

Grisell Memorial Hospital District No. 1

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

Grisell Memorial Hospital District No. 1

December 31, 2020 and 2019

Contents

| | |
|---|----------|
| Independent Auditor's Report | 1 |
|---|----------|

Financial Statements

| | |
|--|---|
| Balance Sheets | 3 |
| Statements of Revenues, Expenses and Changes in Net Position | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 7 |

Independent Auditor's Report

Board of Directors
Grisell Memorial Hospital District No. 1
Ransom, Kansas

We have audited the accompanying financial statements of Grisell Memorial Hospital District No. 1 as of December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Grisell Memorial Hospital District No. 1'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 Grisell Memorial Hospital District No. 1 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.

Other Matters

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
September 1, 2021

Grisell Memorial Hospital District No. 1

Balance Sheets

December 31, 2020 and 2019

Assets

| | 2020 | 2019 |
|--|---------------|---------------|
| Current Assets | | |
| Cash | \$ 2,916,089 | \$ 13,942 |
| Certificates of deposit | 414,500 | 514,600 |
| Patient accounts receivable, net of allowance; 2020 – \$142,440; 2019 – \$254,207 | 439,262 | 766,008 |
| Estimated amounts due from third-party payers | 1,325,985 | 195,000 |
| Supplies | 75,789 | 72,012 |
| Prepaid expenses and other | 245,749 | 13,738 |
| Property taxes receivable | 958,862 | 1,184,743 |
| Total current assets | 6,376,236 | 2,760,043 |
| Noncurrent Cash and Certificates of Deposit | 177,334 | 175,893 |
| Capital Assets, Net | 1,390,911 | 1,235,442 |
| Total assets | \$ 7,944,481 | \$ 4,171,378 |

Liabilities, Deferred Inflows of Resources and Net Position

| | 2020 | 2019 |
|--|--------------|--------------|
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 233,237 | \$ 59,050 |
| Accounts payable | 240,532 | 169,996 |
| Accrued salaries | 149,608 | 174,708 |
| Accrued payroll taxes | 59,471 | 73,534 |
| Accrued benefits | 220,290 | 204,034 |
| Unearned revenue | 2,816,979 | - |
| Total current liabilities | 3,720,117 | 681,322 |
| Long-term Debt | 741,013 | 343,462 |
| Total liabilities | 4,461,130 | 1,024,784 |
| Deferred Inflows of Resources | | |
| Property taxes | 958,862 | 1,184,743 |
| Net Position | | |
| Net investment in capital assets | 1,049,901 | 832,930 |
| Restricted - expendable for | | |
| Specific operating activities | 24,392 | 24,330 |
| Unrestricted | 1,450,196 | 1,104,591 |
| Total net position | 2,524,489 | 1,961,851 |
| Total liabilities, deferred inflows of resources and net position | \$ 7,944,481 | \$ 4,171,378 |

Grisell Memorial Hospital District No. 1
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|----------------------------|----------------------------|
| Operating Revenues | | |
| Net patient service revenue, net of provision for uncollectible accounts; 2020 – -\$18,241; 2019 – \$14,214 | \$ 5,644,882 | \$ 4,498,037 |
| Other | 141,799 | 252,211 |
| Total operating revenues | <u>5,786,681</u> | <u>4,750,248</u> |
| Operating Expenses | | |
| Salaries and wages | 3,097,844 | 3,005,144 |
| Employee benefits | 855,984 | 858,671 |
| Supplies and other | 3,013,999 | 2,698,838 |
| Depreciation | 278,762 | 278,976 |
| Total operating expenses | <u>7,246,589</u> | <u>6,841,629</u> |
| Operating Loss | <u>(1,459,908)</u> | <u>(2,091,381)</u> |
| Nonoperating Revenues (Expenses) | | |
| Property taxes | 1,202,059 | 1,204,104 |
| Interest income | 10,944 | 34,891 |
| Interest expense | (35,338) | (32,091) |
| Noncapital grants and gifts | 291,165 | 92,715 |
| Provider Relief Funds (<i>CARES Act</i>) | 553,716 | - |
| Total nonoperating revenues | <u>2,022,546</u> | <u>1,299,619</u> |
| Increase (Decrease) in Net Position | 562,638 | (791,762) |
| Net Position, Beginning of Year | <u>1,961,851</u> | <u>2,753,613</u> |
| Net Position, End of Year | <u><u>\$ 2,524,489</u></u> | <u><u>\$ 1,961,851</u></u> |

Grisell Memorial Hospital District No. 1
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

| | 2020 | 2019 |
|---|--------------|--------------|
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 4,840,643 | \$ 3,600,044 |
| Payments to suppliers and contractors | (4,049,298) | (3,515,879) |
| Payments to employees | (3,106,688) | (3,045,071) |
| Other receipts, net | 2,958,778 | 252,211 |
| Net cash provided by (used in) operating activities | 643,435 | (2,708,695) |
| Noncapital Financing Activities | | |
| Property taxes supporting operations | 1,202,059 | 1,204,104 |
| Noncapital grants and gifts | 291,165 | 92,715 |
| Provider Relief Funds (<i>CARES Act</i>) | 553,716 | - |
| Proceeds from issuance of long-term debt | 633,240 | - |
| Net cash provided by noncapital financing activities | 2,680,180 | 1,296,819 |
| Capital and Related Financing Activities | | |
| Principal paid on long-term debt | (61,502) | (130,299) |
| Interest paid on long-term debt | (35,338) | (32,091) |
| Purchase of capital assets | (434,231) | (31,332) |
| Net cash used in capital and related financing activities | (531,071) | (193,722) |
| Investing Activities | | |
| Interest income received | 10,944 | 34,891 |
| Proceeds from disposition of certificates of deposit | 108,982 | 746,671 |
| Change in certificates of deposit | (10,511) | (8,826) |
| Net cash provided by investing activities | 109,415 | 772,736 |
| Increase (Decrease) in Cash | 2,901,959 | (832,862) |
| Cash, Beginning of Year | 29,370 | 862,232 |
| Cash, End of Year | \$ 2,931,329 | \$ 29,370 |
| Reconciliation of Cash to the Balance Sheets | | |
| Cash in current assets | \$ 2,916,089 | \$ 13,942 |
| Cash in noncurrent cash | 15,240 | 15,428 |
| | \$ 2,931,329 | \$ 29,370 |

Grisell Memorial Hospital District No. 1
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-----------------------|
| Reconciliation of Operating Loss to Net Cash | | |
| Provided by (Used in) Operating Activities | | |
| Operating loss | \$ (1,459,908) | \$ (2,091,381) |
| Depreciation | 278,762 | 278,976 |
| Provision for uncollectible accounts | (18,241) | 14,214 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | 344,987 | (27,207) |
| Estimated amounts due from and to third-party payers | (1,130,985) | (885,000) |
| Supplies | (3,777) | 438 |
| Prepaid expenses and other current assets | (232,011) | 18,884 |
| Accounts payable and accrued expenses | 47,629 | (17,619) |
| Unearned revenue | <u>2,816,979</u> | <u>-</u> |
| Net cash provided by (used in) operating activities | <u>\$ 643,435</u> | <u>\$ (2,708,695)</u> |

Grisell Memorial Hospital District No. 1

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

Grisell Memorial Hospital District No. 1 (Hospital), located in Ransom, Kansas, is organized and operating under Kansas law and is governed by a Board of Directors. The Hospital operates a hospital which provides acute and long-term care services and operates outpatient clinics.

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 inflows and 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), property taxes, 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.

Budgetary Principles

The Hospital is required by state statutes to adopt an annual budget for its general funds on or before August 25 for the ensuing year. The Hospital's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

For budget purposes, the general fund utilizes the modified accrual basis of accounting. The modification in such method from the accrual basis is that revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the calendar year. There were no material encumbrances at December 31, 2020 and 2019. Budgeted revenue and expenditure amounts represent the original budget adopted by the Board.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

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. There were no cash equivalents for the years ended December 31, 2020 and 2019.

Noncurrent Cash and Certificates of Deposit

Noncurrent cash and certificates of deposit include 1) funds internally designated by the Board of Directors to be used for physician recruitment and replacement of capital assets or for the purchase of additional capital assets and 2) funds externally restricted by donors and grantors for student scholarships/loans and other specific purposes. The internally designated funds may be used for other purposes by action of the Board of Directors. Noncurrent cash and certificates of deposit consist of certificates of deposit, which are carried at amortized cost, and savings accounts.

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 method.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

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 | 8-15 years |
| Buildings | 10-40 years |
| Fixed equipment | 5-20 years |
| Moveable 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, 2020 and 2019.

Compensated Absences

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

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

Paycheck Protection Program (PPP) Loan

The Hospital received a PPP loan established by the *Coronavirus Aid, Relief and Economic Security ACT (CARES Act)* and has accounted for the funding as debt in accordance with GASB 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan is recognized as nonoperating revenue in the financial statements in the period the debt is legally forgiven. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration (SBA), or lender; as a result of such audit, adjustment could be required to any revenue recognized. Subsequent to year-end, the Hospital received legal notice on June 14, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

Deferred Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources consist of property taxes levied against members of the tax district.

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, including amounts deposited with trustees as required by bond indentures, 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 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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

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.

Property Taxes

The Hospital received approximately 15% and 20% of its financial support from property taxes in 2020 and 2019, respectively. One hundred percent of these funds were used to support operations in both years.

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year tax basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as property taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred property tax revenue on the balance sheets.

Provider Relief Funds (CARES Act)

On March 27, 2020, the *CARES Act* was signed into law as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The *CARES Act* contained provisions for certain healthcare providers to receive Provider Relief Funds (PRF) from the U.S. Department of Health and Human Services (HHS). The distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS. The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions required to retain the funds have been met and are classified as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions is recorded as unearned revenue in the accompanying balance sheets.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

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, none of the Hospital's bank balances of \$3,658,466 and \$919,892 were exposed to custodial credit risk.

Summary of Carrying Values

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

| | 2020 | 2019 |
|---|---------------------|-------------------|
| Cash | \$ 2,916,089 | \$ 13,942 |
| Certificates of deposit | 414,500 | 514,600 |
| Noncurrent cash and certificates of deposit | 177,334 | 175,893 |
| | <u>\$ 3,507,923</u> | <u>\$ 704,435</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 | \$ 294,230 | \$ 466,166 |
| Medicaid | 32,980 | 197,360 |
| Blue Cross | 40,693 | 41,958 |
| Other third-party payers | 43,054 | 33,201 |
| Self-pay | 170,745 | 281,530 |
| | <u>581,702</u> | <u>1,020,215</u> |
| Less allowance for uncollectible accounts | <u>(142,440)</u> | <u>(254,207)</u> |
| | <u>\$ 439,262</u> | <u>\$ 766,008</u> |

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

Note 4: Capital Assets

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

| | 2020 | | | |
|-------------------------------|------------------------------|-------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 4,000 | \$ - | \$ - | \$ 4,000 |
| Land improvements | 57,887 | 6,359 | - | 64,246 |
| Buildings | 1,879,067 | - | - | 1,879,067 |
| Fixed equipment | 1,365,779 | - | - | 1,365,779 |
| Moveable equipment | 1,183,073 | 427,872 | (60,975) | 1,549,970 |
| | <u>4,489,806</u> | <u>434,231</u> | <u>(60,975)</u> | <u>4,863,062</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 45,880 | 983 | - | 46,863 |
| Buildings | 1,488,873 | 64,569 | - | 1,553,442 |
| Fixed equipment | 863,685 | 107,001 | - | 970,686 |
| Moveable equipment | 855,926 | 106,209 | (60,975) | 901,160 |
| | <u>3,254,364</u> | <u>278,762</u> | <u>(60,975)</u> | <u>3,472,151</u> |
| Capital Assets, Net | <u>\$ 1,235,442</u> | <u>\$ 155,469</u> | <u>\$ -</u> | <u>\$ 1,390,911</u> |

| | 2019 | | | |
|-------------------------------|------------------------------|---------------------|------------------|---------------------------|
| | Beginning Balance | Additions | Disposals | Ending Balance |
| Land | \$ 4,000 | \$ - | \$ - | \$ 4,000 |
| Land improvements | 45,537 | 12,350 | - | 57,887 |
| Buildings | 1,879,067 | - | - | 1,879,067 |
| Fixed equipment | 1,356,426 | 18,982 | (9,629) | 1,365,779 |
| Moveable equipment | 1,183,073 | - | - | 1,183,073 |
| | <u>4,468,103</u> | <u>31,332</u> | <u>(9,629)</u> | <u>4,489,806</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 45,203 | 677 | - | 45,880 |
| Buildings | 1,419,203 | 69,670 | - | 1,488,873 |
| Fixed equipment | 766,905 | 106,409 | (9,629) | 863,685 |
| Moveable equipment | 753,706 | 102,220 | - | 855,926 |
| | <u>2,985,017</u> | <u>278,976</u> | <u>(9,629)</u> | <u>3,254,364</u> |
| Capital Assets, Net | <u>\$ 1,483,086</u> | <u>\$ (247,644)</u> | <u>\$ -</u> | <u>\$ 1,235,442</u> |

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

Note 5: Long-term Obligations

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

| 2020 | | | | | Amounts Due Within One Year |
|---------------------------|----------------------|-------------------|--------------------|-------------------|--------------------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | |
| PPP loan payable to bank | \$ - | \$ 633,240 | \$ - | \$ 633,240 | \$ 168,345 |
| Capital lease obligations | 402,512 | - | (61,502) | 341,010 | 64,892 |
| | <u>\$ 402,512</u> | <u>\$ 633,240</u> | <u>\$ (61,502)</u> | <u>\$ 974,250</u> | <u>\$ 233,237</u> |

| 2019 | | | | | Amounts Due Within One Year |
|---------------------------|----------------------|-----------|--------------|-------------------|--------------------------------------|
| | Beginning Balance | Additions | Deductions | Ending Balance | |
| Capital lease obligations | \$ 532,811 | \$ - | \$ (130,299) | \$ 402,512 | \$ 59,050 |

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 \$633,240 in 2020. The loan has an interest rate of 1%, with monthly payments due starting ten months after the end of the covered period, which the Hospital elected to be 24 weeks after receipt of the loan. Subsequent to year-end, the Hospital received legal notice on June 14, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

Debt Service Requirements

The debt service requirements on long-term debt other than capital lease obligations as of December 31, 2020, are as follows:

| Year Ending December 31, | Total to be Paid | Loan Payable to Bank | |
|-----------------------------|---------------------|----------------------|------------------|
| | | Principal | Interest |
| 2021 | \$ 178,185 | \$ 168,345 | \$ 9,840 |
| 2022 | <u>466,538</u> | <u>464,895</u> | <u>1,643</u> |
| | <u>\$ 644,723</u> | <u>\$ 633,240</u> | <u>\$ 11,483</u> |

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, 2020 and 2019:

| | 2020 | 2019 |
|------------------------------|-------------------|-------------------|
| Fixed and moveable equipment | \$ 496,898 | \$ 496,898 |
| Accumulated depreciation | <u>(215,067)</u> | <u>(129,933)</u> |
| | <u>\$ 281,831</u> | <u>\$ 366,965</u> |

The following is a schedule by year of future minimum lease payments under capital lease including interest rates of 2.75% to 6.00% together with the present value of the future minimum lease payments:

| | |
|--|-------------------|
| Year Ending December 31, | |
| 2021 | \$ 84,076 |
| 2022 | 83,919 |
| 2023 | 83,920 |
| 2024 | 83,920 |
| 2025 | <u>59,108</u> |
| Total minimum lease payments | 394,943 |
| Less amount representing interest | <u>53,933</u> |
| Present value of future minimum lease payments | <u>\$ 341,010</u> |

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

Note 6: 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 future.

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. Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 88% and 74% of net patient service revenues are 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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

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

Note 8: Charity Care

The Hospital did not supply any charity care for the years ended December 31, 2020 and 2019.

Note 9: Pension Plans

The Hospital maintains a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who are at least 18 years of age and have completed one year of service. The 401(a) plan provides elective employee contributions of 2.5% of the first \$16,000 of annual compensation and 5% of annual compensation in excess of \$16,000. Matching employer contributions are computed at 5% of the first \$16,000 of annual compensation and 10% of annual compensation in excess of \$16,000. The 401(a) plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the 401(a) plan to the employee's normal retirement date. Benefits begin to vest after one year of service with 100% vesting after five years of service. All funds contributed by the Hospital, which are not vested, will be returned to the 401(a) plan and remain in the 401(a) plan to reduce future employer contributions to the plan. Contributions actually made by plan members totaled \$115,667 and \$93,092 in 2020 and 2019, respectively. Hospital contributions totaled \$232,807 and \$182,002 in 2020 and 2019, respectively.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled \$71,062 and \$70,453 during 2020 and 2019, respectively. The plan year begins on January 1 and ends December 31.

Note 10: Management/Services Agreement

The Board of Directors of the Hospital has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2020 and 2019, were \$609,478 and \$545,936, respectively. Amounts payable to GPHA at December 31, 2020 and 2019, totaled \$5,468 and \$63,223, respectively.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

Note 11: Compliance with Budgetary Statutes

Kansas statutes require that fixed budgets be legally adopted for all enterprise and debt service funds. Budgets are prepared utilizing the modified accrual basis of accounting. Kansas statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures, which is prepared on a calendar year basis. Calendar year budgeted expenditures are compared to the Hospital's enterprise fund, which are on an annualized calendar year basis as follows:

| 2020 | | | |
|---|---------------|---------------|------------------------------|
| | Actual | Budget | Variance Under (Over) |
| General Fund | | | |
| Revenues | | | |
| Taxes | \$ 1,202,059 | \$ 1,237,654 | \$ 35,595 |
| Patient related revenues | 5,626,641 | 4,850,000 | (776,641) |
| Interest income | 10,944 | 30,000 | 19,056 |
| Other | 986,680 | 270,900 | (715,780) |
| Total revenues | 7,826,324 | 6,388,554 | (1,437,770) |
| Expenses | | | |
| Patient related expenses | 6,967,827 | 6,660,691 | (307,136) |
| Interest expense | 35,338 | - | (35,338) |
| Capital outlay | 434,231 | 135,000 | (299,231) |
| Total expenses | 7,437,396 | 6,795,691 | (641,705) |
| Excess (deficiency) of revenues over expenses | \$ 388,928 | \$ (407,137) | \$ (796,065) |
| 2019 | | | |
| | Actual | Budget | Variance Under (Over) |
| General Fund | | | |
| Revenues | | | |
| Taxes | \$ 1,204,104 | \$ 1,212,647 | \$ 8,543 |
| Patient related revenues | 4,512,251 | 4,768,371 | 256,120 |
| Interest income | 34,891 | 25,000 | (9,891) |
| Other | 344,926 | 260,224 | (84,702) |
| Total revenues | 6,096,172 | 6,266,242 | 170,070 |
| Expenses | | | |
| Patient related expenses | 6,562,653 | 6,566,791 | 4,138 |
| Interest expense | 32,091 | - | (32,091) |
| Capital outlay | 31,332 | 175,000 | 143,668 |
| Total expenses | 6,626,076 | 6,741,791 | 115,715 |
| Deficiency of revenues over expenses | \$ (529,904) | \$ (475,549) | \$ 54,355 |

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

The following reconciliation is presented to provide a correlation between the different basis of accounting for reporting in accordance with accounting principles generally accepted in the United States of America and for reporting on the budgetary basis:

| | 2020 | 2019 |
|---|------------|--------------|
| Increase (decrease) in net position - financial basis | \$ 562,638 | \$ (791,762) |
| Depreciation | 278,762 | 278,976 |
| Provision for uncollectible accounts | (18,241) | 14,214 |
| Capital outlay | (434,231) | (31,332) |
| Excess (deficiency) of revenues over expenses | \$ 388,928 | \$ (529,904) |

Note 12: COVID-19 Pandemic & CARES Act Funding

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

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

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

The Hospital's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Hospital has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business.

In addition, the Hospital received \$3,370,695 in general and targeted Provider Relief Fund distributions, both as provided for under the *CARES Act*, a PPP loan of \$633,240, and other COVID-19 funding of \$123,000.

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

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

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 the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During 2020, the Hospital received \$3,370,695 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 \$553,716, 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 \$2,816,979 is recorded as a component of unearned revenue in the accompanying balance sheets.

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

Paycheck Protection Program (PPP) Loan

During 2020, the Hospital received a PPP loan of \$633,240 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. Subsequent to year-end, the Hospital received legal notice on June 14, 2021, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

Other COVID-19 Funding

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of Kansas hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received and recognized \$100,000 on April 29, 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 \$20,000 related to the SHIP grant as of December 31, 2020. The Hospital recorded a receivable of \$63,613 related to the SHIP grant as of December 31, 2020, which is included as a component of prepaid expenses and other in the accompanying balance sheets. The revenue recognized of \$83,613 is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

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

Note 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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2020 and 2019

On June 10, 2021, the Hospital received \$200,000 of stimulus funds from the Department of Health and Human Services (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 June 14, 2021, the Hospital received legal notice from the Small Business Administration (SBA) that the PPP loan in the amount of \$633,240 was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in fiscal year 2021. The SBA has authority to audit the loan for a period of six years from the date the loan is forgiven or repaid.

Note 14: Future Change in Accounting Principle

Leases

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

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