

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**December 31, 2020 and 2019**

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## Independent Auditor's Report

Board of Trustees  
Kiowa County Memorial Hospital  
Greensburg, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees), a component unit of Kiowa County, Kansas, and its discretely presented component unit, Great Plains of Kiowa County, Inc. (Hospital), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Board of Trustees' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Board of Trustees and of its discretely presented component unit, the Hospital, as of December 31, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***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.

*BKD, LLP*

Wichita, Kansas  
July 6, 2021

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Balance Sheets

December 31, 2020 and 2019

#### Assets

	Board of Trustees		Hospital	
	2020	2019	2020	2019
<b>Current Assets</b>				
Cash	\$ 554,824	\$ 479,513	\$ 162,666	\$ 614,238
Cash - Provider Relief Funds	-	-	2,902,503	-
Cash held for debt service	-	-	318	30
Short-term certificates of deposit	2,088,877	1,904,557	-	-
Patient accounts receivable, net of allowance; 2020 – \$118,741, 2019 – \$141,562	-	-	873,185	958,383
Intergovernmental receivable	1,013,682	993,029	-	-
Estimated amounts due from third-party payers	-	-	691,418	300,000
Settlement receivable	-	148,823	-	-
Supplies	-	-	215,092	188,326
Prepaid expenses and other	519	898	226,392	191,725
Total current assets	<u>3,657,902</u>	<u>3,526,820</u>	<u>5,071,574</u>	<u>2,252,702</u>
<b>Noncurrent Cash and Investments</b>				
Funds held by County for debt service	-	-	115,630	115,630
Cash restricted for specific operating activities	<u>-</u>	<u>-</u>	<u>12,304</u>	<u>295</u>
Total noncurrent cash	<u>-</u>	<u>-</u>	<u>127,934</u>	<u>115,925</u>
<b>Capital Assets, Net</b>	<u>-</u>	<u>-</u>	<u>9,251,445</u>	<u>9,505,314</u>
<b>Other Assets</b>				
Other noncurrent assets	<u>-</u>	<u>-</u>	<u>1,665</u>	<u>1,777</u>
Total assets	<u>\$ 3,657,902</u>	<u>\$ 3,526,820</u>	<u>\$ 14,452,618</u>	<u>\$ 11,875,718</u>

See Notes to Financial Statements

## Liabilities, Deferred Inflows of Resources and Net Position

	Board of Trustees		Hospital	
	2020	2019	2020	2019
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ -	\$ -	\$ 40,982	\$ 39,336
Accounts payable	46,677	-	108,108	167,306
Accrued expenses	-	-	413,445	565,943
Unearned revenue	-	-	2,548,379	-
Total current liabilities	46,677	-	3,110,914	772,585
<b>Long-term Debt</b>	-	-	1,466,920	1,521,265
Total liabilities	46,677	-	4,577,834	2,293,850
<b>Deferred Inflows of Resources</b>				
Intergovernmental property taxes	1,013,682	993,029	-	-
<b>Net Position</b>				
Net investment in capital assets	-	-	7,743,543	7,944,713
Restricted - expendable for				
Debt service	-	-	115,948	115,660
Specific operating activities	-	-	12,218	295
Unrestricted	2,597,543	2,533,791	2,003,075	1,521,200
Total net position	2,597,543	2,533,791	9,874,784	9,581,868
Total liabilities, deferred inflows of resources and net position	\$ 3,657,902	\$ 3,526,820	\$ 14,452,618	\$ 11,875,718

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2020 and 2019**

	<b>Board of Trustees</b>		<b>Hospital</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$173,494, 2019 – \$162,641	\$ -	\$ -	\$ 6,162,653	\$ 6,016,904
Property taxes to support operations	1,026,708	990,810	130,589	127,055
Other	-	-	736,442	851,110
Total operating revenues	1,026,708	990,810	7,029,684	6,995,069
<b>Operating Expenses</b>				
Salaries and wages	-	-	4,054,115	3,560,773
Supplies and other	149,176	5,672	4,356,769	4,292,144
Depreciation and amortization	-	-	1,110,293	1,330,731
Total operating expenses	149,176	5,672	9,521,177	9,183,648
<b>Operating Income (Loss)</b>	877,532	985,138	(2,491,493)	(2,188,579)
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	36,090	33,975	3,703	804
Interest expense	-	-	(62,779)	(64,751)
Noncapital grants and gifts	130	1,258	199,382	10,869
Other	-	148,823	5,000	(151)
Noncapital contributions between Board of Trustees and Hospital	(850,000)	(983,683)	850,000	983,683
CARES Act funding	-	-	1,043,503	-
Paycheck Protection Program (PPP) loan forgiveness	-	-	745,600	-
Total nonoperating revenues (expenses)	(813,780)	(799,627)	2,784,409	930,454
<b>Increase (Decrease) in Net Position</b>	63,752	185,511	292,916	(1,258,125)
<b>Net Position, Beginning of Year</b>	2,533,791	2,348,280	9,581,868	10,839,993
<b>Net Position, End of Year</b>	<u>\$ 2,597,543</u>	<u>\$ 2,533,791</u>	<u>\$ 9,874,784</u>	<u>\$ 9,581,868</u>

**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	<b>Board of Trustees</b>		<b>Hospital</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>				
Receipts from and on behalf of patients	\$ -	\$ -	\$ 5,856,433	\$ 5,971,896
Payments to suppliers and contractors	(102,499)	(5,672)	(4,477,288)	(4,285,013)
Payments to and on behalf of employees	-	-	(4,206,613)	(3,563,489)
Cash received from County	1,026,708	990,810	130,589	127,055
Other receipts, net	148,823	-	3,284,821	851,110
Net cash provided by (used in) operating activities	1,073,032	985,138	587,942	(898,441)
<b>Noncapital Financing Activities</b>				
Noncapital grants and gifts	130	1,258	199,382	10,869
Provider Relief Funds ( <i>CARES Act</i> )	-	-	1,043,503	-
Proceeds from issuance of PPP loan	-	-	745,600	-
Noncapital contributions between Board of Trustees and Hospital	(850,000)	(983,683)	850,000	983,683
Net cash provided by (used in) noncapital financing activities	(849,870)	(982,425)	2,838,485	994,552
<b>Capital and Related Financing Activities</b>				
Principal paid on long-term debt	-	-	(52,699)	(50,727)
Interest paid on long-term debt	-	-	(62,779)	(64,751)
Purchase of capital assets	-	-	(851,424)	(14,569)
Net cash used in capital and related financing activities	-	-	(966,902)	(130,047)
<b>Investing Activities</b>				
Interest income received	36,469	33,652	3,703	804
Net increase in certificates of deposit	(184,320)	(280,835)	-	-
Net cash provided by (used in) investing activities	(147,851)	(247,183)	3,703	804
<b>Increase (Decrease) in Cash</b>	75,311	(244,470)	2,463,228	(33,132)
<b>Cash, Beginning of Year</b>	479,513	723,983	730,193	763,325
<b>Cash, End of Year</b>	\$ 554,824	\$ 479,513	\$ 3,193,421	\$ 730,193



**Board of Trustees of Kiowa County Memorial Hospital**  
**A Component Unit of Kiowa County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2020 and 2019**

	<b>Board of Trustees</b>		<b>Hospital</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Cash to the Balance Sheets</b>				
Cash	\$ 554,824	\$ 479,513	\$ 162,666	\$ 614,238
Cash - Provider Relief Funds			2,902,503	-
Cash held for debt service	-	-	115,948	115,660
Cash restricted for specific operating activities	-	-	12,304	295
Total cash	<u>\$ 554,824</u>	<u>\$ 479,513</u>	<u>\$ 3,193,421</u>	<u>\$ 730,193</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>				
Operating income (loss)	\$ 877,532	\$ 985,138	\$ (2,491,493)	\$ (2,188,579)
Depreciation and amortization	-	-	1,110,293	1,330,731
Other	148,823	-	112	150
Changes in operating assets and liabilities				
Patient accounts receivable, net	-	-	85,198	(265,008)
Estimated amounts due from and to third-party payers	-	-	(391,418)	220,000
Accounts payable and accrued expenses	46,677	-	(211,696)	18,828
Supplies and prepaid expenses and other	-	-	(61,433)	(14,563)
Unearned revenue	-	-	2,548,379	-
Net cash provided by (used in) operating activities	<u>\$ 1,073,032</u>	<u>\$ 985,138</u>	<u>\$ 587,942</u>	<u>\$ (898,441)</u>
<b>Noncash Investing, Capital and Financing Activities</b>				
Gain (loss) on disposal of capital assets	\$ -	\$ -	\$ 5,000	\$ (151)
PPP loan forgiveness	\$ -	\$ -	\$ 745,600	\$ -

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

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

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

The Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees) is a component unit of Kiowa County, Kansas (County) and was organized by the Kiowa County Commissioners to operate Kiowa County Memorial Hospital (KCMH) and to control the use of tax appropriations. The Board of Trustees is elected by the voters of the County.

The Board of Trustees leases KCMH to Great Plains of Kiowa County, Inc. (Hospital or GPKC) under a lease agreement entered into, pursuant to K.S.A. 19-4601 et. Seq. (*Note 10*). The Hospital is located in Greensburg, Kansas, and provides acute, swing-bed and physician clinic services. The Hospital is licensed as a critical access hospital (CAH) and is managed by Great Plains Health Alliance, Inc. (GPHA) (*Note 10*). During January 2010, the County issued Hospital Revenue Bonds Series 2010-A. The bond obligations are payable from and secured by the revenues of the Hospital (*Note 7*). As the Board of Trustees can access the resources of the Hospital to pay the bond obligations, the Hospital is considered a component unit of the Board of Trustees and thus included in the financial statements of the Board of Trustees using discrete presentation. Prior to 2009, the Hospital and the Board of Trustees issued separate financial statements.

##### ***Basis of Accounting and Presentation***

The financial statements of the Board of Trustees and the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Interest income, interest on capital assets-related debt and noncapital grants and gifts are included in nonoperating revenues and expenses. The Board of Trustees and Hospital first apply restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

##### ***Use of Estimates***

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

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

#### ***Cash Equivalents***

The Board of Trustees and Hospital consider all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2020 and 2019.

#### ***Property Taxes and Noncapital Contributions – Kiowa County***

The Board of Trustees and Hospital received approximately 11% and 14% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2020 and 2019, respectively. One hundred percent of these funds were used to support operations in both years.

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

#### ***Risk Management***

The 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; workers' compensation; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

#### ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital's allowance for uncollectible accounts estimated at December 31, 2020, is based on its historical collection experience by classes of patients.

#### ***Supplies***

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

#### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair 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	5 – 20 years
Buildings	5 – 30 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operations.

#### ***Compensated Absences***

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned. 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 rates in effect at the balance sheet date.

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

#### ***Net Position***

Net position is classified into three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by any outstanding borrowings and related accounts used to finance the purchase or construction of those assets. Restricted expendable net position are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors, including amounts as required by bond indentures. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Board of Trustees' net position are unrestricted, but by nature, are to be used solely for the benefit of the Hospital. The funds are used by the Hospital for capital purchases and for operations as approved by action of the Board of Trustees.

#### ***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.

#### ***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.

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

#### ***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 November 2, 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.

#### ***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.

#### ***Income Taxes***

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

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction.

#### **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 Board of Trustees' 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.

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Notes to Financial Statements

**December 31, 2020 and 2019**

At December 31, 2020 and 2019, respectively, \$2,088,809 and \$1,839,349 of the Board of Trustees' bank balances of \$2,643,701 and \$2,384,070 were exposed to custodial credit risk as follows:

	<b>2020</b>	<b>2019</b>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Board of Trustees' name	<u>\$ 2,088,809</u>	<u>\$ 1,839,349</u>

### **Summary of Carrying Values**

The carrying values of deposits shown above are included in the balance sheets at December 31, 2020 and 2019, as follows:

	<b>2020</b>	<b>2019</b>
Carrying value		
Deposits	<u>\$ 2,643,701</u>	<u>\$ 2,384,070</u>
Included in the following balance sheet captions		
Cash	\$ 554,824	\$ 479,513
Short-term certificates of deposit	<u>2,088,877</u>	<u>1,904,557</u>
	<u>\$ 2,643,701</u>	<u>\$ 2,384,070</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, 2020 and 2019, consisted of:

	<b>2020</b>	<b>2019</b>
Medicare	\$ 458,265	\$ 517,452
Medicaid	85,934	99,835
Blue Cross	100,089	78,191
Other third-party payers	156,899	178,101
Self-pay	<u>190,739</u>	<u>226,366</u>
	991,926	1,099,945
Less allowance for uncollectible accounts	<u>118,741</u>	<u>141,562</u>
Patient accounts receivable, net	<u>\$ 873,185</u>	<u>\$ 958,383</u>

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Notes to Financial Statements

December 31, 2020 and 2019

The mix of net receivables from patients and third-party payers at December 31, 2020 and 2019, is:

	2020	2019
Medicare	53%	54%
Medicaid	9%	10%
Other third-party payers	31%	27%
Self-pay	7%	9%
	100%	100%

#### **Note 4: Net Patient Service Revenue**

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

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. Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The clinics are recognized as rural health clinics (RHC). Under RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement are determined in a similar manner as for hospital services.

*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. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.



# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

Approximately 88% and 85% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2020 and 2019, 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.

The Hospital's net patient service revenue is computed as follows for the years ended December 31, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Medicare	\$ 4,899,892	\$ 4,627,303
Medicaid	353,203	460,247
Blue Cross	627,982	580,718
Other third-party payers	321,414	317,647
Self-pay	133,656	193,630
	<u>6,336,147</u>	<u>6,179,545</u>
Less provision for uncollectible accounts	<u>(173,494)</u>	<u>(162,641)</u>
Net patient service revenue	<u>\$ 6,162,653</u>	<u>\$ 6,016,904</u>

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Notes to Financial Statements

December 31, 2020 and 2019

#### Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2020 and 2019, was:

2020					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 127,740	\$ -	\$ -	\$ -	\$ 127,740
Buildings and improvements	20,642,498	44,212	-	-	20,686,710
Fixed equipment	885,047	85,988	-	-	971,035
Major moveable equipment	2,898,801	726,224	(538,756)	-	3,086,269
	<u>24,554,086</u>	<u>856,424</u>	<u>(538,756)</u>	<u>-</u>	<u>24,871,754</u>
Less accumulated depreciation					
Buildings and improvements	11,614,590	992,301	-	-	12,606,891
Fixed equipment	710,963	29,463	-	-	740,426
Major moveable equipment	2,723,219	88,529	(538,756)	-	2,272,992
	<u>15,048,772</u>	<u>1,110,293</u>	<u>(538,756)</u>	<u>-</u>	<u>15,620,309</u>
Capital Assets, Net	<u>\$ 9,505,314</u>	<u>\$ (253,869)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,251,445</u>
2019					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 127,740	\$ -	\$ -	\$ -	\$ 127,740
Buildings and improvements	20,642,498	-	-	-	20,642,498
Fixed equipment	885,047	-	-	-	885,047
Major moveable equipment	2,890,276	14,569	(6,044)	-	2,898,801
	<u>24,545,561</u>	<u>14,569</u>	<u>(6,044)</u>	<u>-</u>	<u>24,554,086</u>
Less accumulated depreciation					
Buildings and improvements	10,426,844	1,187,746	-	-	11,614,590
Fixed equipment	657,068	53,895	-	-	710,963
Major moveable equipment	2,640,022	89,090	(5,893)	-	2,723,219
	<u>13,723,934</u>	<u>1,330,731</u>	<u>(5,893)</u>	<u>-</u>	<u>15,048,772</u>
Capital Assets, Net	<u>\$ 10,821,627</u>	<u>\$ (1,316,162)</u>	<u>\$ (151)</u>	<u>\$ -</u>	<u>\$ 9,505,314</u>

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Notes to Financial Statements

**December 31, 2020 and 2019**

#### **Note 6: Medical Malpractice Coverage and Claims**

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

#### **Note 7: Long-term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2020 and 2019:

<b>2020</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds payable	\$ 1,553,455	\$ -	\$ 49,291	\$ 1,504,164	\$ 37,551
Capital lease obligations	7,146	-	3,408	3,738	3,431
Total long-term debt	<u>\$ 1,560,601</u>	<u>\$ -</u>	<u>\$ 52,699</u>	<u>\$ 1,507,902</u>	<u>\$ 40,982</u>

  

<b>2019</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Revenue bonds payable	\$ 1,601,014	\$ -	\$ 47,559	\$ 1,553,455	\$ 35,905
Capital lease obligations	10,314	-	3,168	7,146	3,431
Total long-term debt	<u>\$ 1,611,328</u>	<u>\$ -</u>	<u>\$ 50,727</u>	<u>\$ 1,560,601</u>	<u>\$ 39,336</u>

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Notes to Financial Statements

**December 31, 2020 and 2019**

#### ***Revenue Bonds Payable***

In 2010, the County entered into an agreement with the United States Department of Agriculture (USDA) to issue bonds to assist with the financing of the new hospital construction. The bonds bear interest at 4%, are due semi-annually in increasing principal amounts with final bonds maturing January 2049. The Hospital, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the Kansas State Treasurer, acting as the paying agent. The financed assets and related bond indebtedness have been included in the accompanying financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital. During 2016, the Hospital made an early principal payment of \$250,000 to reduce the annual interest payments. The final bonds will now mature in January 2046.

Bonds may be redeemed in advance of their maturity at 100% of face value.

The bond indentures require certain covenants, including financial, to be met. The financial covenants include a rate covenant that requires a debt service coverage ratio of 1.0 to be met and through 2011, monthly deposits to be made to separate accounts for debt service payments and to fund a debt service reserve. During 2020 and 2019, the Hospital met the debt service coverage ratio of 1.0.

The debt service requirements for the revenue bonds payable as of December 31, 2020, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2021	\$ 97,718	\$ 37,551	\$ 60,167
2022	97,718	39,053	58,665
2023	97,717	40,615	57,102
2024	97,524	42,046	55,478
2025	97,717	43,921	53,796
2026-2030	488,412	247,219	241,193
2031-2035	488,435	300,798	187,637
2036-2040	488,370	365,900	122,470
2041-2045	430,239	387,061	43,178
	<u>\$ 2,383,850</u>	<u>\$ 1,504,164</u>	<u>\$ 879,686</u>

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Notes to Financial Statements

December 31, 2020 and 2019

#### **Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2020 and 2019, totaled \$2,442 and \$5,106, respectively, net of accumulated depreciation of \$24,197 and \$21,533, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 8.00% together with the present value of the future minimum lease payments as of December 31, 2020:

Year Ending December 31,	
2021	\$ 3,878
Total minimum lease payments	3,878
Less amount representing interest	140
Present value of future minimum lease payments	\$ 3,738

#### **Note 8: Pension Plan**

Hospital employees are eligible to participate in the GPHA defined contribution pension and tax deferred annuity plans. All employees, to be eligible for employer contributions, must have completed one year of service, with a minimum of 1,000 paid hours of service and must be at least 18 years of age. Employee contributions are mandatory beginning with the first day of service if 18 years of age or older. Benefits are funded by an annuity contract with an insurance company. Employer contributions are computed at a rate of 5% of annual compensation plus 10% of the excess over \$16,000. Employee contributions are computed at the rate of 2.5% of annual compensation plus 5.0% of the excess over \$16,000. The Plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the Plan to the employee's normal retirement date. Employer contributions vest at 20% per year of service with 100% vesting after five years of service. Contributions actually made by plan members and the Hospital aggregated \$194,703 and \$310,739 during 2020 and \$170,981 and \$262,735 during 2019, respectively.

# Board of Trustees of Kiowa County Memorial Hospital

## A Component Unit of Kiowa County, Kansas

### Notes to Financial Statements

December 31, 2020 and 2019

#### Note 9: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services for the years ended December 31, 2020 and 2019, are as follows:

<b>2020</b>			
	<b>Healthcare Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries and wages	\$ 3,208,016	\$ 846,099	\$ 4,054,115
Supplies and other	3,378,069	978,702	4,356,771
Depreciation	1,067,715	42,576	1,110,291
Interest	60,372	2,407	62,779
	<u>\$ 7,714,172</u>	<u>\$ 1,869,784</u>	<u>\$ 9,583,956</u>
<b>2019</b>			
	<b>Healthcare Services</b>	<b>General and Administrative</b>	<b>Total</b>
Salaries and wages	\$ 2,799,218	\$ 761,555	\$ 3,560,773
Supplies and other	3,280,656	1,011,488	4,292,144
Depreciation	1,259,816	70,915	1,330,731
Interest	61,300	3,451	64,751
	<u>\$ 7,400,990</u>	<u>\$ 1,847,409</u>	<u>\$ 9,248,399</u>

#### Note 10: Lease and Management Agreement

The Board of Trustees controls facilities, including buildings, as well as equipment and other assets, which are owned by Kiowa County, Kansas and entered into an agreement to lease these facilities to GPKC for one dollar. The lease provides that GPKC will assume and continue operations of the Hospital and maintain all property and equipment in good condition. The current lease term is for a period of five years through January 2021. In connection with the above lease, GPKC has an agreement with GPHA, the sole member of GPKC, for management services. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 60-day notice. All assets and liabilities were transferred to GPKC upon commencement of the original term. At the end of the lease term, all assets, including working capital and liabilities, shall transfer back to the Board of Trustees.

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

Effective January 1, 2021, the Board of Trustees elected not to renew its lease agreements with GPHA. Instead, the Board of Trustees elected to transition the Hospital back to Kiowa County, Kansas and operate as Kiowa County Memorial Hospital (KCMH) under a management agreement with Pratt Regional Medical Center.

In addition, the Hospital has entered into agreements with GPHA for other services, including data processing and billing services. These agreements automatically renew on an annual basis unless cancelled by either party no less than 60 days before the end of the term. Fees incurred for services provided by GPHA to the Hospital totaled \$770,876 and \$737,259 in 2020 and 2019, respectively. Amounts included in accounts payable, related to these services, totaled \$4,284 and \$4,512 as of December 31, 2020 and 2019, respectively.

#### **Note 11: Great Plains Employee Benefits Trust**

In response to amendments to the Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method.

#### **Note 12: 340B Drug Pricing Program**

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$672,487 and \$776,462 for the years ending December 31, 2020 and 2019, respectively, included in other operating income. 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.

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

#### **Note 13: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

##### ***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 4*.

#### **Note 14: 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.

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.

In addition, the Hospital received \$3,590,301 in general and targeted Provider Relief Fund distributions, both as provided for under the *CARES Act*, a PPP loan of \$745,600, and other COVID-19 funding of \$186,613.

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. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.



# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

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 2020, the Hospital received \$3,590,301 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, 2020, the Hospital recognized \$1,043,503, 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 \$2,546,798 is recorded as a component of unearned revenue in the accompanying balance sheets.

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 2020, the Hospital received a PPP loan of \$745,600 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 November 2, 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.

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

#### ***Other COVID-19 Funding***

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

During 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 \$83,613 for the year-ended December 31, 2020, 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.

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

#### **Note 15: 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.

# **Board of Trustees of Kiowa County Memorial Hospital**

## **A Component Unit of Kiowa County, Kansas**

### **Notes to Financial Statements**

**December 31, 2020 and 2019**

Effective January 1, 2021, the Board of Trustees elected not to renew its lease agreements with GPHA. Instead, the Board of Trustees elected to transition the Hospital back to Kiowa County, Kansas and operate as Kiowa County Memorial Hospital (KCMH) under a management agreement with Pratt Regional Medical Center.

#### **Note 16: 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.