

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
December 31, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Hodgeman County Health Center
Jetmore, Kansas

We have audited the accompanying financial statements of Hodgeman County Health Center, a component unit of Hodgeman County, Kansas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise Hodgeman County Health Center'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 Hodgeman County Health Center as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted 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
April 4, 2022

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Balance Sheets
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets		
Cash	\$ 5,315,518	\$ 1,127,908
Patient accounts receivable, net of allowance; 2020 - \$181,516, 2019 - \$204,046	1,213,895	833,464
Estimated amounts due from third-party payers	961,490	602,000
Supplies	169,267	109,659
Prepaid expenses and other	<u>106,713</u>	<u>90,380</u>
Total current assets	<u>7,766,883</u>	<u>2,763,411</u>
Other Assets		
Certificates of deposit	<u>76,903</u>	<u>76,165</u>
Capital Assets, Net	<u>4,340,991</u>	<u>4,210,906</u>
Total assets	<u><u>\$ 12,184,777</u></u>	<u><u>\$ 7,050,482</u></u>
 Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 85,126	\$ 85,716
Accounts payable	407,491	471,243
Accrued expenses	380,743	462,756
Unearned revenue	<u>3,447,309</u>	<u>-</u>
Total current liabilities	4,320,669	1,019,715
Long-term Debt	<u>321,566</u>	<u>388,108</u>
Total liabilities	<u>4,642,235</u>	<u>1,407,823</u>
Net Position		
Net investment in capital assets	3,934,299	3,737,082
Unrestricted	<u>3,608,243</u>	<u>1,905,577</u>
Total net position	<u>7,542,542</u>	<u>5,642,659</u>
Total liabilities and net position	<u><u>\$ 12,184,777</u></u>	<u><u>\$ 7,050,482</u></u>

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 - \$40,967, 2019 - \$156,871	\$ 8,949,775	\$ 7,703,229
Bramley Place	157,946	140,682
340B drug program	283,416	263,468
Other	91,432	63,671
	<u>9,482,569</u>	<u>8,171,050</u>
Total operating revenues		
Operating Expenses		
Salaries and wages	3,766,677	3,565,176
Employee benefits	747,761	683,326
Purchased services and professional fees	2,515,213	2,214,631
Supplies and other	1,616,645	1,526,638
Depreciation	341,550	277,721
	<u>8,987,846</u>	<u>8,267,492</u>
Total operating expenses		
Operating Income (Loss)	<u>494,723</u>	<u>(96,442)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Hodgeman County	338,700	338,700
Noncapital contributions and grants	135,029	17,690
Interest income	14,296	8,459
Interest expense	(17,566)	(4,632)
Provider Relief Funds (<i>CARES Act</i>)	168,201	-
Paycheck Protection Program (PPP) loan forgiveness	766,500	-
	<u>1,405,160</u>	<u>360,217</u>
Total nonoperating revenues		
Increase in Net Position	1,899,883	263,775
Net Position, Beginning of Year	<u>5,642,659</u>	<u>5,378,884</u>
Net Position, End of Year	<u>\$ 7,542,542</u>	<u>\$ 5,642,659</u>

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	\$ 8,209,854	\$ 7,655,367
Payments to suppliers and contractors	(4,336,920)	(3,700,985)
Payments to employees	(4,596,451)	(4,225,928)
Other receipts, net	<u>3,980,103</u>	<u>467,821</u>
Net cash provided by operating activities	<u>3,256,586</u>	<u>196,275</u>
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - Hodgeman County	338,700	338,700
Noncapital contributions and grants received	135,029	17,690
Provider Relief Funds (<i>CARES Act</i>)	168,201	-
Proceeds from issuance of PPP loan	<u>766,500</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,408,430</u>	<u>356,390</u>
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(85,951)	(40,916)
Interest paid on long-term debt	(17,566)	(4,632)
Purchase of capital assets	<u>(387,447)</u>	<u>(95,502)</u>
Net cash used in capital and related financing activities	<u>(490,964)</u>	<u>(141,050)</u>
Cash Flows From Investing Activities		
Interest income received	<u>13,558</u>	<u>7,807</u>
Net cash provided by investing activities	<u>13,558</u>	<u>7,807</u>
Increase in Cash	4,187,610	419,422
Cash, Beginning of Year	<u>1,127,908</u>	<u>708,486</u>
Cash, End of Year	<u><u>\$ 5,315,518</u></u>	<u><u>\$ 1,127,908</u></u>

Hodgeman County Health Center
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Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 494,723	\$ (96,442)
Depreciation	341,550	277,721
Provision (credit) for uncollectible accounts	(40,967)	156,871
Changes in operating assets and liabilities		
Patient accounts receivable, net	(339,464)	(311,733)
Estimated amounts due from/to third-party payers	(359,490)	107,000
Supplies and prepaid expenses	(75,941)	(25,502)
Accounts payable and accrued expenses	(211,134)	88,360
Unearned revenue	3,447,309	-
	<u>3,447,309</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 3,256,586</u>	<u>\$ 196,275</u>
Noncash Investing, Capital and Financing Activities		
Capital lease obligation incurred for capital assets	\$ 18,819	\$ 406,500
Capital assets acquisitions included in accounts payable	\$ 65,369	\$ -
PPP loan forgiveness	\$ 766,500	\$ -

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Notes to Financial Statements
December 31, 2020 and 2019

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

Nature of Operations and Reporting Entity

Hodgeman County Health Center (Health Center) is located in Jetmore, Kansas. The Health Center is a component unit of Hodgeman County (County) and governed by a Board of Trustees appointed by the county commissioners. The Health Center consists of a hospital, long-term care unit, clinics and independent living units (Bramley Place). The Health Center provides inpatient, outpatient and emergency care services to patients/residents in the Hodgeman County area.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Health Center considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2020 and 2019.

Certificates of Deposit

Certificates of deposit are carried at amortized cost. Certificates of deposit with original maturities of less than one year are reported as current assets. Those with original maturities greater than one year are reported as long-term assets.

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Notes to Financial Statements
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Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	7 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	3 – 20 years

Capital Asset Impairment

The Health Center 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.

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Compensated Absences

Health Center 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. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

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

Paycheck Protection Program (PPP) Loan

The Health Center 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 Health Center received legal notice on November 2, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

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Notes to Financial Statements
December 31, 2020 and 2019

Net Position

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

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

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center 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 Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Noncapital Appropriations – Hodgeman County

The Health Center received approximately 3% in 2020 and 4% in 2019 of its financial support from the proceeds on noncapital appropriations from Hodgeman County. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied by the County and shared with the Health Center for operational purposes. Taxes are assessed by the County in November of one year and are received beginning in January of the following year. Noncapital appropriations revenue is recognized in full in the year in which use is first permitted.

Hodgeman County Health Center

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Notes to Financial Statements

December 31, 2020 and 2019

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 Health Center 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 Health Center is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions required to retain the funds have been met and are classified as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions is recorded as unearned revenue in the accompanying balance sheets.

Income Taxes

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

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Health Center'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, \$5,039,238 and \$906,620 of the Health Center's bank balances of \$5,350,395 and \$1,203,162 were exposed to custodial credit risk as follows:

	2020	2019
Uninsured and collateral held by pledging financial institution	\$ 5,039,238	\$ 906,620

Hodgeman County Health Center

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Notes to Financial Statements

December 31, 2020 and 2019

Summary of Carrying Values

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

	2020	2019
Carrying value		
Deposits	\$ 5,391,721	\$ 1,203,373
Petty cash	700	700
	<u>\$ 5,392,421</u>	<u>\$ 1,204,073</u>
Included in the following balance sheet captions		
Cash	\$ 5,315,518	\$ 1,127,908
Certificates of deposit	76,903	76,165
	<u>\$ 5,392,421</u>	<u>\$ 1,204,073</u>

Note 3: Patient Accounts Receivable

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

	2020	2019
Medicare	\$ 620,405	\$ 393,950
Medicaid	4,286	84,641
Blue Cross	86,100	106,532
Other third-party payers	178,366	76,934
Self-pay	506,254	375,453
	<u>1,395,411</u>	<u>1,037,510</u>
Less allowance for uncollectible accounts	<u>181,516</u>	<u>204,046</u>
Patient accounts receivable, net	<u>\$ 1,213,895</u>	<u>\$ 833,464</u>

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas

Notes to Financial Statements

December 31, 2020 and 2019

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 90,063	\$ 127,185	\$ -	\$ -	\$ 217,248
Buildings	7,192,446	42,140	-	-	7,234,586
Fixed equipment	835,618	30,195	-	-	865,813
Moveable equipment	1,427,744	260,085	-	-	1,687,829
Construction in progress	-	12,030	-	-	12,030
	<u>9,545,871</u>	<u>471,635</u>	<u>-</u>	<u>-</u>	<u>10,017,506</u>
Less accumulated depreciation					
Land improvements	66,742	5,425	-	-	72,167
Buildings	3,702,569	190,238	-	-	3,892,807
Fixed equipment	415,785	60,911	-	-	476,696
Moveable equipment	1,149,869	84,976	-	-	1,234,845
	<u>5,334,965</u>	<u>341,550</u>	<u>-</u>	<u>-</u>	<u>5,676,515</u>
Capital assets, net	<u>\$ 4,210,906</u>	<u>\$ 130,085</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,340,991</u>
	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	\$ 87,113	\$ 2,950	\$ -	\$ -	\$ 90,063
Buildings	7,192,446	-	-	-	7,192,446
Fixed equipment	905,764	345,319	(415,465)	-	835,618
Moveable equipment	1,318,986	153,733	(44,975)	-	1,427,744
	<u>9,504,309</u>	<u>502,002</u>	<u>(460,440)</u>	<u>-</u>	<u>9,545,871</u>
Less accumulated depreciation					
Land improvements	64,316	2,426	-	-	66,742
Buildings	3,510,846	191,723	-	-	3,702,569
Fixed equipment	808,742	22,508	(415,465)	-	415,785
Moveable equipment	1,133,780	61,064	(44,975)	-	1,149,869
	<u>5,517,684</u>	<u>277,721</u>	<u>(460,440)</u>	<u>-</u>	<u>5,334,965</u>
Capital assets, net	<u>\$ 3,986,625</u>	<u>\$ 224,281</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,210,906</u>

Hodgeman County Health Center

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Notes to Financial Statements

December 31, 2020 and 2019

Note 5: Medical Malpractice Coverage and Claims

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

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

Note 6: Long-term Debt

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

2020					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
PPP loan payable	\$ -	\$ 766,500	\$ 766,500	\$ -	\$ -
Capital lease obligations	473,824	18,819	85,951	406,692	85,126
Total long-term debt	<u>\$ 473,824</u>	<u>\$ 785,319</u>	<u>\$ 852,451</u>	<u>\$ 406,692</u>	<u>\$ 85,126</u>
2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Capital lease obligations	\$ 108,240	\$ 406,500	\$ 40,916	\$ 473,824	\$ 85,716

Hodgeman County Health Center

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Notes to Financial Statements

December 31, 2020 and 2019

Paycheck Protection Program (PPP) Loan

The *CARES Act* and other subsequent legislation also provides an SBA loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Health Center received a PPP loan of \$766,500 in 2020. The Health Center received legal notice on November 2, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position.

Capital Lease Obligations

The Health Center is obligated under leases for equipment that are accounted for as capital leases. A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2020 and 2019, follows:

	2020	2019
Movable equipment	\$ 528,414	\$ 607,414
Less accumulated depreciation	<u>(118,928)</u>	<u>(91,859)</u>
	<u><u>\$ 409,486</u></u>	<u><u>\$ 515,555</u></u>

The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 3.02% to 7.92% together with the present value of the future minimum lease payments as of December 31, 2020:

Year Ending December 31,	
2021	\$ 100,137
2022	96,025
2023	96,024
2024	80,903
2025	<u>74,798</u>
Total minimum lease payments	447,887
Less amount representing interest	<u>41,195</u>
Present value of future minimum lease payments	<u><u>\$ 406,692</u></u>

Hodgeman County Health Center
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Notes to Financial Statements
December 31, 2020 and 2019

Note 7: Net Patient Service Revenue

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

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

Approximately 67% 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.

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

Note 8: Charity Care

The costs of charity care provided under the Health Center's charity care policy was approximately \$30,000 for 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

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Notes to Financial Statements
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Note 9: Pension Plans

Defined Contribution Plan

The Health Center contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Health Center's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. 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 Health Center's governing body. If an employee authorizes the Health Center to make a salary reduction contribution on their behalf to the deferred compensation plan noted below, the Health Center will make a contribution to the defined contribution plan equal to 100% of the employee's contribution. Only salary deferral contributions up to 6% of an employee's compensation are eligible to be matched. Contributions actually made by the Health Center were \$101,767 for 2020 and \$73,856 for 2019. Employees do not contribute to the defined contribution pension plan.

Deferred Compensation Plan

The Health Center provides a deferred compensation plan (457 Plan) to substantially all employees of the Health Center. The employees may contribute up to 100% of their salary to the 457 Plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. Contributions from employees to the 457 Plan were \$213,153 and \$181,425 for the years ended December 31, 2020 and 2019, respectively. The Health Center does not contribute to the 457 Plan.

Note 10: 340B Drug Pricing Program

The Health Center participates in the 340B Drug Pricing Program (340B Program) enabling the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Health Center recorded revenues related to the 340B Program of \$283,416 and \$263,468 for the years ending December 31, 2020 and 2019, respectively. The Health Center recorded expenses related to the 340B Program of \$69,596 and \$47,825 for the years ending December 31, 2020 and 2019, respectively, which is included in supplies and other in the accompanying statements of revenue and expenses and changes in net position. This program is overseen by the Health Resources and Service Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to 340B Program could occur in the near term.

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Note 11: COVID-19 Pandemic & CARES Act Funding

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

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

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

The Health Center's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Health Center 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 Health Center received \$3,615,510 in general and targeted Provider Relief Fund distributions, both as provided for under the *CARES Act*, a PPP loan of \$766,500 and other COVID-19 funding of \$133,429.

The extent of the COVID-19 pandemic's adverse effect on the Health Center's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Health Center's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Health Center cannot estimate the length or severity of the effect of the pandemic on the Health Center'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.

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Provider Relief Fund

During the year ended December 31, 2020, the Health Center received \$3,615,510 of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Health Center 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 Health Center 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 Health Center's operating revenues and expenses through December 31, 2020, the Health Center recognized \$168,201, 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 \$3,447,309 is recorded as unearned revenue in the accompanying balance sheets.

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

Paycheck Protection Program (PPP) Loan

During the year ended December 31, 2020, the Health Center received a PPP loan of \$766,500 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 Health Center received legal notice on November 2, 2020, that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment as other nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

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Other COVID-19 Funding

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of Kansas hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Health Center 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 Health Center received and recognized \$30,429 for the year-ended December 31, 2020, related to the SHIP grant. The revenue recognized is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

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 Health Center 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.

Note 12: Contingencies

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 5*.

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Litigation

In the normal course of business, the Health Center is, from time to time, subject to allocations that may or do result in litigation. The Health Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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 Health Center. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

The Health Center received \$100,000 of additional stimulus funds from HHS in June 2021. 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 Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain a portion, if not all, of the stimulus payments.

On November 15, 2021, the Health Center received a \$99,493 grant from the Kansas Department of Health and Environment (KDHE) in connection with the Strengthening People and Revitalizing Kansas (SPARK) Frontline Hospital Workers Retention Plan as part of Kansas' share of the Coronavirus State and Local Recovery Fund. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain a portion, if not all, of the stimulus payments.

On November 24, 2021, the Health Center received \$181,485 of additional stimulus funds from HHS as part of the American Rescue Plan (ARP) funding. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain a portion, if not all, of the stimulus payments.

On December 16, 2021, the Health Center received \$174,056 of additional stimulus funds from HHS as part of the Phase 4 PRF funding. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Health Center with no repayment obligations. Management has attested to the requirements and believes the Health Center will retain a portion, if not all, of the stimulus payments.

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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 Health Center is evaluating the impact the statement will have on the financial statements.