

Kiowa District Hospital

Independent Auditor's Report and Financial Statements

December 31, 2022 and 2021



Kiowa District Hospital

December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Kiowa District Hospital
Kiowa, Kansas

Opinions

We have audited the financial statements of Kiowa District Hospital (Hospital), and its discretely presented component unit, Friends of Kiowa District Hospital and Manor Foundation, Inc. (Foundation), as of and for the years ended December 31, 2022 and 2021, 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 respective financial position of Kiowa District Hospital and of its discretely presented component unit as of December 31, 2022 and 2021, 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.

Basis for Opinions

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 Kiowa District 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 opinions.

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 Kiowa District Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kiowa District 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 Kiowa District 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 opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The Net Patient Service Revenues and Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

FORVIS, LLP

Wichita, Kansas
May 23, 2023

Kiowa District Hospital
Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash	\$ 2,038,070	\$ 2,899,167
Patient accounts receivable, net of allowance; 2022 - \$444,511, 2021 - \$474,000	831,094	921,445
Estimated amounts due from third-party payers	455,000	125,000
Supplies	336,055	363,469
Prepaid expenses and other	59,062	65,279
Property taxes receivable	871,224	783,283
	<hr/>	<hr/>
Total current assets	4,590,505	5,157,643
	<hr/>	<hr/>
Capital Assets, Net	8,397,509	8,822,053
	<hr/>	<hr/>
	<hr/>	<hr/>
Total assets	\$ 12,988,014	\$ 13,979,696
	<hr/>	<hr/>
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 238,216	\$ 243,600
Accounts payable	144,879	152,135
Accrued expenses	506,055	433,570
Unearned revenue	-	439,184
	<hr/>	<hr/>
Total current liabilities	889,150	1,268,489
	<hr/>	<hr/>
Long-term Debt	2,685,831	2,948,072
	<hr/>	<hr/>
Total liabilities	3,574,981	4,216,561
	<hr/>	<hr/>
Deferred Inflows of Resources - Property Taxes	871,224	783,283
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	5,473,462	5,630,381
Unrestricted	3,068,347	3,349,471
	<hr/>	<hr/>
Total net position	8,541,809	8,979,852
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	\$ 12,988,014	\$ 13,979,696
	<hr/>	<hr/>

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash	\$ 509,088	\$ 354,749
Restricted cash - current	1,020	28,020
Short-term certificate of deposit	<u>33,597</u>	<u>33,530</u>
Total assets	<u><u>\$ 543,705</u></u>	<u><u>\$ 416,299</u></u>
 Net Assets		
Without donor restrictions	\$ 542,685	\$ 388,279
With donor restrictions - purpose restrictions	<u>1,020</u>	<u>28,020</u>
Total net assets	<u><u>\$ 543,705</u></u>	<u><u>\$ 416,299</u></u>

Kiowa District Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Net patient service revenues, net of provision for uncollectible accounts; 2022 - \$105,195, 2021 - \$494,113	\$ 8,856,769	\$ 7,815,832
Other	<u>573,088</u>	<u>600,364</u>
Total operating revenues	<u>9,429,857</u>	<u>8,416,196</u>
Operating Expenses		
Salaries and wages	6,493,378	5,480,189
Employee benefits	1,143,317	940,262
Purchased services and professional fees	678,631	898,440
Supplies and other	1,505,935	1,533,360
Drugs	434,404	408,351
Food	130,152	98,893
Insurance	79,563	82,596
Utilities and telephone	260,878	266,888
Repairs and maintenance	311,984	378,444
Depreciation	<u>797,639</u>	<u>758,622</u>
Total operating expenses	<u>11,835,881</u>	<u>10,846,045</u>
Operating Loss	<u>(2,406,024)</u>	<u>(2,429,849)</u>
Nonoperating Revenues (Expenses)		
Property taxes	839,492	822,152
Interest income	5,791	4,462
Interest expense	(95,207)	(87,542)
Noncapital grants and gifts	432,550	146,118
Provider Relief Funds (<i>CARES Act</i>)	<u>389,655</u>	<u>2,502,221</u>
Total nonoperating revenues	<u>1,572,281</u>	<u>3,387,411</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	<u>(833,743)</u>	<u>957,562</u>
Capital Grants and Gifts	<u>395,700</u>	<u>648,035</u>
Increase (Decrease) in Net Position	<u>(438,043)</u>	<u>1,605,597</u>
Net Position, Beginning of Year	<u>8,979,852</u>	<u>7,374,255</u>
Net Position, End of Year	<u><u>\$ 8,541,809</u></u>	<u><u>\$ 8,979,852</u></u>

Friends of Kiowa District Hospital and Manor Foundation, Inc.
A Discretely Presented Component Unit of Kiowa District Hospital
Statements of Activities
Years Ended December 31, 2022 and 2021

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 548,655	\$ -	\$ 548,655
Interest income	67	-	67
Total revenues, gains and other support	548,722	-	548,722
Expenses			
Contributions to Hospital	378,113	27,000	405,113
Fund raising expenses	5,299	-	5,299
Other expenses	10,904	-	10,904
Total expenses	394,316	27,000	421,316
Change in Net Assets	154,406	(27,000)	127,406
Net Assets, Beginning of Year	388,279	28,020	416,299
Net Assets, End of Year	<u>\$ 542,685</u>	<u>\$ 1,020</u>	<u>\$ 543,705</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 445,672	\$ -	\$ 445,672
Interest income	67	-	67
Total revenues, gains and other support	445,739	-	445,739
Expenses			
Contributions to Hospital	284,287	363,748	648,035
Fund raising expenses	4,201	-	4,201
Other expenses	7,353	-	7,353
Total expenses	295,841	363,748	659,589
Change in Net Assets	149,898	(363,748)	(213,850)
Net Assets, Beginning of Year	238,381	391,768	630,149
Net Assets, End of Year	<u>\$ 388,279</u>	<u>\$ 28,020</u>	<u>\$ 416,299</u>

Kiowa District Hospital
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Receipts from and on behalf of patients	\$ 8,617,120	\$ 7,472,392
Payments to suppliers and contractors	(3,374,240)	(3,731,997)
Payments to employees	(7,564,210)	(6,410,996)
Other receipts, net	<u>133,904</u>	<u>(801,658)</u>
Net cash used in operating activities	<u>(2,187,426)</u>	<u>(3,472,259)</u>
Noncapital Financing Activities		
Property taxes supporting operations	839,492	822,152
Noncapital grants and gifts	432,550	146,118
Provider Relief Funds (<i>CARES Act</i>)	<u>389,655</u>	<u>2,502,221</u>
Net cash provided by noncapital financing activities	<u>1,661,697</u>	<u>3,470,491</u>
Capital and Related Financing Activities		
Capital grants and gifts	395,700	648,035
Proceeds from issuance on long-term debt	-	900,000
Principal paid on long-term debt	(267,625)	(184,785)
Interest paid on long-term debt	(96,139)	(76,471)
Purchase of capital assets	<u>(373,095)</u>	<u>(1,938,758)</u>
Net cash used in capital and related financing activities	<u>(341,159)</u>	<u>(651,979)</u>
Investing Activities		
Interest income	<u>5,791</u>	<u>4,462</u>
Net cash provided by investing activities	<u>5,791</u>	<u>4,462</u>
Decrease in Cash	(861,097)	(649,285)
Cash, Beginning of Year	<u>2,899,167</u>	<u>3,548,452</u>
Cash, End of Year	<u><u>\$ 2,038,070</u></u>	<u><u>\$ 2,899,167</u></u>

Kiowa District Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Loss to Net		
Cash Used In Operating Activities		
Operating loss	\$ (2,406,024)	\$ (2,429,849)
Depreciation	797,639	758,622
Changes in operating assets and liabilities		
Patient accounts receivable, net	90,351	(413,440)
Estimated amounts due from and to third-party payers	(330,000)	70,000
Supplies and prepaid expenses	33,631	(75,882)
Accounts payable and accrued expenses	66,161	20,312
Unearned revenue	<u>(439,184)</u>	<u>(1,402,022)</u>
Net cash used in operating activities	<u>\$ (2,187,426)</u>	<u>\$ (3,472,259)</u>

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

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

Nature of Operations and Reporting Entity

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

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, such as property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2022 and 2021, the Hospital had no cash equivalents.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

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 obligations are depreciated at their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 15 years
Buildings	5 – 40 years
Fixed equipment	3 – 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, 2022 and 2021.

Compensated Absences

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

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Deferred Inflows of Resources

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

Net Position

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

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Property Taxes

The Hospital received approximately 7% in 2022 and 6% in 2021 of its financial support from property taxes. One hundred percent (100%) of these funds were used to support operations in both years.

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

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.

Income Taxes

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

Foundation

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

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

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

During the years ended December 31, 2022 and 2021, the Foundation distributed \$405,113 and \$648,035 funds to the Hospital, respectively. The majority of these payments are recorded as capital grants and gifts in the accompanying statements of revenues, expenses and changes in net position. Items not meeting capital criteria were recorded in noncapital grants and gifts.

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

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, 2022 and 2021, respectively, \$1,574,024 and \$2,770,125 of the Hospital's bank balances of \$2,146,574 and \$3,533,897 were exposed to custodial credit risk as follows:

	<u>2022</u>	<u>2021</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 1,574,024</u>	<u>\$ 2,770,125</u>

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	\$ 2,038,070	\$ 2,899,167
Included in the following balance sheet captions		
Cash	\$ 2,038,070	\$ 2,899,167

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, 2022 and 2021, consisted of:

	2022	2021
Medicare	\$ 394,457	\$ 516,450
Medicaid	124,803	74,741
Blue Cross	77,653	100,345
Other third-party payers	102,635	150,024
Patients	576,057	553,885
	1,275,605	1,395,445
Less allowance for uncollectible accounts	444,511	474,000
	\$ 831,094	\$ 921,445

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Note 4: Capital Assets

Capital assets activity for the years ended December 31, 2022 and 2021, was:

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ -	\$ 38,867
Land improvements	117,202	-	-	30,162	147,364
Buildings	8,961,734	83,309	-	164,929	9,209,972
Fixed equipment	2,455,416	144,798	-	-	2,600,214
Major moveable equipment	3,270,571	88,632	-	-	3,359,203
Construction in progress	145,529	56,356	-	(195,091)	6,794
	<u>14,989,319</u>	<u>373,095</u>	<u>-</u>	<u>-</u>	<u>15,362,414</u>
Less accumulated depreciation					
Land improvements	51,951	11,071	-	-	63,022
Buildings	2,263,055	319,113	-	-	2,582,168
Fixed equipment	1,308,934	239,376	-	-	1,548,310
Major moveable equipment	2,543,326	228,079	-	-	2,771,405
	<u>6,167,266</u>	<u>797,639</u>	<u>-</u>	<u>-</u>	<u>6,964,905</u>
Capital assets, net	<u>\$ 8,822,053</u>	<u>\$ (424,544)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,397,509</u>
	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 38,867	\$ -	\$ -	\$ -	\$ 38,867
Land improvements	81,521	35,681	-	-	117,202
Buildings	7,039,051	-	-	1,922,683	8,961,734
Fixed equipment	2,051,147	404,269	-	-	2,455,416
Major moveable equipment	3,044,410	226,161	-	-	3,270,571
Construction in progress	1,204,702	863,510	-	(1,922,683)	145,529
	<u>13,459,698</u>	<u>1,529,621</u>	<u>-</u>	<u>-</u>	<u>14,989,319</u>
Less accumulated depreciation					
Land improvements	43,447	8,504	-	-	51,951
Buildings	1,959,394	303,661	-	-	2,263,055
Fixed equipment	1,099,787	209,147	-	-	1,308,934
Major moveable equipment	2,306,016	237,310	-	-	2,543,326
	<u>5,408,644</u>	<u>758,622</u>	<u>-</u>	<u>-</u>	<u>6,167,266</u>
Capital assets, net	<u>\$ 8,051,054</u>	<u>\$ 770,999</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,822,053</u>

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Note 5: Accounts Payable and Accrued Expenses

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

	2022	2021
Payable to suppliers and contractors	\$ 144,879	\$ 152,135
Payable to or on behalf of employees (including payroll taxes and benefits)	439,537	366,120
Bond interest payable	66,518	67,450
	<u>\$ 650,934</u>	<u>\$ 585,705</u>

Note 6: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2022 and 2021:

		2022				
		Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt						
Public Building Commission bonds payable - 2012	\$ 90,500	\$ -	\$ 14,724	\$ 75,776	\$ 14,750	
USDA Hospital Refunding Revenue Bond Series 2014	2,165,000	-	135,000	2,030,000	140,000	
USDA Hospital Revenue Bond Series 2021	900,000	-	81,729	818,271	83,466	
Capital lease obligations	36,172	-	36,172	-	-	
Total long-term debt	<u>\$ 3,191,672</u>	<u>\$ -</u>	<u>\$ 267,625</u>	<u>\$ 2,924,047</u>	<u>\$ 238,216</u>	
		2021				
		Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt						
Public Building Commission bonds payable - 2012	\$ 104,500	\$ -	\$ 14,000	\$ 90,500	\$ 14,250	
USDA Hospital Refunding Revenue Bond Series 2014	2,295,000	-	130,000	2,165,000	135,000	
USDA Hospital Revenue Bond Series 2021	-	900,000	-	900,000	81,729	
Capital lease obligations	76,957	-	40,785	36,172	12,621	
Total long-term debt	<u>\$ 2,476,457</u>	<u>\$ 900,000</u>	<u>\$ 184,785</u>	<u>\$ 3,191,672</u>	<u>\$ 243,600</u>	

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Public Building Commission Bonds Payable – 2012

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

The Hospital's debt service requirements for the PBC bonds as of December 31, 2022, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	\$ 16,678	\$ 14,750	\$ 1,928
2024	16,326	14,750	1,576
2025	16,458	15,250	1,208
2026	16,326	15,500	826
2027	15,946	15,526	420
	<u>\$ 81,734</u>	<u>\$ 75,776</u>	<u>\$ 5,958</u>

USDA Hospital Refunding Bond Series 2014

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

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

The Hospital's debt service requirements for the USDA bonds as of December 31, 2022, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2023	\$ 208,513	\$ 140,000	\$ 68,513
2024	208,788	145,000	63,788
2025	208,894	150,000	58,894
2026	208,831	155,000	53,831
2027	208,600	160,000	48,600
2028-2032	1,043,456	885,000	158,456
2033-2034	415,081	395,000	20,081
	<u>\$ 2,502,163</u>	<u>\$ 2,030,000</u>	<u>\$ 472,163</u>

USDA Hospital Revenue Bond Series 2021

On March 26, 2021, Kiowa District Hospital issued United States Department of Agriculture (USDA) Hospital Revenue Bond, Series 2021, under the USDA Rural Development program in the amount of \$900,000 and bearing interest at 2.125%. Principal and interest payments under this issue began March 26, 2022, and extend through March 26, 2031. The bonds are secured by a pledge of the gross revenues of the Hospital.

The Hospital's debt service requirements for the USDA bonds as of December 31, 2022, are as follows:

Year Ending December 31,	Paid	Principal	Interest
2023	\$ 100,854	\$ 83,466	\$ 17,388
2024	100,854	85,197	15,657
2025	100,854	87,050	13,804
2026	100,854	88,900	11,954
2027	100,854	90,789	10,065
2028-2031	403,446	382,869	20,577
	<u>\$ 907,716</u>	<u>\$ 818,271</u>	<u>\$ 89,445</u>

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Capital Lease Obligations

The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2022 and 2021, totaled \$0 and \$37,142, respectively, net of accumulated depreciation of \$0 and \$20,060, respectively. The outstanding capital lease at December 31, 2021, was paid off in 2022.

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$500,000 and \$200,000 of coverage for each medical incident and \$1,500,000 and \$600,000 of aggregate coverage for each policy years ending December 31, 2022 and 2021, respectively. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$500,000 and \$800,000 of coverage for each medical incident and \$1,500,000 and \$2,400,000 of aggregate coverage for each policy years ending December 31, 2022 and 2021, respectively.

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

Note 8: Net Patient Service Revenues

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

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

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

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

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

Approximately 72% and 76% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2022 and 2021, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 9: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$49,000 and \$30,000 for 2022 and 2021, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 10: Pension Plan

The Hospital established a 457(b) deferred compensation plan covering substantially all employees of the Hospital, UMB Bank is the Trustee of the trust established to hold the plan assets. Plan contributions are made by participating employees. The Plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. Contributions actually made by plan members and the Hospital aggregated \$251,716 and \$98,800 during 2022 and \$198,483 and \$71,643 during 2021, respectively. The fair market value of employee investments at December 31, 2022 and 2021, were \$2,011,484 and \$2,244,049, respectively. These amounts are not reported as assets or liabilities of the Hospital. The Hospital does not control the plan assets.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Note 11: COVID-19 Pandemic & CARES Act Funding

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

The extent of the COVID-19 pandemic's adverse effect on the 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, 2022 and 2021, the Hospital received \$0 and \$1,050,670, 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, 2022 and 2021, the Hospital recognized \$389,655 and \$2,502,221, 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. As of the years ended December 31, 2022 and 2021, the unrecognized amount of Provider Relief Fund distributions of \$0 and \$389,655, respectively, is recorded as a component of unearned revenue in the accompanying balance sheets.

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Other COVID-19 Funding

In November 2021, the Hospital received and recognized \$39,797 from a distribution from the Frontline Hospital Employee Retention Plan program. Funding under this program was utilized by the Hospital to retain existing clinical staff and re-hire retirees who have retired since March 1, 2020. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

During the years ended 2022 and 2021, the Coronavirus Small Rural Hospital Improvement Program provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for 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 \$241,874 and \$37,413 for the years-ended December 31, 2022 and 2021, respectively, related to SHIP grant. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Note 12: Future Change in Accounting Principle

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

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Note 13: Friends of Kiowa District Hospital and Manor Foundation, Inc.

Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

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

Use of Estimates

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

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2022 and 2021, the Foundation had no cash equivalents.

At December 31, 2022, the Foundation's cash accounts exceeded federally insured limits by approximately \$259,000.

Certificate of Deposit

The Foundation reports certificates of deposits at amortized cost.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Foundation in perpetuity. At December 31, 2022 and 2021, there were no net assets with donor restrictions.

Functional Allocation of Expenses

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

Donated Staff/Facilities

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

Kiowa District Hospital

Notes to Financial Statements

December 31, 2022 and 2021

Donated Services

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

Revenues, Gains and Other Support

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

Related Entity

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

Liquidity and Availability

The Foundation's financial assets available within one year of the balance sheet date for general expenditures encompass all assets of the Foundation at both December 31, 2022 and 2021.

Income Taxes

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

Supplementary Information

Kiowa District Hospital
Net Patient Service Revenues
Years Ended December 31, 2022 and 2021

	2022	2021
Hospital Revenues		
Inpatient	\$ 1,679,377	\$ 1,729,720
Outpatient	3,708,178	3,701,727
Clinic Revenues	900,263	905,746
Long-term Care Facility Revenues	<u>1,581,604</u>	<u>1,190,939</u>
Subtotal	7,869,422	7,528,132
Plus: Contractual Adjustments	1,092,542	781,813
Less: Provision for Uncollectible Accounts	<u>(105,195)</u>	<u>(494,113)</u>
Net Patient Service Revenues	<u><u>\$ 8,856,769</u></u>	<u><u>\$ 7,815,832</u></u>

Kiowa District Hospital

Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget

December 31, 2022

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenues	\$ 8,617,120	\$ 8,254,125	\$ 362,995
Other revenue	<u>573,088</u>	<u>428,689</u>	<u>144,399</u>
Total revenues	<u>9,190,208</u>	<u>8,682,814</u>	<u>507,394</u>
Operating expenses	11,613,733	13,925,512	(2,311,779)
Interest paid	<u>96,139</u>	<u>-</u>	<u>96,139</u>
Operating expenses	<u>11,709,872</u>	<u>13,925,512</u>	<u>(2,215,640)</u>
Operating loss	<u>(2,519,664)</u>	<u>(5,242,698)</u>	<u>2,723,034</u>
Property taxes revenue	839,492	783,283	56,209
Other nonoperating revenues	<u>784,512</u>	<u>610,305</u>	<u>174,207</u>
Total nonoperating revenues	<u>1,624,004</u>	<u>1,393,588</u>	<u>230,416</u>
Deficiency of revenues over expenses	<u><u>\$ (895,660)</u></u>	<u><u>\$ (3,849,110)</u></u>	<u><u>\$ 2,953,450</u></u>

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