

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
December 31, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
Rush County Memorial Hospital
La Crosse, Kansas

Opinion

We have audited the accompanying financial statements of Rush County Memorial Hospital (Hospital), a component unit of Rush 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 Rush County Memorial 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 Rush County Memorial 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 Rush County Memorial 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.

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 Rush County Memorial 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 Rush County Memorial 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
July 22, 2022

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash	\$ 1,945,592	\$ 3,931,943
Patient accounts receivable, net of allowance; 2021 - \$760,000, 2020 - \$1,021,000	2,265,136	1,944,349
Estimated amounts due from Medicare	995,000	865,000
Supplies	97,520	91,680
Prepaid expenses and other	65,851	119,000
Total current assets	<u>5,369,099</u>	<u>6,951,972</u>
Noncurrent Cash		
Held under bond indenture for capital acquisitions	132,025	131,877
Total noncurrent cash	<u>132,025</u>	<u>131,877</u>
Capital Assets, Net	<u>2,900,790</u>	<u>2,906,131</u>
Total assets	<u><u>\$ 8,401,914</u></u>	<u><u>\$ 9,989,980</u></u>
Liabilities and Net Position (Deficit)		
Current Liabilities		
Current maturities of long-term debt	\$ 250,000	\$ 235,000
Accounts payable	477,851	398,942
Accrued expenses	206,917	257,996
Unearned revenue	101,289	2,233,378
Advance from Medicare	935,888	431,692
Total current liabilities	<u>1,971,945</u>	<u>3,557,008</u>
Advance from Medicare	<u>-</u>	<u>1,091,927</u>
Long-term Debt	<u>3,557,618</u>	<u>3,592,821</u>
Total liabilities	<u>5,529,563</u>	<u>8,241,756</u>
Net Position (Deficit)		
Net investment in capital assets	(834,210)	(843,869)
Restricted - expendable for Capital acquisitions	132,025	131,877
Unrestricted	3,574,536	2,460,216
Total net position	<u>2,872,351</u>	<u>1,748,224</u>
Total liabilities and net position	<u><u>\$ 8,401,914</u></u>	<u><u>\$ 9,989,980</u></u>

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

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts: 2021 - \$(1,191,595), 2020 - \$355,303	\$ 5,795,952	\$ 5,963,247
340B Drug Program	366,461	272,967
Other	86,366	38,878
	<u>6,248,779</u>	<u>6,275,092</u>
Operating Expenses		
Salaries and wages	3,197,486	3,025,413
Employee benefits	660,907	681,470
Purchased services and professional fees	1,818,593	758,637
Supplies and other	1,485,616	1,616,671
Depreciation	303,610	290,150
	<u>7,466,212</u>	<u>6,372,341</u>
	<u>(1,217,433)</u>	<u>(97,249)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Rush County	5,562	3,637
Interest income	1,257	8,550
Interest expense	(130,200)	(163,501)
Noncapital grants and gifts	101,183	112,986
Provider Relief Funds (<i>CARES Act</i>)	2,232,088	531,441
Paycheck Protection Program (PPP) loan forgiveness	-	730,760
	<u>2,209,890</u>	<u>1,223,873</u>
Excess of Revenues Over Expenses Before Capital Appropriations and Capital Grants and Gifts	992,457	1,126,624
Capital Appropriations - Rush County	<u>131,670</u>	<u>328,819</u>
Increase in Net Position	1,124,127	1,455,443
Net Position, Beginning of Year	<u>1,748,224</u>	<u>292,781</u>
Net Position, End of Year	<u>\$ 2,872,351</u>	<u>\$ 1,748,224</u>

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

	2021	2020
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 4,757,434	\$ 5,737,684
Payments to suppliers and contractors	(3,177,991)	(2,434,054)
Payments to employees	(3,909,472)	(3,724,835)
Other receipts (payments), net	(1,679,262)	2,543,933
Net cash provided by (used in) operating activities	(4,009,291)	2,122,728
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Rush County	5,562	3,637
Noncapital grants and gifts	101,183	112,986
Provider Relief Funds (<i>CARES Act</i>)	2,232,088	531,441
Proceeds from issuance of PPP loan	-	730,760
Net cash provided by noncapital financing activities	2,338,833	1,378,824
Cash Flows From Capital and Related Financing Activities		
Proceeds from issuance of note payable to bank	1,970,000	-
Principal payments on long-term debt	(1,924,132)	(5,203)
Interest payments on long-term debt	(64,601)	318
Purchase of capital assets	(298,269)	(31,850)
Net cash used in capital and related financing activities	(317,002)	(36,735)
Cash Flows From Investing Activities		
Interest income received	1,257	8,550
Net cash provided by investing activities	1,257	8,550
Increase (Decrease) in Cash	(1,986,203)	3,473,367
Cash, Beginning of Year	4,063,820	590,453
Cash, End of Year	\$ 2,077,617	\$ 4,063,820

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

	2021	2020
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 1,945,592	\$ 3,931,943
Restricted cash in noncurrent assets	<u>132,025</u>	<u>131,877</u>
Total cash	<u><u>\$ 2,077,617</u></u>	<u><u>\$ 4,063,820</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,217,433)	\$ (97,249)
Depreciation	303,610	290,150
Provision for uncollectible accounts	1,191,595	(355,303)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,512,382)	(289,990)
Estimated amounts due from and to Medicare	(130,000)	(1,103,889)
Supplies	(5,840)	-
Prepaid expenses and other	53,149	(50,877)
Accounts payable and accrued expenses	27,830	(25,821)
Unearned revenue	(2,132,089)	2,232,088
Advance from Medicare	<u>(587,731)</u>	<u>1,523,619</u>
Net cash provided by (used in) operating activities	<u><u>\$ (4,009,291)</u></u>	<u><u>\$ 2,122,728</u></u>
Noncash Investing, Capital and Financing Activities		
Long-term debt obligations paid by County - principal	\$ 66,071	\$ 165,000
Long-term debt obligations paid by County - interest	\$ 65,599	\$ 163,819
PPP loan forgiveness	\$ -	\$ 730,760

Rush County Memorial Hospital
A Component Unit of Rush 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

Rush County Memorial Hospital (Hospital) is an acute care hospital located in La Crosse, Kansas. The Hospital is a component unit of Rush County, Kansas and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and residential intermediate swing-bed services to patients in the Rush County, Kansas area.

Rush County Medical Clinic, Inc. (Clinic) is a legally separate entity. The Clinic primarily earns revenues by providing rural health clinic to patients in Rush County, Kansas area. The Clinic is considered a component unit of the Hospital and is presented in the Hospital's financial statements using the blending method. Separate financial statements of the Clinic are not available.

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 noncapital appropriations derived from property taxes), interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position 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. There are no cash equivalents for the years ended December 31, 2021 and 2020.

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	8 – 10 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. 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 paid time off benefits that may be realized as earned time off or, upon appropriate notice of termination, as a cash payment. Expense and the related liability are recognized as time off is earned whether the employee is expected to realize the benefit as time off or in cash. 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.

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2021 and 2020

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, 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 to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Paycheck Protection Program (PPP) Loan

The Hospital received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security ACT (CARES Act)* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on December 9, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable.

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

Net Patient Service Revenue

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

Charity Care

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

Noncapital Appropriations – Rush County

Property taxes are levied 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. The Hospital received approximately 2% and 4% of its financial support from appropriations derived from property taxes in 2021 and 2020, respectively. These funds were used as follows:

	2021	2020
Percentage used to support operations	4%	1%
Percentage used for debt service	96%	99%
	<u>100%</u>	<u>100%</u>

Rush County Memorial Hospital

A Component Unit of Rush County, Kansas

Notes to Financial Statements

December 31, 2021 and 2020

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 a component of unearned revenue in the accompanying balance sheets.

Income Taxes

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

Note 2: Deposits

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

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

At December 31, 2021 and 2020, respectively, \$837,679 and \$655,655 of the Hospital's bank balances of \$1,337,679 and \$1,155,655 were exposed to custodial credit risk as follows:

	2021	2020
Uninsured and collateral held by pledging financial institution	\$ 837,679	\$ 655,655

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

Summary of Carrying Values

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

	<u>2021</u>	<u>2020</u>
Carrying value		
Deposits	\$ 2,077,342	\$ 4,063,545
Petty cash	<u>275</u>	<u>275</u>
	<u><u>\$ 2,077,617</u></u>	<u><u>\$ 4,063,820</u></u>
Included in the following balance sheet captions		
Cash	\$ 1,945,592	\$ 3,931,943
Held under bond indenture for capital acquisitions	<u>132,025</u>	<u>131,877</u>
	<u><u>\$ 2,077,617</u></u>	<u><u>\$ 4,063,820</u></u>

Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	<u>2021</u>	<u>2020</u>
Medicare	\$ 1,305,851	\$ 625,639
Medicaid	101,868	54,268
Blue Cross	204,185	144,626
Other third-party payers	421,480	210,061
Patients	<u>991,752</u>	<u>1,930,755</u>
	3,025,136	2,965,349
Less allowance for uncollectible accounts	<u>760,000</u>	<u>1,021,000</u>
	<u><u>\$ 2,265,136</u></u>	<u><u>\$ 1,944,349</u></u>

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

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ -	\$ 9,597
Land improvements	23,592	15,056	-	-	38,648
Buildings	5,976,641	21,213	-	-	5,997,854
Fixed equipment	523,952	168,315	-	-	692,267
Major moveable equipment	2,495,820	93,685	-	-	2,589,505
	<u>9,029,602</u>	<u>298,269</u>	<u>-</u>	<u>-</u>	<u>9,327,871</u>
Less accumulated depreciation					
Land improvements	20,886	455	-	-	21,341
Buildings	3,346,057	220,087	-	-	3,566,144
Fixed equipment	383,280	43,665	-	-	426,945
Major moveable equipment	2,373,248	39,403	-	-	2,412,651
	<u>6,123,471</u>	<u>303,610</u>	<u>-</u>	<u>-</u>	<u>6,427,081</u>
Capital Assets, Net	<u>\$2,906,131</u>	<u>\$ (5,341)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,900,790</u>
	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ -	\$ 9,597
Land improvements	23,592	-	-	-	23,592
Buildings	5,976,641	-	-	-	5,976,641
Fixed equipment	523,952	-	-	-	523,952
Major moveable equipment	2,463,970	31,850	-	-	2,495,820
	<u>8,997,752</u>	<u>31,850</u>	<u>-</u>	<u>-</u>	<u>9,029,602</u>
Less accumulated depreciation					
Land improvements	19,765	1,121	-	-	20,886
Buildings	3,108,901	237,156	-	-	3,346,057
Fixed equipment	354,877	28,403	-	-	383,280
Major moveable equipment	2,349,778	23,470	-	-	2,373,248
	<u>5,833,321</u>	<u>290,150</u>	<u>-</u>	<u>-</u>	<u>6,123,471</u>
Capital Assets, Net	<u>\$3,164,431</u>	<u>\$ (258,300)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,906,131</u>

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

Note 5: Professional Liability Coverage and Claims

The Hospital purchases professional liability 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 professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 6: Long-term Debt

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

2021					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable - County - 2013	\$ 2,030,000	\$ -	\$ 1,735,000	\$ 295,000	\$ 5,000
Note payable - County - 2016	1,720,000	-	210,000	1,510,000	220,000
Note payable - County - 2021	-	1,970,000	40,000	1,930,000	25,000
Unamortized premium	77,821	-	5,203	72,618	-
Total long-term debt	<u>\$ 3,827,821</u>	<u>\$ 1,970,000</u>	<u>\$ 1,990,203</u>	<u>\$ 3,807,618</u>	<u>\$ 250,000</u>
2020					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable - County - 2013	\$ 2,035,000	\$ -	\$ 5,000	\$ 2,030,000	\$ 5,000
Note payable - County - 2016	1,880,000	-	160,000	1,720,000	230,000
Unamortized premium	83,024	-	5,203	77,821	-
PPP loan payable	-	730,760	730,760	-	-
Total long-term debt	<u>\$ 3,998,024</u>	<u>\$ 730,760</u>	<u>\$ 900,963</u>	<u>\$ 3,827,821</u>	<u>\$ 235,000</u>

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

Note Payable – County – 2013

The note payable – County – 2013 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2013 (Bonds), in the original amount of \$2,060,000 dated July 10, 2013, which bear interest rates of 2.375% to 4.000% over the term of the bonds. The Bonds are payable in annual installments through December 1, 2034. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

A portion of the Bonds were refunded with the issuance of the Taxable General Obligation Refunding Bonds, Series 2021.

The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1:0, and restrictions on issuance of additional debt.

The debt service requirements as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	\$ 80,256	\$ 5,000	\$ 75,256
2023	220,138	145,000	75,138
2024	<u>215,425</u>	<u>145,000</u>	<u>70,425</u>
	<u>\$ 515,819</u>	<u>\$ 295,000</u>	<u>\$ 220,819</u>

Note Payable – County – 2016

The note payable – County – 2016 consists of an agreement with the County to repay on its behalf the General Obligation Refunding Bonds, Series 2016 (Bonds), in the original amount of \$1,925,000 dated March 9, 2016, which bear interest rates of 1.750% to 4.000% over the term of the bonds. The Bonds are payable in annual installments through December 1, 2034. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

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The debt service requirements as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	\$ 253,300	\$ 220,000	\$ 33,300
2023	125,300	95,000	30,300
2024	132,300	105,000	27,300
2025	124,300	100,000	24,300
2026	121,150	100,000	21,150
2027-2031	1,026,638	530,000	496,638
2032-2034	514,950	360,000	154,950
	<u>\$ 2,297,938</u>	<u>\$ 1,510,000</u>	<u>\$ 787,938</u>

Note Payable – County – 2021

The note payable – County – 2021 consists of an agreement with the County to repay on its behalf the Taxable General Obligation Refunding Bonds, Series 2021 (Bonds), in the original amount of \$1,970,000 dated March 1, 2021, which bear interest rates of 0.400% to 2.150% over the term of the bonds. The Bonds are payable in annual installments through December 1, 2034. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

The debt service requirements as of December 31, 2021, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	\$ 56,805	\$ 25,000	\$ 31,805
2023	56,693	25,000	31,693
2024	56,568	25,000	31,568
2025	206,393	175,000	31,393
2026	204,555	175,000	29,555
2027-2031	1,034,462	925,000	109,462
2032-2034	604,668	580,000	24,668
	<u>\$ 2,220,144</u>	<u>\$ 1,930,000</u>	<u>\$ 290,144</u>

Paycheck Protection Program (PPP) Loan Payable

The *CARES Act* and other subsequent legislation also 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 \$730,760 in 2020. The Hospital received legal notice on December 9, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

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Note 7: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a CAH 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 fiscal intermediary.

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.

Approximately 94% and 70% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$8,000 and \$3,000 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.

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Note 9: Pension Plan

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 the Hospital's Board of Trustees. The plan 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 Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% for both 2021 and 2020. Contributions actually made by plan members and the Hospital aggregated \$76,109 and \$73,564 during 2021 and \$96,431 and \$78,548 during 2020, respectively. The Hospital's contributions were reduced by the use of forfeitures of \$0 and \$5,741 during 2021 and 2020, respectively. The Hospital does not control the plan assets.

Deferred Compensation Plan

The Hospital provides a deferred compensation plan (457 Plan) to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457 Plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. Contributions from employees to the 457 Plan were \$11,900 and \$21,435 for the years ended December 31, 2021 and 2020, respectively. The Hospital does not contribute to the 457 Plan. The Hospital does not control the plan assets.

Note 10: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues related to the 340B Program of \$366,461 and \$272,967 for the years ending December 31, 2021 and 2020, respectively. The Hospital recorded expenses related to the 340B Program of \$259,223 and \$83,379 for the years ending December 31, 2021 and 2020, respectively. 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.

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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.

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.

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 \$100,000 and \$2,763,529, 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 \$2,232,088 and \$531,441, 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 \$100,000 and \$2,232,088 is recorded as a component of unearned revenue in the accompanying balance sheets for the years ended December 31, 2021 and 2020, respectively.

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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 Funds 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 the Hospital's ability to retain some or all of the distributions received may be affected. The Provider Relief Funds are subject to government oversight, including potential audits.

Paycheck Protection Program (PPP) Loan

During the year ended December 31, 2020, the Hospital received a PPP loan of \$730,760 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 December 9, 2020, 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.

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.

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

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During the years ended December 2021 and 2020, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals 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 CAH and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis. The Hospital received \$83,613 and \$8,464 for the years ended December 31, 2021 and 2020, respectively, related to the SHIP grants. The Hospital recognized \$0 and \$8,464 for the years ended December 31, 2021 and 2020, respectively, related to the SHIP grants. The \$83,613 is recorded as a component of accounts payable in the accompanying balance sheets for the year ended December 31, 2021, due to the Hospital discovering that the expenses submitted for reimbursement under the SHIP grant had already been reimbursed by another funding source. The \$8,464 of revenue recognized for the year ended December 31, 2020, is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Medicare Accelerated and Advanced Payment Program

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

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withheld amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4%.

During the year ended December 31, 2020, the Hospital received \$1,523,619 from these accelerated Medicare payment requests. During the year ended December 31, 2021, Medicare applied \$587,731 from these accelerated Medicare payment requests against filed claims. The unapplied amount of accelerated Medicare payment requests is recorded under the caption Advance from Medicare in the accompanying balance sheets and classified as a current and a long-term liability based upon payback provisions in effect at December 31, 2021 and 2020.

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Note 12: Contingencies

Professional Liability Claims

Estimates related to the accrual for professional liability claims are described *Note 5*.

Note 13: Subsequent Events

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

Note 14: 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.