103,580           |
| Buildings                     | 24,774,627           | -                   | (10,216)           | -           | 24,764,411           |
| Fixed equipment               | 3,066,683            | 54,000              | (111,280)          | -           | 3,009,403            |
| Major moveable equipment      | 7,695,557            | 43,664              | (1,648,523)        | -           | 6,090,698            |
|                               | <u>35,640,447</u>    | <u>97,664</u>       | <u>(1,770,019)</u> | <u>-</u>    | <u>33,968,092</u>    |
| Less accumulated depreciation |                      |                     |                    |             |                      |
| Land improvements             | 91,398               | 3,196               | -                  | -           | 94,594               |
| Buildings                     | 7,457,750            | 600,964             | (10,216)           | -           | 8,048,498            |
| Fixed equipment               | 1,016,537            | 192,878             | (111,280)          | -           | 1,098,135            |
| Major moveable equipment      | 7,370,780            | 95,895              | (1,648,523)        | -           | 5,818,152            |
|                               | <u>15,936,465</u>    | <u>892,933</u>      | <u>(1,770,019)</u> | <u>-</u>    | <u>15,059,379</u>    |
| Capital assets, net           | <u>\$ 19,703,982</u> | <u>\$ (795,269)</u> | <u>\$ -</u>        | <u>\$ -</u> | <u>\$ 18,908,713</u> |

**Note 6: Medical Malpractice 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 future.



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**Note 7: Long-term Debt**

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2021 and 2020:

| <b>2021</b>               |                              |                  |                     |                           |                            |
|---------------------------|------------------------------|------------------|---------------------|---------------------------|----------------------------|
|                           | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Deductions</b>   | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Long-term debt            |                              |                  |                     |                           |                            |
| Capital lease obligations | \$ 83,886                    | \$ -             | \$ 30,935           | \$ 52,951                 | \$ 31,559                  |
| PPP loan                  | 1,920,300                    | -                | 1,920,300           | -                         | -                          |
| Total long-term debt      | <u>\$ 2,004,186</u>          | <u>\$ -</u>      | <u>\$ 1,951,235</u> | <u>\$ 52,951</u>          | <u>\$ 31,559</u>           |

  

| <b>2020</b>               |                              |                     |                   |                           |                            |
|---------------------------|------------------------------|---------------------|-------------------|---------------------------|----------------------------|
|                           | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Deductions</b> | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Long-term debt            |                              |                     |                   |                           |                            |
| Capital lease obligations | \$ 114,208                   | \$ -                | \$ 30,322         | \$ 83,886                 | \$ 30,935                  |
| PPP loan                  | -                            | 1,920,300           | -                 | 1,920,300                 | 1,490,875                  |
| Total long-term debt      | <u>\$ 114,208</u>            | <u>\$ 1,920,300</u> | <u>\$ 30,322</u>  | <u>\$ 2,004,186</u>       | <u>\$ 1,521,810</u>        |

**Capital Lease Obligations**

The Hospital is obligated under leases for equipment and software that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Hospital. Assets under capital leases at December 31, 2021 and 2020, totaled \$0, net of accumulated depreciation of \$276,306, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at 2.00% together with the present value of the future minimum lease payments as of December 31, 2021:

|  |                  |
|--|------------------|
| Year Ending December 31,                       |                  |
| 2022   | \$ 32,330        |
| 2023   | <u>21,553</u>    |
| Total minimum lease payments                   | 53,883           |
| Less amount representing interest              | <u>932</u>       |
| Present value of future minimum lease payments | <u>\$ 52,951</u> |

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

The *CARES Act* and other subsequent legislation provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Hospital received a PPP loan of \$1,920,300 in 2020. The loan has an interest rate of 1%, with monthly payments due starting six months after the receipt of the loan. The Hospital received legal notice on February 10, 2021, that the PPP loan was forgiven in its entirety.

**Note 8: Defined Contribution Plan**

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payrolls was 4% for both 2021 and 2020. Contributions actually made by plan members aggregated \$156,928 and \$152,287 during 2021 and 2020, respectively. Contributions actually made by the Hospital aggregated \$209,240 and \$204,745 during 2021 and 2020, respectively.

**Note 9: Charity Care**

The costs of charity care provided under the Hospital's charity care policy were \$68,265 and \$101,542 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

**Note 10: COVID-19 Pandemic & CARES Act Funding**

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

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

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

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

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

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

***Provider Relief Fund***

During the years ended December 31, 2021 and 2020, the Hospital received \$207,445 and \$4,543,377, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2021 and 2020, the Hospital recognized \$1,683,336 and \$2,967,486, respectively, related to the Provider Relief Funds (*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. As of December 31, 2021 and 2020, the unrecognized amount of Provider Relief Fund distributions of \$100,000 and \$1,575,891, respectively, is recorded as a component of unearned revenue in the accompanying balance sheets.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the *CARES Act* in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS for the years ended December 31, 2021 and 2020, and has recognized revenue accordingly. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex

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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.

***Program (PPP) Loan***

During 2020, the Hospital received a PPP loan of \$1,920,300 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 Hospital received legal notice on February 10, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

***Other COVID-19 Funding***

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.

During the years ended 2021 and 2020, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program (SHIP) to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital recognized \$74,492 and \$20,000 for the years-ended December 31, 2021 and 2020, respectively, related to SHIP grant. 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.

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of Kansas hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to

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utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received and recognized \$100,000 on April 24, 2020, related to this special emergency grant. The payment is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

During 2020, the Hospital received \$158,746 of funding through the SPARK program. The Hospital recognized \$158,746, related to this funding at December 31, 2020, and these payments are recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

**Note 11: Future Change in Accounting Principle**

**Leases**

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

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.

**Note 12: 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.