

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

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
December 31, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Rush County Memorial Hospital
La Crosse, Kansas

We have audited the accompanying financial statements of Rush County Memorial Hospital (Hospital), a component unit of Rush County, Kansas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Hospital's 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rush County Memorial Hospital as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows 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
February 4, 2022

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Balance Sheets
December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	\$ 3,931,943	\$ 459,642
Patient accounts receivable, net of allowance; 2020 - \$1,021,000, 2019 - \$1,296,000	1,944,349	1,299,056
Estimated amounts due from Medicare	865,000	-
Supplies	91,680	91,680
Prepaid expenses and other	119,000	68,123
Total current assets	<u>6,951,972</u>	<u>1,918,501</u>
Noncurrent Cash		
Held under bond indenture for capital acquisitions	131,877	130,811
Total noncurrent cash	<u>131,877</u>	<u>130,811</u>
Capital Assets, Net	<u>2,906,131</u>	<u>3,164,431</u>
Total assets	<u><u>\$ 9,989,980</u></u>	<u><u>\$ 5,213,743</u></u>
Liabilities and Net Position (Deficit)		
Current Liabilities		
Current maturities of long-term debt	\$ 235,000	\$ 195,000
Accounts payable	398,942	406,811
Accrued expenses	257,996	275,948
Estimated amounts due to Medicare	-	238,889
Unearned revenue	2,233,378	1,290
Advance from Medicare	431,692	-
Total current liabilities	<u>3,557,008</u>	<u>1,117,938</u>
Advance from Medicare	<u>1,091,927</u>	<u>-</u>
Estimated Amounts Due to Medicare - Long-term	<u>-</u>	<u>-</u>
Long-term Debt	<u>3,592,821</u>	<u>3,803,024</u>
Total liabilities	<u>8,241,756</u>	<u>4,920,962</u>
Net Position (Deficit)		
Net investment in capital assets	(843,869)	(750,569)
Restricted - expendable for Capital acquisitions	131,877	130,811
Unrestricted	2,460,216	912,539
Total net position	<u>1,748,224</u>	<u>292,781</u>
Total liabilities and net position	<u><u>\$ 9,989,980</u></u>	<u><u>\$ 5,213,743</u></u>

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

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$355,303, 2019 – \$526,937	\$ 5,963,247	\$ 5,994,270
340B Drug Program	272,967	245,504
Other	38,878	37,339
	<u>6,275,092</u>	<u>6,277,113</u>
Operating Expenses		
Salaries and wages	3,025,413	2,862,804
Employee benefits	681,470	644,211
Purchased services and professional fees	758,637	734,775
Supplies and other	1,616,671	1,366,434
Depreciation	290,150	294,940
	<u>6,372,341</u>	<u>5,903,164</u>
	<u>(97,249)</u>	<u>373,949</u>
Operating Income (Loss)		
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Rush County	3,637	2,532
Interest income	8,550	5,069
Interest expense	(163,501)	(212,191)
Noncapital grants and gifts	112,986	78,023
Provider Relief Funds (<i>CARES Act</i>)	531,441	-
Paycheck Protection Program (PPP) loan forgiveness	730,760	-
	<u>1,223,873</u>	<u>(126,567)</u>
Excess of Revenues Over Expenses Before Capital Appropriations and Capital Grants and Gifts	1,126,624	247,382
Capital Appropriations - Rush County	328,819	361,338
Capital Grants and Gifts	<u>-</u>	<u>450</u>
Increase in Net Position	1,455,443	609,170
Net Position (Deficit), Beginning of Year	<u>292,781</u>	<u>(316,389)</u>
Net Position, End of Year	<u>\$ 1,748,224</u>	<u>\$ 292,781</u>

Rush County Memorial Hospital
A Component Unit of Rush County, Kansas
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 5,737,684	\$ 5,213,453
Payments to suppliers and contractors	(2,434,054)	(2,163,524)
Payments to employees	(3,724,835)	(3,529,672)
Other receipts, net	2,543,933	282,843
	<u>2,122,728</u>	<u>(196,900)</u>
Net cash provided by (used in) operating activities		
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Rush County	3,637	2,532
Noncapital grants and gifts	112,986	78,023
Provider Relief Funds (<i>CARES Act</i>)	531,441	-
Proceeds from issuance of PPP loan	730,760	-
	<u>1,378,824</u>	<u>80,555</u>
Net cash provided by noncapital financing activities		
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts received	-	450
Principal payments on long-term debt	(5,203)	(59,342)
Interest payments on long-term debt	318	(40,853)
Purchase of capital assets	(31,850)	(27,616)
	<u>(36,735)</u>	<u>(127,361)</u>
Net cash used in capital and related financing activities		
Cash Flows From Investing Activities		
Interest income received	8,550	5,069
	<u>8,550</u>	<u>5,069</u>
Net cash provided by investing activities		
Increase (Decrease) in Cash	3,473,367	(238,637)
Cash, Beginning of Year	590,453	829,090
Cash, End of Year	<u>\$ 4,063,820</u>	<u>\$ 590,453</u>

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

	2020	2019
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 3,931,943	\$ 459,642
Restricted cash in noncurrent assets	<u>131,877</u>	<u>130,811</u>
Total cash	<u><u>\$ 4,063,820</u></u>	<u><u>\$ 590,453</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (97,249)	\$ 373,949
Depreciation	290,150	294,940
Provision for uncollectible accounts	(355,303)	(526,937)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(289,990)	(146,646)
Estimated amounts due from and to Medicare	(1,103,889)	(107,234)
Supplies	-	2
Prepaid expenses and other	(50,877)	(26,371)
Accounts payable and accrued expenses	(25,821)	(58,603)
Unearned revenue	2,232,088	-
Advance from Medicare	<u>1,523,619</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u><u>\$ 2,122,728</u></u>	<u><u>\$ (196,900)</u></u>
Noncash Investing, Capital and Financing Activities		
Long-term debt obligations paid by County	\$ 328,819	\$ 361,338
PPP loan forgiveness	\$ 730,760	\$ -

Rush County Memorial Hospital
A Component Unit of Rush 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

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There are no cash equivalents for the years ended December 31, 2020 and 2019.

Rush County Memorial Hospital
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Notes to Financial Statements
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Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2020 and 2019.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as earned time off or, upon appropriate notice of termination, as a cash payment. Expense and the related liability are recognized as time off is earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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Notes to Financial Statements
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Risk Management

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

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

Paycheck Protection Program (PPP) Loan

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

Net Position

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

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

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Notes to Financial Statements
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Net Patient Service Revenue

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

Charity Care

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

Noncapital Appropriations – Rush County

Property taxes are levied in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted. The Hospital received approximately 4% and 6% of its financial support from appropriations derived from property taxes in 2020 and 2019, respectively. These funds were used as follows:

	2020	2019
Percentage used to support operations	1%	1%
Percentage used for debt service	99%	99%
	<u>100%</u>	<u>100%</u>

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

Note 2: Deposits

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

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

At December 31, 2020 and 2019, respectively, \$655,655 and \$266,531 of the Hospital's bank balances of \$1,155,655 and \$703,628 were exposed to custodial credit risk as follows:

	2020	2019
Uninsured and collateral held by pledging financial institution	\$ 655,655	\$ 266,531

Rush County Memorial Hospital
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Notes to Financial Statements
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Summary of Carrying Values

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

	2020	2019
Carrying value		
Deposits	\$ 4,063,545	\$ 590,178
Petty cash	275	275
	<u>\$ 4,063,820</u>	<u>\$ 590,453</u>
Included in the following balance sheet captions		
Cash	\$ 3,931,943	\$ 459,642
Held under bond indenture for capital acquisitions	131,877	130,811
	<u>\$ 4,063,820</u>	<u>\$ 590,453</u>

Note 3: Patient Accounts Receivable

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

	2020	2019
Medicare	\$ 625,639	\$ 515,005
Medicaid	54,268	20,917
Blue Cross	144,626	96,906
Other third-party payers	210,061	152,636
Patients	1,930,755	1,809,592
	<u>2,965,349</u>	<u>2,595,056</u>
Less allowance for uncollectible accounts	1,021,000	1,296,000
	<u>\$ 1,944,349</u>	<u>\$ 1,299,056</u>

Rush County Memorial Hospital
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Notes to Financial Statements
December 31, 2020 and 2019

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

2020					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ -	\$ 9,597
Land improvements	23,592	-	-	-	23,592
Buildings	5,976,641	-	-	-	5,976,641
Fixed equipment	523,952	-	-	-	523,952
Major moveable equipment	2,463,970	31,850	-	-	2,495,820
	<u>8,997,752</u>	<u>31,850</u>	<u>-</u>	<u>-</u>	<u>9,029,602</u>
Less accumulated depreciation					
Land improvements	19,765	1,121	-	-	20,886
Buildings	3,108,901	237,156	-	-	3,346,057
Fixed equipment	354,877	28,403	-	-	383,280
Major moveable equipment	2,349,778	23,470	-	-	2,373,248
	<u>5,833,321</u>	<u>290,150</u>	<u>-</u>	<u>-</u>	<u>6,123,471</u>
Capital Assets, Net	<u>\$3,164,431</u>	<u>\$ (258,300)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,906,131</u>
2019					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 9,597	\$ -	\$ -	\$ -	\$ 9,597
Land improvements	23,592	-	-	-	23,592
Buildings	5,976,641	-	-	-	5,976,641
Fixed equipment	523,952	-	-	-	523,952
Major moveable equipment	2,436,354	27,616	-	-	2,463,970
	<u>8,970,136</u>	<u>27,616</u>	<u>-</u>	<u>-</u>	<u>8,997,752</u>
Less accumulated depreciation					
Land improvements	18,478	1,287	-	-	19,765
Buildings	2,867,802	241,099	-	-	3,108,901
Fixed equipment	325,704	29,173	-	-	354,877
Major moveable equipment	2,326,397	23,381	-	-	2,349,778
	<u>5,538,381</u>	<u>294,940</u>	<u>-</u>	<u>-</u>	<u>5,833,321</u>
Capital Assets, Net	<u>\$3,431,755</u>	<u>\$ (267,324)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,164,431</u>

Rush County Memorial Hospital
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Note 5: Professional Liability Coverage and Claims

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

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

Note 6: Long-term Debt

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

2020					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable - County - 2009	\$ 1,880,000	\$ -	\$ 160,000	\$ 1,720,000	\$ 230,000
Note payable - County - 2013	2,035,000	-	5,000	2,030,000	5,000
Unamortized premium	83,024	-	5,203	77,821	-
PPP loan payable	-	730,760	730,760	-	-
Total long-term debt	<u>\$ 3,998,024</u>	<u>\$ 730,760</u>	<u>\$ 900,963</u>	<u>\$ 3,827,821</u>	<u>\$ 235,000</u>
2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable - County - 2009	\$ 2,065,000	\$ -	\$ 185,000	\$ 1,880,000	\$ 190,000
Note payable - County - 2013	2,040,000	-	5,000	2,035,000	5,000
Unamortized premium	88,227	-	5,203	83,024	-
Capital lease obligations	54,139	-	54,139	-	-
Total long-term debt	<u>\$ 4,247,366</u>	<u>\$ -</u>	<u>\$ 249,342</u>	<u>\$ 3,998,024</u>	<u>\$ 195,000</u>

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Notes to Financial Statements
December 31, 2020 and 2019

Revenue Bonds Payable

The revenue bonds payable consist of Hospital Revenue Bonds, Series 2008A (Bonds) in the original amount of \$300,000 dated June 26, 2008. These Bonds were purchased in their entirety by The Golden Belt Telephone Association, Inc. at their par value with no interest due pursuant to a Rural Economic Development Loan and Grant Program. The proceeds of this loan were used to finance equipment purchases. The Bonds were paid in full in 2018.

Note Payable – County – 2009

The note payable – County – 2009 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2009 (Bonds), in the original amount of \$2,000,000 and \$3,010,000, dated May 1, 2009 and November 1, 2009, respectively, which bear interest at an average of 4.665% and 5.586% over the term of the bonds, respectively. A portion, \$2,055,000, of the November 1, 2009, issuance was part of the Build America Bonds (BAB) program and subject to a 35% interest rebate. The proceeds from this loan were used to finance the remodeling of the Hospital. The Bonds are payable in annual installments through June 26, 2034. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

The portion of the November 1, 2009, issuance for the BAB program was called on July 10, 2013, and refunded with General Obligation Bonds, Series 2013.

The debt service requirements as of December 31, 2020, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2021	\$ 280,582	\$ 230,000	\$ 50,582
2022	282,426	210,000	72,426
2023	143,663	80,000	63,663
2024	145,263	85,000	60,263
2025	146,650	90,000	56,650
2026-2030	725,625	510,000	215,625
2031-2034	584,300	515,000	69,300
	<u>\$ 2,308,509</u>	<u>\$ 1,720,000</u>	<u>\$ 588,509</u>

Note Payable – County – 2013

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

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

The debt service requirements as of December 31, 2020, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2021	\$ 80,375	\$ 5,000	\$ 75,375
2022	80,256	5,000	75,256
2023	220,138	145,000	75,138
2024	215,425	145,000	70,425
2025	215,713	150,000	65,713
2026-2030	1,073,163	825,000	248,163
2031-2034	832,200	755,000	77,200
	<u>\$ 2,717,270</u>	<u>\$ 2,030,000</u>	<u>\$ 687,270</u>

Paycheck Protection Program (PPP) Loan Payable

The *CARES Act* and other subsequent legislation also provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Hospital received a PPP loan of \$730,760 in 2020. The Hospital received legal notice on December 9, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

Note 7: Net Patient Service Revenue

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

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

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

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Approximately 70% and 67% of net patient service revenue is 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.

On August 22, 2018, the Centers for Medicare and Medicaid Services approved the Hospital's request to enter into an extended repayment schedule (ERS) for the outstanding overpayment balance resulting from the December 31, 2017, filed cost report. The ERS is for a term of 35 months. The liability related to the ERS was paid off during 2020. The liability related to the ERS is included in estimated amounts due to Medicare on the balance sheet for the year ended December 31, 2019.

Note 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$3,000 and \$6,000, for 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9: Pension Plan

Defined Contribution Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital's Board of Trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% for both 2020 and 2019. Contributions actually made by plan members and the Hospital aggregated \$96,431 and \$78,548 during 2020 and \$99,195 and \$71,955 during 2019, respectively. The Hospital's contributions were reduced by the use of forfeitures of \$5,741 and \$35,036 during 2020 and 2019, respectively.

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Deferred Compensation Plan

The Hospital provides a deferred compensation plan (457 Plan) to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457 Plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. Contributions from employees to the 457 Plan were \$21,435 and \$27,241 for the years ended December 31, 2020 and 2019, respectively. The Hospital does not contribute to the 457 Plan.

Note 10: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues related to the 340B Program of \$272,967 and \$245,504 for the years ending December 31, 2020 and 2019, respectively. The Hospital recorded expenses related to the 340B Program of \$83,379 and \$65,492 for the years ending December 31, 2020 and 2019, respectively. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 11: COVID-19 Pandemic & CARES Act Funding

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

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

Beginning in mid-March 2020, the Hospital deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the 2020 year.

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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 \$2,763,529 in general and targeted Provider Relief Fund distributions, both as provided for under the *CARES Act*, a PPP loan of \$730,760, other COVID-19 funding of \$108,464, and advances from Medicare of \$1,523,619.

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.

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 \$2,763,529 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 \$531,441, 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 \$2,232,088 is recorded as unearned revenue in the accompanying balance sheets.

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Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the *CARES Act* in March 2020. The Hospital has evaluated the “Post-Payment Notice of Reporting Requirements” (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to December 31, 2020, in accordance with GASB codification Section 2250 and have concluded as follows:

- January 2021 Notice – recognized
- June 2021 Notice and FAQs – nonrecognized
- July 1, 2021 FAQs – nonrecognized

The Hospital has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of December 31, 2020, and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. For guidance issued subsequent to December 31, 2020, considered nonrecognized subsequent events, the Hospital has reviewed this guidance and estimates a \$613,527 increase in revenue to be recognized as a change in estimate in future periods.

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. Additionally, the amounts recorded in the financial statements compared to the Hospital’s Provider Relief Fund reporting could differ. 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 \$730,760 established by the *CARES Act* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the SBA, or lender; as a result of such audit, adjustment could be required to any revenue recognized. The Hospital received legal notice on December 9, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

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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 received and recognized \$8,464 for the year-ended December 31, 2020, related to the 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.

Medicare Accelerated and Advanced Payment Program

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

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

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

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Note 12: Contingencies

Professional Liability Claims

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

Note 13: Subsequent Events

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

On June 10, 2021, the Hospital received \$100,000 of stimulus funds from HHS. Congress has directed this funding to address the expenses Rural Health Clinics (RHCs) are incurring due to COVID-19. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

On November 18, 2021, the Hospital was awarded an \$83,613 SHIP grant from the Kansas Department of Health and Environment (KDHE).

On November 19, 2021, the Hospital received a \$99,493 grant from KDHE in connection with the Strengthening People and Revitalizing Kansas (SPARK) Frontline Hospital Workers Retention Plan as part of Kansas' share of the Coronavirus State and Local Recovery Fund.

Note 14: Future Change in Accounting Principle

Leases

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

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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.