

Morris County Hospital
A Component Unit of Morris County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2021 and 2020

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A Component Unit of Morris County, Kansas
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Independent Auditor's Report

Board of Trustees
Morris County Hospital
Council Grove, Kansas

Opinion

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Morris County Hospital as of December 31, 2021 and 2020, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Morris County Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morris County 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 Morris County 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 Morris County 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 is not affected by this missing information.

FORVIS,LLP

Wichita, Kansas
July 22, 2022

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

Assets and Deferred Outflows of Resources

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 3,705,090	\$ 3,936,525
Restricted cash	333,158	186,423
Short-term investments	558,750	505,214
Patient accounts receivable, net of allowance; 2021 – \$638,268; 2020 – \$658,911	4,545,373	3,396,202
Estimated amounts due from third-party payers	-	359,852
Other receivables	131,077	150,587
Supplies	421,977	415,879
Prepaid expenses	293,813	350,523
	<hr/>	<hr/>
Total current assets	9,989,238	9,301,205
	<hr/>	<hr/>
Noncurrent Cash and Investments		
Board designated for capital improvements	3,158,645	3,140,983
	<hr/>	<hr/>
Capital Assets, Net	8,017,299	7,988,456
	<hr/>	<hr/>
Physician Receivable	15,000	15,000
	<hr/>	<hr/>
Total assets	21,180,182	20,445,644
	<hr/>	<hr/>
Deferred Outflows of Resources	-	19,833
	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 21,180,182	\$ 20,465,477
	<hr/> <hr/>	<hr/> <hr/>

Liabilities and Net Position

	2021	2020
Current Liabilities		
Current maturities of long-term debt	\$ 264,007	\$ 188,422
Accounts payable	381,992	422,153
Accrued payroll and withholdings	141,426	79,725
Accrued employee benefits	510,877	335,821
Accrued interest payable	47,319	46,642
Estimated amounts due to third-party payers	170,000	-
Unearned revenue	400,000	3,228,578
	<hr/>	<hr/>
Total current liabilities	1,915,621	4,301,341
Long-term Debt	<hr/>	<hr/>
	3,503,707	3,424,196
	<hr/>	<hr/>
Total liabilities	5,419,328	7,725,537
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	4,249,585	4,375,838
Restricted - expendable for		
Capital acquisitions	333,158	186,423
Unrestricted	11,178,111	8,177,679
	<hr/>	<hr/>
Total net position	15,760,854	12,739,940
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 21,180,182</u>	<u>\$ 20,465,477</u>

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

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$389,466; 2020 – \$481,507	\$ 13,053,405	\$ 11,154,378
Other	<u>873,787</u>	<u>611,773</u>
Total operating revenues	<u>13,927,192</u>	<u>11,766,151</u>
Operating Expenses		
Salaries and wages	6,869,259	5,929,652
Employee benefits	1,163,440	1,128,063
Supplies and other	2,111,919	1,842,045
Contracts	3,758,299	3,302,467
Depreciation and amortization	<u>959,676</u>	<u>984,495</u>
Total operating expenses	<u>14,862,593</u>	<u>13,186,722</u>
Operating Loss	<u>(935,401)</u>	<u>(1,420,571)</u>
Nonoperating Revenues (Expenses)		
Noncapital contributions	204,206	314,850
Noncapital appropriations - Morris County	430,248	428,122
Council Grove Assisted Living, LLC losses	(37,044)	(4,945)
Investment income	123,043	126,601
Interest expense	(139,451)	(140,602)
Insurance recoveries on capital assets	-	169,393
Provider Relief Funds (<i>CARES Act</i>)	3,228,578	612,289
Paycheck Protection Program (PPP) loan forgiveness	<u>-</u>	<u>1,177,712</u>
Total nonoperating revenues	<u>3,809,580</u>	<u>2,683,420</u>
Excess of Revenues Over Expenses Before Capital Grants and Gifts	2,874,179	1,262,849
Capital Grants and Gifts	<u>146,735</u>	<u>86,500</u>
Increase in Net Position	3,020,914	1,349,349
Net Position, Beginning of Year	<u>12,739,940</u>	<u>11,390,591</u>
Net Position, End of Year	<u><u>\$ 15,760,854</u></u>	<u><u>\$ 12,739,940</u></u>

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

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 12,434,086	\$ 10,281,350
Payments to suppliers and contractors	(5,632,402)	(5,460,049)
Payments to employees	(7,795,942)	(7,179,416)
Other receipts, net	<u>(1,935,281)</u>	<u>4,018,191</u>
Net cash provided by (used in) operating activities	<u>(2,929,539)</u>	<u>1,660,076</u>
Cash Flows From Noncapital Financing Activities		
Noncapital contributions	204,206	314,850
Noncapital appropriations - Morris County	430,248	428,122
Provider Relief Funds (<i>CARES Act</i>)	3,228,578	612,289
Proceeds from issuance of PPP loan	<u>-</u>	<u>1,177,712</u>
Net cash provided by noncapital financing activities	<u>3,863,032</u>	<u>2,532,973</u>
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	146,735	86,500
Insurance recoveries on capital assets	-	169,393
Purchase of capital assets	(835,926)	(371,263)
Principal paid on long-term debt	(205,029)	(172,690)
Interest paid on long-term debt	<u>(138,774)</u>	<u>(140,388)</u>
Net cash used in capital and related financing activities	<u>(1,032,994)</u>	<u>(428,448)</u>
Cash Flows From Investing Activities		
Purchase of investments	(782,662)	(816,251)
Proceeds from disposition of investments	674,420	688,409
Physician guarantee payments received	-	17,181
Investment income	<u>123,043</u>	<u>126,601</u>
Net cash provided by investing activities	<u>14,801</u>	<u>15,940</u>
Increase (Decrease) in Cash and Cash Equivalents	(84,700)	3,780,541
Cash and Cash Equivalents, Beginning of Year	<u>4,122,948</u>	<u>342,407</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,038,248</u></u>	<u><u>\$ 4,122,948</u></u>

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

	2021	2020
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 3,705,090	\$ 3,936,525
Restricted cash	<u>333,158</u>	<u>186,423</u>
	<u><u>\$ 4,038,248</u></u>	<u><u>\$ 4,122,948</u></u>
Reconciliation of Net Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (935,401)	\$ (1,420,571)
Provision for uncollectible accounts	389,466	481,507
Depreciation and amortization	959,676	984,495
Changes in operating assets and liabilities		
Patient accounts receivable	(1,538,637)	(996,683)
Estimated amounts due from and to third-party payers	529,852	(357,852)
Other receivables	19,510	177,840
Supplies	(6,098)	(88,414)
Prepaid expenses	56,710	(45,967)
Accounts payable	187,204	(181,156)
Accrued payroll and withholdings	61,701	(124,263)
Accrued employee benefits	175,056	2,562
Unearned revenue	<u>(2,828,578)</u>	<u>3,228,578</u>
Net cash provided by (used in) operating activities	<u><u>\$ (2,929,539)</u></u>	<u><u>\$ 1,660,076</u></u>
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ 20,630	\$ -
Capital asset acquisitions under capital lease	\$ 360,125	\$ 247,995
PPP loan forgiveness	\$ -	\$ 1,177,712

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

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

Nature of Operations and Reporting Entity

Morris County Hospital (Hospital) is a county-owned, general hospital located in Council Grove, Kansas with a licensed bed capacity of 21 beds. The Hospital is considered a component unit of Morris County, Kansas. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and rural health clinic services to patients in the Morris County area.

The Hospital maintains an agreement with Morris County, Kansas (County) to operate the County health department. Under the terms of the agreement, the Hospital is responsible for providing overall administration and all related services for the health department. The Hospital is to receive the equivalent of at least a one mill levy from the County and the use of personal property of the health department. The agreement is renewable for successive one-year terms.

Morris County Hospital Foundation (Foundation) is a Kansas not-for-profit corporation exempt from federal income taxation under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). The Foundation was formed July 22, 1986, and is organized and shall be operated exclusively for the benefit of, to perform the functions of, or to do all things that may appear necessary and useful in accomplishing the purposes of the Hospital. The board of the Foundation is self-perpetuating. 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 restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is included in the financial statements of the Hospital using the blended method. Complete financial statements of the Foundation may be obtained from its administrative offices at the following address:

Morris County Hospital Foundation
600 North Washington
Council Grove, Kansas 66846

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, liabilities and deferred outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as county appropriations, investment 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.

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

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, cash equivalents consisted of certificates of deposit and money market accounts.

Investments and Investment Income

Noncurrent cash and investments include short-term investments (assets held by the Foundation) and designated assets set aside by the Board of Trustees for capital improvements. The Board of Trustees retains control over these assets and may, at its discretion, subsequently use these assets for other purposes. Short-term investments (assets held by the Foundation) consist of investments in U.S. Treasury securities, money market funds and mutual funds, which are carried at fair value, nonnegotiable certificate of deposit, which is carried at amortized cost, and an investment in equity investee (42% interest in net assets of Council Grove Assisted Living, LLC), which is reported on the equity method of accounting. All mutual funds are carried at fair value based upon readily determinable market values. Designated assets set aside by the Board of Trustees consist of certificates of deposit.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

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.

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

Capital Assets

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

The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 15 years
Buildings	5 – 40 years
Equipment	5 – 20 years

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Deferred Outflows of Resources

The Hospital reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Employees with greater than 15 years of service vest in sick leave. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

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

Risk Management

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

The Hospital was self-insured for a portion of its exposure to risk of loss from employee health claims through June 30, 2020. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Bond Discount

Bond discount is being amortized over the life of the related debt using the effective interest method. The unamortized bond discount is included as a reduction to revenue bonds payable and is reflected as long-term debt in the accompanying balance sheets. The amortization of the bond discount is included as a component of interest expense.

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 23, 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 made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital.

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

- 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 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 – Morris County

The Hospital received approximately 2% and 3% of its financial support from noncapital appropriations from Morris County property tax levy in 2021 and 2020, respectively.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Morris County is recognized in full in the year in which use is first permitted.

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.

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

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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

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

Note 2: Deposits and Investments

Deposits

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

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

At December 31, 2021 and 2020, respectively, \$6,463,150 and \$6,546,839 of the Hospital's bank balances of \$7,202,077 and \$7,261,536 were exposed to custodial credit risk as follows:

	2021	2020
Uninsured and collateral held by pledging financial institution	<u>\$ 6,463,150</u>	<u>\$ 6,546,839</u>

At December 31, 2021 and 2020, the Foundation's bank balances were \$132,332 and \$45,961, respectively, and thus did not exceed federally insured limits.

Investments

The Hospital may legally invest in direct obligations guaranteed as to the principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

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

As of December 31, 2021 and 2020, the Hospital has the following investments, which are entirely held at the Foundation:

Type	2021	2020
U.S. Treasury securities ###	\$ -	\$ 10,368
Mutual funds - equity ###	419,631	353,941
Mutual funds - fixed income ###	134,290	126,532
Certificate of deposit ***	129,258	101,758
Equity investment ^^	<u>(124,429)</u>	<u>(87,385)</u>
	<u>\$ 558,750</u>	<u>\$ 505,214</u>

Carried at fair value

*** Carried at amortized cost

^^ Reported on the equity investment of accounting

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's investment policy limits its investment portfolio to maturities of 10 years or less unless otherwise directed.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk. The Foundation's investment policy limits the amount that may be invested in any one issuer to the following maximum percentages:

Cash and certificates of deposit	25%
Fixed income	70%
Equity and other investments	60%

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

Summary of Carrying Values

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

	2021	2020
Carrying value		
Deposits	\$ 7,196,443	\$ 7,263,481
Investments	558,750	505,214
Cash on hand	450	450
	<u>\$ 7,755,643</u>	<u>\$ 7,769,145</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,705,090	\$ 3,936,525
Restricted cash	333,158	186,423
Short-term investments	558,750	505,214
Board designated for capital improvements	3,158,645	3,140,983
	<u>\$ 7,755,643</u>	<u>\$ 7,769,145</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	2021	2020
Interest and dividend income	\$ 46,443	\$ 59,649
Net increase in fair value of investments	76,600	66,952
	<u>\$ 123,043</u>	<u>\$ 126,601</u>

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

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:

	2021	2020
Medicare	\$ 1,363,618	\$ 872,671
Medicaid	322,089	235,479
Blue Cross	670,729	451,293
Commercial	904,705	932,499
Self-pay	1,922,500	1,563,171
	<u>5,183,641</u>	<u>4,055,113</u>
Less allowance for uncollectible accounts	<u>638,268</u>	<u>658,911</u>
	<u><u>\$ 4,545,373</u></u>	<u><u>\$ 3,396,202</u></u>

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2021			
	Beginning Balance	Additions	Disposals	Transfers
Land	\$ 100,644	\$ -	\$ -	\$ -
Land improvements	227,472	11,000	-	-
Buildings and leasehold improvements	11,514,198	51,970	-	17,741
Fixed equipment	3,845,521	-	-	-
Moveable equipment	8,283,385	594,695	(159,731)	230,359
Construction in progress	7,007	311,021	-	(248,100)
	<u>23,978,227</u>	<u>968,686</u>	<u>(159,731)</u>	<u>-</u>
	<u>24,787,182</u>			
Less accumulated depreciation				
Land improvements	(227,381)	(655)	-	-
Buildings and leasehold improvements	(4,968,351)	(398,753)	-	-
Fixed equipment	(3,480,025)	(167,099)	159,731	-
Moveable equipment	(7,314,014)	(373,336)	-	-
	<u>(15,989,771)</u>	<u>(939,843)</u>	<u>159,731</u>	<u>-</u>
	<u>(16,769,883)</u>			
Capital Assets, Net	<u><u>\$ 7,988,456</u></u>	<u><u>\$ 28,843</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
	<u><u>\$ 8,017,299</u></u>			

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	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 100,644	\$ -	\$ -	\$ -	\$ 100,644
Land improvements	227,472	-	-	-	227,472
Buildings and leasehold improvements	11,633,409	126,403	(308,319)	62,705	11,514,198
Fixed equipment	3,850,290	-	(4,769)	-	3,845,521
Moveable equipment	7,752,311	489,785	-	41,289	8,283,385
Construction in progress	107,931	3,070	-	(103,994)	7,007
	<u>23,672,057</u>	<u>619,258</u>	<u>(313,088)</u>	<u>-</u>	<u>23,978,227</u>
Less accumulated depreciation					
Land improvements	(227,381)	-	-	-	(227,381)
Buildings and leasehold improvements	(4,884,036)	(392,634)	308,319	-	(4,968,351)
Fixed equipment	(3,317,695)	(167,099)	4,769	-	(3,480,025)
Moveable equipment	(6,928,919)	(385,095)	-	-	(7,314,014)
	<u>(15,358,031)</u>	<u>(944,828)</u>	<u>313,088</u>	<u>-</u>	<u>(15,989,771)</u>
Capital Assets, Net	<u><u>\$ 8,314,026</u></u>	<u><u>\$ (325,570)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,988,456</u></u>

Note 5: Physician Receivables

During 2017, the Hospital entered into a contract with a physician to relocate to Council Grove, Kansas to establish a medical practice. The Hospital agreed to extend a line of credit to the physician to make monthly advances as needed not to exceed a certain aggregate amount during the support period. The support period is a period of 12 months following the commencement date of July 1, 2017. The physician is required to diligently and fully devote their efforts and time to the operation of their practice in Council Grove, Kansas for a 48-month commitment period. In the event the physician fails to perform under the contract, the physician is required to reimburse the Hospital for all sums advanced under the contract. The physician receivable is \$15,000 at December 31, 2021 and 2020.

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Note 6: Professional Liability Claims

The Hospital purchases professional liability insurance under a claims-made policy on a fixed premium basis. 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 7: Employee Health Claims

The Hospital was self-insured for a portion of its exposure to risk of loss from employee health claims through June 30, 2020. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term. Prior to June 30, 2020, the Hospital was self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$1,000,000. Commercial stop-loss insurance coverage was purchased for claims in excess of the aggregate annual amount.

Activity in the Hospital's accrued employee health claims liability during 2021 and 2020 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ -	\$ 45,592
Current year claims incurred and changes in estimates		
for claims incurred in prior years	-	238,726
Claims and expenses paid	<u>-</u>	<u>(284,318)</u>
Balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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Note 8: Long-term Obligations

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

2021						
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Revenue bonds payable						
Series 2018A	\$ 910,000	\$ -	\$ 140,000	\$ 770,000	\$ 145,000	\$ 625,000
Series 2018B	2,520,000	-	-	2,520,000	-	2,520,000
Capital lease obligations	207,955	360,125	67,310	500,770	119,007	381,763
	3,637,955	360,125	207,310	3,790,770	264,007	3,526,763
Unamortized discount on Series 2018 A&B bonds	(25,337)	-	(2,281)	(23,056)	-	(23,056)
	<u>\$ 3,612,618</u>	<u>\$ 360,125</u>	<u>\$ 205,029</u>	<u>\$ 3,767,714</u>	<u>\$ 264,007</u>	<u>\$ 3,503,707</u>
2020						
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Revenue bonds payable						
Series 2018A	\$ 1,045,000	\$ -	\$ 135,000	\$ 910,000	\$ 140,000	\$ 770,000
Series 2018B	2,520,000	-	-	2,520,000	-	2,520,000
PPP loan payable to bank	-	1,177,712	1,177,712	-	-	-
Capital lease obligations	-	247,995	40,040	207,955	48,422	159,533
	3,565,000	1,425,707	1,352,752	3,637,955	188,422	3,449,533
Unamortized discount on Series 2018 A&B bonds	(27,687)	-	(2,350)	(25,337)	-	(25,337)
	<u>\$ 3,537,313</u>	<u>\$ 1,425,707</u>	<u>\$ 1,350,402</u>	<u>\$ 3,612,618</u>	<u>\$ 188,422</u>	<u>\$ 3,424,196</u>

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Revenue Bonds Payable – Series 2018A

On August 13, 2018, the Hospital issued \$1,175,000 in Series 2018A Refunding Revenue Bonds with an average interest rate of 3.00% to advance refund \$1,175,000 of outstanding 2011A Series bonds with an average interest rate of 3.21%. The net proceeds of \$1,175,000 (after payment of \$25,839 in underwriting fees and other issuance costs) plus an additional \$150,753 of 2011A Series debt service fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2011A Series bonds. As a result, the 2011A Series bonds are considered to be defeased, and the liability for those bonds has been removed from the Hospital's balance sheet.

Revenue Bonds Payable – Series 2018B

The Series 2018B Taxable Revenue Bonds (Morris County Hospital Project) payable consist of bonds in the original amount of \$2,520,000 dated August 13, 2018, which bear interest at 4.12% to 4.42%. The bonds are payable in annual installments through September 1, 2038. The Hospital is required to make monthly deposits at a pro-rated amount of the next maturing principal and interest to the debt service fund held by the trustee. All of the bonds still outstanding may be redeemed at the Hospital's option on or after September 1, 2025, at 100%. The bonds are secured by the net revenues of the Hospital. Proceeds from the issuance of these bonds were used to reconstruct and remodel portions of the existing hospital facility.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee in the balance sheets. The indenture agreements also require the Hospital to comply with restrictive covenants including maintaining a historical debt-service ratio of at least 1.25.

Debt Service Requirements

Debt service requirements on long-term debt other than capital lease obligations, as of December 31, 2021, are as follows:

Year Ending December 31,	Total to Be Paid	Principal	Interest
2022	\$ 274,084	\$ 145,000	\$ 129,084
2023	274,734	150,000	124,734
2024	270,234	150,000	120,234
2025	275,734	160,000	115,734
2026	275,934	165,000	110,934
2027-2031	1,363,438	905,000	458,438
2032-2036	1,359,940	1,105,000	254,940
2037-2038	543,110	510,000	33,110
	<u>\$ 4,637,208</u>	<u>\$ 3,290,000</u>	<u>\$ 1,347,208</u>

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Paycheck Protection Program (PPP) Loan

The *CARES Act* and other subsequent legislation provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Hospital received a PPP loan of \$1,177,712 in 2020. The Hospital received legal notice on December 23, 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.

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Capital assets include the following property under capital leases at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Equipment	\$ 608,090	\$ 247,980
Less accumulated depreciation	<u>(96,796)</u>	<u>(37,197)</u>
	<u><u>\$ 511,294</u></u>	<u><u>\$ 210,783</u></u>

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 1.8% to 1.9%, together with the present value of the future minimum lease payments as of December 31, 2021:

<u>Year Ending December 31,</u>	
2022	\$ 135,489
2023	127,489
2024	127,489
2025	88,350
2026	<u>50,451</u>
Total minimum lease payments	529,268
Less amount representing interest	<u>28,498</u>
Present value of future minimum lease payments	<u><u>\$ 500,770</u></u>

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Note 9: 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 licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit 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 time in the future.

Approximately 52% and 53% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, 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 10: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately \$77,000 and \$82,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

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Note 11: Pension Plans

Defined Contribution

The Board of Trustees elected to withdraw from the social security system and approved a defined contribution plan covering substantially all employees. Employees must have attained the age of 21 and has completed one year of service. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. According to the terms of the plan, the Hospital will contribute 7.5% of the employees' compensation each plan year. The Plan allows for direct rollover and participant rollover contributions from eligible retirement plans. Contributions from the Hospital to the plan were \$485,436 and \$454,535 for the years ended December 31, 2021 and 2020, respectively.

Profit-Sharing Plan

The Board of Trustees elected to provide its employees with a profit-sharing retirement plan. The profit-sharing retirement plan contributions are discretionary contributions equal to a percentage of the employees' compensation, which will be determined by action of the Hospital's governing body each plan year. The Hospital did not make any contributions to the plan for the years ended December 31, 2021 and 2020.

Deferred Compensation Plan

The Board of Trustees elected to provide its employees with a deferred compensation plan, also known as a 457(b) plan. The purpose of the plan is to benefit those employees who choose to participate by permitting them to defer a portion of future compensation in order to provide payments at retirement. The Hospital provides the 457(b) plan to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457(b) 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. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were \$147,362 and \$138,945 for the years ended December 31, 2021 and 2020, respectively. The Hospital does not contribute to the 457(b) plan.

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Note 12: Disclosure About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021	Fair Value			
Mutual funds - equity	\$ 419,631	\$ 419,631	\$ -	\$ -
Mutual funds - fixed income	134,290	134,290	-	-
	<u>553,921</u>	<u>\$ 553,921</u>	<u>\$ -</u>	<u>\$ -</u>
Certificate of deposit	129,258			
Equity investment	<u>(124,429)</u>			
	<u>\$ 558,750</u>			

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		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020	Fair Value			
Mutual funds - equity	\$ 353,941	\$ 353,941	\$ -	\$ -
Mutual funds - fixed income	126,532	126,532	-	-
U.S. Treasury securities	10,368	10,368	-	-
	<u>490,841</u>	<u>\$ 490,841</u>	<u>\$ -</u>	<u>\$ -</u>
Certificate of deposit	101,758			
Equity investment	<u>(87,385)</u>			
	<u>\$ 505,214</u>			

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include all the investments held by the Foundation and consist of equity securities and treasury securities.

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Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2021 and 2020:

	December 31, 2021			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 9,295,626	\$ 693,612	\$ -	\$ 9,989,238
Capital assets, net	8,017,299	-	-	8,017,299
Other assets	3,173,645	-	-	3,173,645
Total assets	20,486,570	693,612	-	21,180,182
Deferred Outflows of Resources	-	-	-	-
Total assets and deferred outflows of resources	<u>\$ 20,486,570</u>	<u>\$ 693,612</u>	<u>\$ -</u>	<u>\$ 21,180,182</u>
Liabilities				
Current liabilities	\$ 1,915,621	\$ -	\$ -	\$ 1,915,621
Noncurrent liabilities	3,503,707	-	-	3,503,707
Total liabilities	5,419,328	-	-	5,419,328
Net Position				
Net investments in capital assets	4,249,585	-	-	4,249,585
Restricted expendable	-	333,158	-	333,158
Unrestricted	10,817,657	360,454	-	11,178,111
Total net position	15,067,242	693,612	-	15,760,854
Total liabilities and net position	<u>\$ 20,486,570</u>	<u>\$ 693,612</u>	<u>\$ -</u>	<u>\$ 21,180,182</u>

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	December 31, 2020			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 8,750,030	\$ 551,175	\$ -	\$ 9,301,205
Capital assets, net	7,988,456	-	-	7,988,456
Other assets	3,155,983	-	-	3,155,983
Total assets	19,894,469	551,175	-	20,445,644
Deferred Outflows of Resources	19,833	-	-	19,833
Total assets and deferred outflows of resources	<u>\$ 19,914,302</u>	<u>\$ 551,175</u>	<u>\$ -</u>	<u>\$ 20,465,477</u>
Liabilities				
Current liabilities	\$ 4,301,341	\$ -	\$ -	\$ 4,301,341
Noncurrent liabilities	3,424,196	-	-	3,424,196
Total liabilities	7,725,537	-	-	7,725,537
Net Position				
Net investments in capital assets	4,375,838	-	-	4,375,838
Restricted expendable	-	186,423	-	186,423
Unrestricted	7,812,927	364,752	-	8,177,679
Total net position	12,188,765	551,175	-	12,739,940
Total liabilities and net position	<u>\$ 19,914,302</u>	<u>\$ 551,175</u>	<u>\$ -</u>	<u>\$ 20,465,477</u>

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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2021 and 2020:

	December 31, 2021			
	Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 13,053,405	\$ -	\$ -	\$ 13,053,405
Other	870,279	3,508	-	873,787
Total operating revenues	<u>13,923,684</u>	<u>3,508</u>	<u>-</u>	<u>13,927,192</u>
Operating Expenses				
Other operating expenses	13,816,211	86,706	-	13,902,917
Depreciation and amortization	959,676	-	-	959,676
Total operating expenses	<u>14,775,887</u>	<u>86,706</u>	<u>-</u>	<u>14,862,593</u>
Operating Loss	<u>(852,203)</u>	<u>(83,198)</u>	<u>-</u>	<u>(935,401)</u>
Nonoperating Revenues (Expenses)				
Noncapital contributions	175,263	28,943	-	204,206
Noncapital appropriations - Morris County	430,248	-	-	430,248
Transfers from Foundation (to Hospital) for operations	-	-	-	-
Council Grove Assisted Living, LLC losses	-	(37,044)	-	(37,044)
Investment income	36,042	87,001	-	123,043
Interest expense	(139,451)	-	-	(139,451)
Insurance recoveries on capital assets	-	-	-	-
Provider Relief Funds (CARES Act)	3,228,578	-	-	3,228,578
Paycheck Protection Program (PPP) loan forgiveness	-	-	-	-
Total nonoperating revenues	<u>3,730,680</u>	<u>78,900</u>	<u>-</u>	<u>3,809,580</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	<u>2,878,477</u>	<u>(4,298)</u>	<u>-</u>	<u>2,874,179</u>
Capital Grants and Gifts	<u>-</u>	<u>146,735</u>	<u>-</u>	<u>146,735</u>
Increase in Net Position	<u>2,878,477</u>	<u>142,437</u>	<u>-</u>	<u>3,020,914</u>
Net Position, Beginning of Year	<u>12,188,765</u>	<u>551,175</u>	<u>-</u>	<u>12,739,940</u>
Net Position, End of Year	<u><u>\$ 15,067,242</u></u>	<u><u>\$ 693,612</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,760,854</u></u>

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	December 31, 2020			
	Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 11,154,378	\$ -	\$ -	\$ 11,154,378
Other	608,806	2,967	-	611,773
Total operating revenues	11,763,184	2,967	-	11,766,151
Operating Expenses				
Other operating expenses	12,147,473	54,754	-	12,202,227
Depreciation and amortization	984,495	-	-	984,495
Total operating expenses	13,131,968	54,754	-	13,186,722
Operating Loss	(1,368,784)	(51,787)	-	(1,420,571)
Nonoperating Revenues (Expenses)				
Noncapital contributions	284,044	30,806	-	314,850
Noncapital appropriations - Morris County	428,122	-	-	428,122
Transfers from Foundation (to Hospital) for operations	60,000	(60,000)	-	-
Council Grove Assisted Living, LLC losses	-	(4,945)	-	(4,945)
Investment income	49,754	76,847	-	126,601
Interest expense	(140,602)	-	-	(140,602)
Insurance recoveries on capital assets	169,393	-	-	169,393
Provider Relief Funds (CARES Act)	612,289	-	-	612,289
Paycheck Protection Program (PPP) loan forgiveness	1,177,712	-	-	1,177,712
Total nonoperating revenues (expenses)	2,640,712	42,708	-	2,683,420
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	1,271,928	(9,079)	-	1,262,849
Capital Grants and Gifts	-	86,500	-	86,500
Increase in Net Position	1,271,928	77,421	-	1,349,349
Net Position, Beginning of Year	10,916,837	473,754	-	11,390,591
Net Position, End of Year	<u>\$ 12,188,765</u>	<u>\$ 551,175</u>	<u>\$ -</u>	<u>\$ 12,739,940</u>

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The following tables include condensed combining statements of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2021 and 2020:

	December 31, 2021			
	Hospital	Foundation	Eliminations	Total
Net Cash Used In				
Operating Activities	\$ (2,843,811)	\$ (85,728)	\$ -	\$ (2,929,539)
Net Cash Provided By				
Noncapital Financing Activities	3,834,089	28,943	-	3,863,032
Net Cash Provided By (Used In)				
Capital and Related Financing Activities	(1,179,729)	146,735	-	(1,032,994)
Net Cash Provided By (Used In)				
Investing Activities	<u>18,380</u>	<u>(3,579)</u>	<u>-</u>	<u>14,801</u>
Increase (Decrease) in Cash and Cash Equivalents	(171,071)	86,371	-	(84,700)
Cash and Cash Equivalents, Beginning of Year	<u>4,076,987</u>	<u>45,961</u>	<u>-</u>	<u>4,122,948</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,905,916</u></u>	<u><u>\$ 132,332</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,038,248</u></u>

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	December 31, 2020			
	Hospital	Foundation	Eliminations	Total
Net Cash Provided By (Used In)				
Operating Activities	\$ 1,763,520	\$ (103,444)	\$ -	\$ 1,660,076
Net Cash Provided By (Used In)				
Noncapital Financing Activities	2,562,167	(29,194)	-	2,532,973
Net Cash Provided By (Used In)				
Capital and Related Financing Activities	(514,948)	86,500	-	(428,448)
Net Cash Provided By				
Investing Activities	<u>15,684</u>	<u>256</u>	<u>-</u>	<u>15,940</u>
Increase (Decrease) in Cash and				
Cash Equivalents	3,826,423	(45,882)	-	3,780,541
Cash and Cash Equivalents,				
Beginning of Year	<u>250,564</u>	<u>91,843</u>	<u>-</u>	<u>342,407</u>
Cash and Cash Equivalents,				
End of Year	<u><u>\$ 4,076,987</u></u>	<u><u>\$ 45,961</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,122,948</u></u>

Note 14: COVID-19 Pandemic & CARES Act Funding

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

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

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.

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

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

Provider Relief Fund

During the years ended December 31, 2021 and 2020, the Hospital received \$400,000 and \$3,840,867, respectively, of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2021 and 2020, the Hospital recognized \$3,228,578 and \$612,289, respectively, related to the Provider Relief Fund, and these payments are recorded as Provider Relief Funds (*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions of \$400,000 and \$3,228,578 is recorded as unearned revenue in the accompanying balance sheets for the years ended December 31, 2021 and 2020, respectively.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the *CARES Act* in March 2020. The Hospital has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS for the years ended December 31, 2021 and 2020, and has recognized revenue accordingly. The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions the Hospital's ability to retain some or all of the distributions received may be affected. The Provider Relief Funds are subject to government oversight, including potential audits.

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Paycheck Protection Program (PPP) Loan

During the year ended December 31, 2020, the Hospital received a PPP loan of \$1,177,712 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 23, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Other COVID-19 Funding

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 the year ended December 31, 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 \$30,429 for the year-ended December 31, 2020, related to SHIP grant. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

During the year ended December 31, 2020, HHS provided \$100 million in aid to hospitals and health care systems in preparing for a surge in COVID-19 patients. Of that funding, \$50 million was allotted to State Hospitals Associations for distribution through competitive grant applications. KHA received \$784,542 in funds, which were distributed on May 1. In addition, KHA was awarded an additional \$1.95 million to be distributed in the future. The Hospital received and recognized \$3,000 during 2020, related to this Assistant Secretary for Preparedness and Response (ASPR) grant. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

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During the year ended December 31, 2020, the Hospital received funding through the Strengthening People and Revitalizing Kansas (SPARK) program. The Hospital received and recognized \$99,332, related to this funding during 2020, and these payments are recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

In November 2021, the Hospital received and recognized \$83,575 of 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.

Note 15: Subsequent Events

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

Note 16: Future Change in Accounting Principle

Leases

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

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